

Report of the Directors

The operations of the Group and the relevant analyses were detailed in the sections headed "Chairman's Statement" and "Management Discussion and Analysis". Other information that needs to be disclosed is supplemented as follows:

1. SEGMENTAL INFORMATION

For segmental information of business analysis for the year ended 31 December 2001, please refer to note 4 to the financial statements prepared under Hong Kong accounting standards.

2. MAIN SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2001, the five largest suppliers of the Company accounted for RMB1,557 million or 26% of the Company's total purchases. The five largest customers accounted for RMB2,285 million or 24% of the Company's total sales. Of the aforesaid major suppliers, Holding is the holding company of the Company. Otherwise, none of the directors or supervisors of the Company or their associates or any of the shareholders (to the knowledge of the directors, holding 5% or more of the Company's shares) held any beneficial interest in the Company's five largest suppliers or customers.

3. SUBSIDIARIES

The results and operations of the Group's subsidiaries were as follows: (RMB)

Name of subsidiaries	Place of incorporation/ registration	Percentage of Shareholding	Principal activities	Registered and paid-up capital	Total assets	Net profit
Ma Steel International Trade and Economic Corporation	Anhui, PRC	100%	Import of machinery and raw materials and export of steel products	RMB50,000,000	635,421,502	—
Design & Research Institute of Maanshan Iron & Steel Company Ltd.	Anhui, PRC	100%	Planning and design of metallurgical, construction and environmental protection projects	RMB8,000,000	12,939,682	173,998
MG Trading and Development GmbH	Germany	100%	Trading of equipment, iron and steel products and provision of technology services	DM300,000	3,745,909	182,330
Ningbo Chang Yi Company Limited	Zhejiang, PRC	100%	Trading of steel and pig iron products	RMB1,000,000	18,116,479	69,583
Shanghai Zhong Ma Company Limited	Shanghai, PRC	100%	Trading of steel and pig iron products	RMB1,000,000	5,042,827	950,821
Maanshan Iron & Steel (HK) Limited	Hong Kong, PRC	100%	Trading of steel and pig iron products	HK\$4,800,000	1,317,090	3,501,373

4. DAILY WORK OF THE BOARD OF DIRECTORS

- (1) Four board meetings were convened during the period and major resolutions included:
- The approval of the Company's financial budget and capital expenditure budget for 2001 and the launch of the construction-grade thin plate project;
 - The approval of the annual report and the Report of the Board of Directors for 2000, the 2000 audited accounts, the 2000 proposed profit appropriation and 2001 profit appropriation policy, and seeking approval at the Annual General Meeting;
 - The approval of the structural realignment proposal for the Tenth Five-Year Plan period in relation to the Company's principal iron and steel business;
 - The approval of the interim report and financial report of the Company for 2001.
- (2) The Board of Directors completed the implementation of the profit distribution plan approved by the shareholders' meeting. Cash dividends of RMB0.02 (tax inclusive) per share was paid out to all shareholders based on a total share capital of 6,455,300,000 shares as at the end of 2000. Dividends for H Shares were paid in HK dollars. The plan was approved by the shareholders' meeting held on 26 June 2001. Dividend payments for A Shares and H Shares were fully completed on schedule.
- (3) The Board of Directors determined the auditors' remunerations pursuant to the mandate of the shareholders' meeting.

5. PROFIT DISTRIBUTION PROPOSAL

The Board of Directors recommends payment of a final dividend of RMB0.02 (tax inclusive) per share for the year 2001 and the Company did not increase share capital via transfer from capital reserve.

As audited by both the domestic and international auditors, under PRC accounting standards, the net profit of the Company amounted to RMB203.518 million, and RMB147.403 million under Hong Kong accounting standards. After appropriating 10% of statutory surplus reserve and 10% of statutory public welfare fund from the Company's net profit prepared under PRC accounting standards, together with the retained profit as at the end of 2000, the total profit attributable to shareholders for the year 2001 amounted to RMB149.494 million under PRC accounting standards, and RMB354.661 million under Hong Kong accounting standards. In accordance with the Articles, the Company appropriated profit based on the lower of profit as reported in the financial statements prepared under PRC and Hong Kong accounting standards. As a result, profit attributable to shareholders for year 2001 was RMB149.494 million, a dividend of RMB0.02 was recommended, and the total sum of dividend paid amounted to RMB129.106 million. The remaining non-appropriated profit would be carried forward to 2002.

6. COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with “The Code of Best Practice” as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the “Listing Rules”) throughout 2001.

7. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Board of Directors and the Supervisory Committee were elected at the Extraordinary General Meeting held on 31 August 1999 with a term of office of three years commencing from 1 September 1999. Directors and Supervisors so elected entered into service contracts with the Company with the same term of office of three years.

None of the Directors has any service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

8. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2001, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the year.

9. PRE-EMPTIVE RIGHTS

According to the Articles of the Company and the Laws of the PRC, no pre-emptive right requiring the Company to offer new shares to the existing shareholders in proportion to their shareholders exists.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	Group	
	2001 (Estimated) RMB	2000 RMB
Directors' fees	30,000	30,000
Salaries and allowances	163,000	157,687
Performance-related bonuses	964,000	948,448
Compensation on leaving the Company	—	—
Total	1,157,000	1,136,135

In addition to the above, the Company paid in accordance with the retirement benefits scheme arranged with Maanshan Municipal Government, a retirement contribution of RMB236,670 (actual amount in 2000: RMB232,288) which is calculated at 21% of the remuneration of the directors and supervisors for the year 2001.

Included above are emoluments paid to independent directors and independent supervisors for 2001 amounting to RMB30,000 (2000: RMB30,000). No other emoluments were paid to the independent directors and independent supervisors during the years 2000 and 2001.

The analysis of the directors' and supervisors' emoluments is as follows:

	Number of Directors and Supervisors	
	2001	2000
Below HK\$1,000,000	17	18

Emoluments of the management

In 2000, the five highest paid individuals were all directors whose emoluments have been included in the directors' and supervisors' emoluments stated above.

In 2001, the five highest paid individuals were all directors.

11. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year, none of the Directors or Supervisors had material interests in any contract to which the Company, its subsidiaries, the Holding or any of the subsidiaries of the Holding was a party during the year.

12. DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

During the year and up to the date of disclosure of this annual report, none of the Directors had, as indicated in the Listing Rules, directly or indirectly, any interests in business that was in competition or in possible competition with the Holding, with exception of the appointment as directors for the businesses on behalf of the interests of the Company or the Holding.

13. FIXED ASSETS

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2001 are set out in notes V(11) and 16 to the financial statements prepared under the PRC accountings standards and regulations and Hong Kong accounting standards, respectively.

14. RESERVES

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2001 are set out in notes V(28)–V(30) to the financial statements prepared under PRC accounting standards and note 31 to the financial statements prepared under Hong Kong accounting standards.

15. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of Directors has established an audit committee (the "Committee"), which comprised of independent directors Madam Cheng Shaoxiu, Mr. Dong Yuanchi, and Mr. Wu Junnian, on 1 September 1999. The principal activities of the Committee include the review and supervision of the Group's financial reporting process and internal controls. During the year, the Committee convened two meetings and reviewed the 2000 annual accounts and 2001 interim accounts.