VI. Significant Events

1. The Directors recommended not to distribute interim dividend for the six months ended 30 June 2001 and the profits would be allocated on the development of the Company. The Directors recommended that no capital reserve funds would be transferred to share capital.

2. Profit distribution plan of the Company for the preceding year and its implementation: A dividend of RMB0.02 per share was paid in cash to shareholders on the basis of a total of 6,455,300,000 shares at the end of 2000. The dividends for H shares were paid in Hong Kong dollar. The recommendation was passed by the Annual General Meeting convened on 26 June 2001, and announced in both the PRC and Hong Kong on 27 June 2001. In respect of A shares, the share right registration date was 4 July 2001, the ex dividend date was 5 July 2001, and the dividend payment date was 13 July 2001. As far as H shares are concerned, the register of members was closed from 25 May 2001 to 26 June 2001 (both days inclusive). The cheques in payment of H share dividends were mailed to holders of the shares on 13 July 2001. The distribution of dividends for A shares and H shares was all completed as scheduled.

3. Thin plate project

On 13 June 2001, the 41st working meeting of the State Council officially approved the feasibility study conducted by MASC.L. on its thin plate project. The total investment for the project amounted to RMB5,200,000,000 (funding sources: State interest-subsidised technological improvement loan of RMB3,000,000,000 and the Company's own fund of RMB2,200,000,000). Under the project, a production line for casting and rolling thin billet plates and another production line for rolling thin plates will be established. Major work to be undertaken is to redevelop part of the medium plate plant assets into a factory for casting and rolling thin plates; and to improve the technologies applied at the original rolling factory to suit the modernised thin plate rolling factory. Upon completion, the annual output of hot-rolled thin plate will amount to 2,020,000 tons and cold-rolled thin plates to 1,500,000 tons (300,000 tons of which were galvanised plates). At present, the project is in its initial stage.

4. Material litigation

During the reporting period, the Company had no litigation or arbitration case not concluded.

5. During the reporting period, the Company did not acquire or dispose of any assets, nor did it undertake any merger. In addition, there was no repurchase, disposal or redemption by the Company, or any of its subsidiaries, of any of its shares.

6. Related party transactions

(1) For the period from 1 January 2001 to 30 June 2001, details of the amounts received and paid by the Company and the Holding in respect of the Services Agreement are

listed as follows:

Principal services rendered by the Holding to the Company	**Pricing basis**	**Total** *RMB'000*
Primary, secondary and kindergarten education	actual costs	15,566
Canteens, baths and nurseries	actual costs	37,568
Renting of staff quarters	actual costs	16,841
Landscaping of factory areas, sanitation and maintenance and repair of roads	state prices	10,526
Others	market prices	9,779
Total		90,280

Principal services rendered by the Company to the Holding	**Pricing basis**	**Total** *RMB'000*
Water supply	market prices	(264)
Electricity supply	market prices	(4,077)
Telephone service	market prices	(1,397)
Total		(5,738)

The Directors are of the opinion that the amounts paid and received by the Company for the above services based on market prices were not substantially different from the market prices at the time the supplementary agreement for 2001 were entered into.

(2) The amount paid by the Company to the Holding in respect of the Sale and Purchase of Ore Agreement from 1 January 2001 to 30 June 2001 are listed as follows:

	Amount *RMB'000*
Purchase of iron ore and limestone	357,177

The Directors are of the opinion that the above amount paid in respect of the Sale and Purchase of Ore Agreement are not substantially different from the market prices at the time the supplementary agreement for 2001 were entered into.

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

	Amount *RMB'000*
Steel products purchased by the Holding from the Company	(2,119)
Other services acquired by the Holding from the Company	(15,233)

Payment by the Company for fixed assets and construction services	50,810
Payment by the Company for other services provided by the Holding	5,184

(4) Material contracts with controlling shareholders

Save for the material related party transactions disclosed above, neither the Company nor any of its subsidiaries entered into any material contract with the controlling shareholders at any time during the period ended 30 June 2001.

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 held any position in the Holding.

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

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

8. The Company did not trust, contract and lease assets of the Company or vice versa.

9. The Company was in compliance with the document entitled "Notice about Guarantee for Third Parties Provided by Listed Companies" (Zheng Jian Gong Si Zi [2000] No. 61). The Company did not provide guarantee for third parties.

10. The Company reappointed Ernst & Young Hua Ming and Ernst & Young as its domestic and international auditors.

11. During the reporting period, the Company did not change its name or stock abbreviation.

12. Directors' Code of Best Practice

The Directors are of the opinion that the Company had, throughout the reporting period, complied with the requirements of the Code of Best Practice set out in Appendix 14 to the Listing Rules made by the Stock Exchange of Hong Kong Limited.

13. Consolidated income tax and cancellation of tax refunds

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 Cai Shui Zi (1997) No. 38

dated 10 March 1997 jointly issued by the Ministry of Finance and State Tax Bureau, the Company continued to be subject to an income tax rate of 15%. The cancellation of tax refunds 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 rate applicable to the Company had been received.

14. Recent economic development

The domestic economy is developing at a steady pace, and the demand for steel and iron is rising incessantly. However, the output of local steel products is increasing at an excessive rate. In addition, there is also an increase in the net import of steel products. Therefore, the Directors estimated that the prices of domestic steel products in the latter half of the year would turn weaker as compared to the first half of the year, but they were of the opinion that the space for the downward adjustment was limited. In the international arena, the global economy continues to remain weak, pushing down the demand for steel products. Therefore, the prices for steel products will remain on the downward track, causing adverse effects to the development of the Group's export business. In the first half of the year, the quantity of steel and iron products exported by the Group amounted to approximately 228,000 tons and the total export value amounted to US$48,600,000, representing an increase of 44.58% and 26.06% respectively over the same period in the previous year. The figures are expected to fall in the latter half of the year. Consequently, the operations for 2001 cannot be over-expected.

15. Sale of staff quarters

From 1994 to 1997, the Company paid approximately RMB190,000,000 for the purchase of certain new staff quarters for its employees. From January 1997, the Company commenced the sale of the staff quarters to its employees in accordance with State requirements. Loss arising from the sale of such staff quarters is accounted for as a deferred staff cost and amortised over a period of 10 years. As at the end of 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. The Ministry of Finance announced in its 2001 No. 5 document the requirements on the accounting method for losses arising from sales of staff quarters. In accordance with the requirements, the outstanding unamortised deferred staff cost of RMB105,600,000 as at 1 January 2001 was accounted for in the retained profit and no provision was made in this connection in the interim financial statements for 2001. Under Hong Kong accounting standards, such loss still needs to be amortised over period of 10 years starting from the dates of sale of the respective staff quarters. For the six months ended 30 June 2001, the loss arising from sale of staff quarters amortised in the profit and loss account amounted to approximately RMB8,800,000.

16. Housing subsidies

According to "Notice of Further Deepening of Accommodation System 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 charged to retained profit on payment basis. Under Hong Kong accounting standards, the Company had charged the housing subsidies of RMB38.8 million given to retired staff to the profit and loss account of 2000 on one-off basis. For the existing staff who still serve for the Company for ten years in average, the one-off housing allowances of RMB349 million given to them will be accrued on a straight line basis over ten years commencing from 1 January 2000.

Under the PRC accounting standards, the housing subsidies of RMB17.5 million paid to eligible staff for the period from 1 January 2001 to 30 June 2001 were charged to retained profit. Under Hong Kong accounting standards, the accrual of one-off housing allowances of RMB17.44 million as at 30 June paid to serving staff were charged to in the profit and loss account for the six months ended 30 June 2001.

17. Fund management

In an effort to enhance the effectiveness of fund management, after considering the Company's funds and allocation plan for the year and the authority stated in the Articles of Association, the Directors decided to engage 上海安申投資管理有限公司 to manage its own capital of RMB100,000,000. On 17 March 2001, the two parties entered into a fund management agreement. Under the agreement, (1) the trust period was agreed to be one year from 3 April 2001 to 3 April 2002; (2) 上海安申投資管理有限公司 guaranteed the safe and efficient management of the fund, and agreed to return the principal and pay a profit of not less than RMB6,000,000 upon expiry of the trust period; and, (3) for the returns on top of RMB6,000,000 resulted from satisfactory fund management, the portion would be shared between the Company and 上海安申投資管理有限公司 at the ratio of 3:7 after deduction of necessary expenses.