Significant Matters

1. MATERIAL LITIGATIONS

In 2000, the Company had three material litigations as follows:

(1) Litigation against CITIC Ningbo Inc. by the Company over the dispute of deposit certificate

In 1996, the Company deposited HK$48 million with the defendant for the term of one year but the defendant did not repay the amount on maturity. The Company initiated a litigation with People's Court of Zhejiang Province in August 1998. The Higher People's Court of Zhejiang Province made a judgement on 23 March 1999 that the defendant should repay the net principal of the fixed deposit together with interest accrued thereon to the Company. The defendant was not satisfied with the judgement and made an appeal to the Higher People's Court. On 19 June 2000, the Higher People's Court made a final ruling that CITIC Ningbo Inc. should repay the net principal of the fixed deposit together with interest accrued thereon to the Company. However, CITIC Ningbo Inc. failed to perform the obligation of repayment. On 30 November 2000, Chinese People's Bank Shanghai branch declared the closure of CITIC Ningbo Inc. A liquidation group was set up by CITIC to conduct liquidation on CITIC Ningbo Inc. The Company filed the creditor rights on 4 January 2001 with a principal and interests of HK$49.27 million and RMB169,000. The liquidation is still in process.

(2) Litigation against Shenzhen Leasing Co. Ltd by the Company over the dispute of deposit certificate

In 1996, the Company deposited HK$80 million with the defendant for the term of one year but the defendant did not repay the amount on maturity. The Company initiated a litigation with Higher People's Court of Guangdong Province in August 1998. On 17 May 1999, the Higher People's Court of Guangdong Province made a judgement that the defendant should repay the principal of the deposit with accrued interest thereon to the Company. On 10 August 1999, the Company applied to the Higher People's Court of Guangdong Province for execution of the judgement. Sanjiu Group lined up with ten financial institutions and enterprises on 9 November 1999 to undertake debt and equity reorganisation, and use the name "Shenzhen Finance and Rent Company Limited (the "New Company") to incorporate a new company. The Company entered into a reconciliation agreement with the New Company on 16 March 2000, whereby the New Company shall repay the principal of HK$10 million within 60 days from the effective date of the agreement and the remaining HK$70 million and accrued interest thereon be repaid within 2-1/2 years commencing from 2003. On 16 May 2000, the Company received the repayment of RMB10 million from the New Company.

(3) Litigation against SEG International Trust & Investment Corporation by the Company over the dispute of deposit certificate

In 1996, the Company deposited HK$50 million with the defendant for the term of nine months and on maturity the defendant only repaid HK$6.88 million of the deposit and other portion remained unpaid. In December 1998, the Company initiated a litigation with Intermediate People's Court of Haikou City. The Intermediate People's Court of Haikou City made a judgement on 19 March 1999 that the defendant should repay the principal of the fixed deposit together with interest accrued thereon to the Company. The Company applied to the Intermediate People's Court of Haikou City for execution on 11 August 1999. The Intermediate People's Court of Haikou City made the following judgement on 26 April 2000: " During the prosecution of this case, the Higher People's Court issued a notice on 20 October 1999 that SEG International Trust & Investment Corporation, the defendant, was classified by Chinese People's Bank as the trust and investment company that needed to be reorganized, merged or cancelled. Pursuant to No. 15 of Article 1 under provision 234 of "Civil Law of the People's Republic of China", the Court made the following judgement: the execution of civil judgement of (1999) Hai Zhong Fa Jing Chu Zi No. 27 of the Court is terminated. In case the conditions under which the judgement is terminated disappear, the Company may re-apply for execution with the Court."

2. OTHER NON-RECOVERABLE OVERDUE DEPOSITS

(1) In December 1995, the Company deposited HK$9.33 million with the representative office of China Venturetech Investment Corporation in Shenzhen for the term of one year. This company was closed and under liquidation by the People's Bank of China. On 29 October 1999, the liquidation team confirmed the Company's claim including principal of HK$7.136 million and interest of HK$2.296 million after deduction of the payment of interest the Company has received.

(2) In September 1996, the Company deposited HK$30 million with Guangdong International Trust & Investment Corporation for the term of one year. This company was under liquidation. On 5 November 1999, the liquidation team confirmed that the Company's claim included the principal of the deposit of HK$30 million and interest of HK$6.17 million. In August 2000, the liquidation group conducted the first distribution of the assets with distribution ratio of 5.48%. The Company received RMB1,998,182.09.

3. DURING THE REPORTING PERIOD, NONE OF THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY WERE PUNISHED BY REGULATORY DEPARTMENT.

4. DURING THE REPORTING PERIOD, THERE WAS NO CHANGE IN THE CONTROLLING SHAREHOLDER OF THE COMPANY, NOR RE-ELECTION OR CHANGE IN MORE THAN HALF OF THE TOAL NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS. THERE WAS ALSO NO CHANGE IN GENERAL MANAGER OF THE COMPANY AND SECRETARY TO THE BOARD.

5. DURING THE REPORTING PERIOD, THE COMPANY DID NOT ACQUIRE AND DISPOSE OF ASSETS, NOR UNDERTAKE MERGER.

6. CONNECTED TRANSACTIONS

The business transactions between the Company and the Holding for the year ended 31 December 2000 were as follows:

(1) Under a "Service Agreement" entered into with the Holding on 14 October 1993, the Company and the Holding will provide each other with certain services, with a view to ensure that employees of the Company may continue to enjoy certain necessary social benefits after the reorganisation and the Company's operation continues to be conducted efficiently. The agreement took effect on 1 September 1993 and will expire on 31 December 2003, unless terminated in advance.

The service fees which the Company and the Holding may charge each other should be equal to: (i) the State prices of the agreed services; or (ii) in the absence of such State prices, the market prices of the agreed services; or (iii) in the absence of market prices, the actual cost attributable to the party providing the agreed services. The categories, scope, prices and other details of the services to be provided each year are to be contained in a supplementary agreement between them, renewed annually towards the end of the preceding year. Details of the amounts received and paid by the Company and the Holding in respect of the "Service Agreement" from 1 January 2000 to 31 December 2000 are as follows:

Principal Items of Services Rendered by the Holding to the Company

	Pricing basis	**Total RMB'000**
Primary, secondary and kindergarten education	Actual costs	34,891
Canteens, baths and nurseries	Actual costs	49,813
Renting of staff quarters	Actual costs	33,683
Landscaping of factory districts, sanitation and maintenance and repairs of roads	State prices	15,803
Others	Market prices	22,978
Total		157,168

Principal Items of Services Rendered by the Company to the Holding

	Pricing basis	Total RMB'000
Water supply	Market prices	250
Electricity supply	Market prices	3,310
Oxygen supply	Market prices	119
Telephone services	Market prices	1,016
Others		3,000
Total		7,695

The Directors are of the opinion that the amounts paid or received by the Company for those services based on market prices were not substantially different from the market prices that prevailed at the time the supplementary agreement for 2000 were made.

(2) Under an agreement for the sale and purchase of ore ("Sale and Purchase of Iron Ore Agreement") made with the Holding on 14 October 1993, all the iron ore and limestone produced by the Holding must first be offered to the Company. Price of ore will be agreed by both the Holding and the Company after consultation, and shall not be higher than the prevailing domestic market price. If no market price of iron ore in the PRC has yet been formed at the early stage of the lifting of the restrictions on prices, the prices may be calculated by reference to the price of powder ore of Hamersley, Australia delivered to the Port of Shanghai. The Sale and Purchase of Ore Agreement took effect on 1 September 1993 and will expire on 31 December 2003 unless terminated in advance.

The actual amount of iron ore and limestone to be supplied by the Holding to the Company in each year and further details of quantity, prices, quality requirements and specifications are to be contained in a supplementary agreement between them, renewed annually towards the end of the preceding year. The amounts of purchases by the Company from Holding in respect of the "Sale and Purchase of Ore Agreement" from 1 January 2000 to 31 December 2000 are as follows:

	Amount of purchase RMB'000
Purchases of iron ore and limestone	673,141

The Directors are of the opinion that the above-mentioned amount purchased in respect of the "Sale and Purchase of Ore Agreement" are not substantially different from the market prices at the time the supplemental agreement for 2000 was made.

(3) Save for the connected transactions made pursuant to the "Services Agreement" and the "Sale and Purchase of Ore Agreement" as mentioned above, details of other connected transactions made with the Holding are as follows:

	RMB'000
Steel products purchased by the Holding from the Company	(18,480)
Other services acquired by the Holding from the Company	(28,906)
Payment by the Company for fixed assets and construction services	81,914
Payment by the Company for other services provided by the Holding	76,475

The total amount paid represents 1.74% of the audited consolidated net tangible assets of the Group as at 31 December 2000.

The above-mentioned connected transactions have been confirmed by all the Directors who are not associated with the Holding (including independent non-executive directors Mr. Dong Yuan Chi, Madam Cheng Shaosiu and Mr. Wu Junnian) to be transactions made between the Company and the Holding in the normal course of business and that those transactions adopting market prices as the pricing basis were on terms no less favourable to the Company than normal commercial terms.

(4) Material contracts with controlling shareholders

Save for the supplementary agreement to the "Service Agreement" and "Sale and Purchase of Ore Agreement" in respect of 2000 as disclosed above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholders at any time during the year ended 31 December 2000.

7. THE COMPANY WAS RELATIVELY INDEPENDENT FROM ITS CONTROLLING SHAREHOLDER IN TERMS OF PERSONNEL, ASSET INTEGRITY AND FINANCE.

(1) For personnel independence , the Company has separate control on labour, human resources and salary. General Manager, Deputy General Manager and the senior management receive salary from the Company and have not hold position in the Holding.

(2) For asset integrity, the Company has independent production system, auxiliary production system and supplement facilities and owns intangible assets including industrial property right, trademark, and non-patent technology. The Company has its own purchasing and sale systems.

(3) For financial independence, the Company has independent financial department and established an independent accounting system and financial control system. It has separate bank account.

8. **THE COMPANY OR SHAREHOLDERS WITH 5% OR MORE SHAREHOLDING DID NOT DISCLOSE THEIR COMMITMENT IN DESIGNATED NEWSPAPERS AND WEBSITE.**

9. **THE COMPANY DID NOT TRUST, CONTRACT AND LEASE ASSETS OF THE COMPANY OR VICE VERSA.**

10. **THE COMPANY RE-APPOINTED ERNST & YOUNG HUA MING AND ERNST & YOUNG AS THE PRC AND INTERNATIONAL AUDITORS OF THE COMPANY RESPECTIVELY. THEY HAVE AUDITED THE FINANCIAL STATEMENTS AND FINANCIAL REPORT PREPARED UNDER THE PRC AND HONG KONG ACCOUNTING STANDARDS RESPECTIVELY. THE RESOLUTION OF RE-APPOINTMENT OF THE TWO ACCOUNTANTS AS THE AUDITORS OF THE COMPANY FOR THE NEXT YEAR WILL BE SUBMITTED TO THE FORTHCOMING ANNUAL GENERAL MEETING OF THE COMPANY.**

    FOR THE PAST THREE YEARS, THE COMPANY HAD APPOINTED ERNST & YONG HUA MING AND ERNST & YOUNG AS AUDITORS OF THE COMPANY. THERE WAS NO CHANGE IN IT.

11. **THE COMPANY WAS IN COMPLIANCE OF THE DOCUMENT "NOTICE OF GUARANTEE FOR THE THIRD PARTIES PROVIDED BY LISTED COMPANIES" (ZHENG JIAN GONG SI ZI [2000] NO.61). THE COMPANY DID NOT PROVIDE GUARANTEE FOR THE THIRD PARTIES.**

12. **DURING THE REPORTING PERIOD, THE COMPANY DID NOT CHANGE ITS NAME OR ITS STOCK ABBREVIATION.**

13. **SALE OF STAFF QUARTERS**

    From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain new staff quarters for its employees. Those staff quarters were fully delivered for use during 1997. From January 1997, the Company commenced the sale of the staff quarters to its employees in accordance with the Maanshan Municipal Regulation (the "Regulation") governing the sale of public housing. The Regulation sets out the rules and conditions governing the sale and purchase of staff quarters in Maanshan, including the quantum of price discount given to the Company's employees. As at 30 June 1998, most of the staff quarters have been sold. Loss arising from the sale of such staff quarters at preferential prices is accounted for as a deferred staff cost and amortised over the estimated remaining average service life of the relevant employees of 10 years, commencing from the dates of sale of the respective staff quarters. As at 31 December 2000, the Group recorded a deferred staff cost of approximately RMB163,780,000, and the aggregate amortisation related thereto amounted to approximately RMB58,180,000, of which approximately RMB16.38 million was charged to profit & loss account for the year (1999: RMB16.38 million). Net deferred staff cost amounted to approximately RMB105,600,000. No provision for depreciation will be made in respect of the staff quarters after they are sold because the Company has no right to repossess the sold staff quarters since the ownership and all returns and risks associated with these properties have been transferred to the staff. If the above-mentioned deferred staff cost is charged to the profit and loss account for 2000, the net assets value will correspondingly decrease by RMB105,600,000 fully under Hong Kong accounting standards.

The new Ministry of Finance directive No. 2001 (5) stipulated the accounting treatment of loss on disposal of staff quarters, and the directors are currently in process of discussion with the Ministry of Finance regarding how to implement the accounting treatment of the loss on disposal of RMB105,600,289 (capitalised in the Company's and the Group's balance sheet). In accordance with that directive, disclosure of the above accounting treatment as non-adjusting post balance sheet event has been made in the PRC financial statement.

14. HOUSING SUBSIDIES

According to "Notice of Further Deepening of Accommodation System Reform in Cities and Towns and Speeding up of Accommodation Construction Issued by State Council" (Guo Fa [1998] No.23), the Company has adopted monetary house allocation. Eligible existing and retired staff will be given one-off housing allowance. According to "Notice of the Financial Arrangement during the Reform of Corporate Staff Quarter System" issued by the Ministry of Finance on 6 September 2000 and "Regulation on the Accounting Arrangement during the Reform of Corporate Staff Quarter System" issued on 7 January 2001, under the PRC accounting standards, the housing subsidies for eligible existing and retired staff will be changed to retained profit on payment basis. Under Hong Kong accounting standards, the Company will charge the housing subsidies given to retired staff on payment basis to the profit and loss account for 2000 on one-off basis. For the existing staff who will still serve for the Company for ten years in average, the one-off housing allowance given to them will be accrued on straight-line basis over ten years commencing from 1 January 2000.

In order to have a relatively accurate estimate on the impact of the expenditure on the financial position of the Company, the Company conducted an estimate. The board of directors evaluated the estimate and expected that cash subsidies for all eligible existing staff and retired staff is expected to reach RMB349 million and RMB38.8 million respectively.

Under Hong Kong accounting standards, a total of RMB73.7 million has been charged to the profit and loss account in 2000. Of which, one-off subsidies for retired staff amounted to RMB38.8 million, and one-off subsidies for existing staff amounted to RMB34.9 million. The subsidies for existing staff have not been recorded as deferred assets, and an average of RMB34,900,000 will be charged to the profit and loss account per year for the next nine years. As at 31 December 2000, the housing subsidies payable amounted to RMB52.8 million.

15. PENSION CONTRIBUTIONS

In a prior year, the Company implemented an early retirement plan for certain employees. Subsequently, the pension benefit obligations payable to early retired employees were assumed by the government-organised pension scheme.

Following the gradual rationalisation by government of its pension schemes, the directors anticipate that from now on the pension benefit obligations payable to early retired employees cannot be vested from the government-organised pension scheme, and should be borne by the Group. Accordingly, the directors consider it prudent to charge the estimated total pension benefit obligations payable to early retired employees prior to joining the govenment-organised pension scheme upon early retirement aggregating RMB221 million, on an one-off basis, to the profit and loss account during the year.

16. UNIFICATION OF INCOME TAX RATE AND THE CANCELLATION OF TAX REBATES

As one of the nine pilot joint stock limited enterprises which formed the first batch of the overseas listed companies, in accordance with the Document Cao Shui Zi (1997) No. 38 dated 10 March 1997 jointly issued by the Ministry of Finance and the State Tax Bureau, the Company continued to be subject to an income tax rate of 15%. The cancellation of tax rebates by local governments had no bearing on the Company. As at the date of this report, no document from any authorities indicating any change in income tax rates applicable to the Company has been received.

17. RECENT ECONOMIC DEVELOPMENT

The Boad of Directors considers China's economic environment has become better, especially gradual recovery after the Southeast Asian financial crisis. Increase in demand of steel products and rebound of prices of steel products have brought favourable factors to development of export business of the Group. In the first quarter of 2001, the Group's production of iron, steel and steel products amounted to 1,110,000, 1,130,000 and 1,060,000 tonnes respectively, representing an increase of 14.85%, 19.58% and 21.69% over the previous year respectively. Income from principal operating activities amounted to RMB2,293.22 million, representing an increase of 31.68% over the previous year. The total export of steel production amounted to 103,700 tonnes and US$22.74 million, representing an increase of 32.87% and 25.98% over the previous year respectively.

In addition, given gradual implementation of the Tenth Five-Year Plan and strategic development in western China, the government furthered its control over total production volume of iron and steel, the problem of situation of excess supply over demand in domestic iron and steel market will be resolved gradually. However the situation of excess supply over demand in iron and steel market still exists. At the same time, China's entry into WTO will bring more pressure on the industry and it is expected that there will be keener competition in the market. Accordingly, it is not realistic to be too optimistic in estimating the operating environment in 2001.