

Report of the Directors

The Board of Directors hereby presents their report together with the audited accounts of the Company for the year ended 31st December 2000 to the shareholders.

PRINCIPAL BUSINESS

The principal business of the Company are the manufacture and sale of steel products such as medium-gauge steel plates, steel sections and wire rods. Henda, the subsidiary of the Company, mainly engages in the smelting and sale of steel billets manufactured from its in-house facilities. Hengda's steel billets are principally sold to the Company.

The Group's operations are primarily based and carried out in the PRC.

RESULTS AND APPROPRIATIONS

Results and appropriations of the Group for the year ended 31st December 2000 prepared in accordance with the accounting principles generally accepted in Hong Kong are set out in the consolidated profit and loss account on page 46 of the Annual Report.

The Company has not declared any interim dividend for 2000.

In 2000, the PRC government continued to implement aggressive fiscal policy and the macroeconomic environment of the iron and steel market in the PRC has improved. The Group has grasped these opportunities and has turnaround its results from loss to profit. During the year, profit attributable to shareholders amounted to Rmb198,686,000. Therefore, the Board of Directors of the Company has proposed a final dividend of Rmb3 cents per share, totalling Rmb31,918,320.

FINANCIAL HIGHLIGHTS

A summary of the results and the assets and liabilities of the Group for the past five years are set out on page 6 of the Annual Report.

Share Capital and Shareholders

Share Capital Structure

The structure of the Company's share capital as at 31st December 2000 was as follows:

Share type	Number of shares with par value of Rmb1 each (in 1,000 shares)	Percentage to the Company's total issued share capital (%)
Unlisted State-owned Shares	650,000	61.09
H shares listed in Hong Kong	413,944	38.91
Total	1,063,944	100.00

During the year, the Company did not issue any equity securities and there were no changes in the share capital structure.

H Share Information

Details of the issue of the Company's H shares listed in Hong Kong since the establishment of the Company on 12th August 1997 are as follows:

Pursuant to initial public offering:

Date of Issue:	15th October 1997
Place of listing:	Hong Kong
Issue price:	HK\$1.71
Number of shares issued:	410,000,000 shares
Date of listing:	17th October 1997

Pursuant to over-allotment option

Date of Issue:	6th November 1997
Place of listing:	Hong Kong
Issue price:	HK\$1.71
Number of shares issued:	3,944,000 shares
Date of listing:	10th November 1997

Number of H shares approved for listing: 413,944,000 shares

During the year:	
Highest trading price	HK\$0.570 per share
Lowest trading price	HK\$0.270 per share
Closing price on the last trading day	HK\$0.305 per share
Total transaction volume	944,042,000 shares

Number of shareholders

At 31st December 2000, the Company's total number of shareholders was 802, which included one shareholder of State-owned shares and 801 shareholders of H shares.

Substantial shareholders

At 31st December 2000, the register of substantial shareholders maintained under Section 16(1) of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") showed that the Company had been notified of the following interests in the Company's issued share capital:

Name of shareholder	Class of shares held	Number of shares held (in thousand shares)	Percentage to total issued share capital (%)
Chongqing Iron & Steel Company (Group) Limited	State-owned share	650,000	61.09
Chow Tai Fook Enterprises Limited	H share	61,500	5.78
New World Development Company Limited	H share	61,500	5.78
Planet Foundation Limited	H share	61,500	5.78

HKSCC Nominees Limited notified the Company that as at 31st December 2000, within the Hong Kong Securities Central Clearing Systems:

- (1) Tai Fook Securities Limited held 64,880,000 H shares of the Company, representing 15.67% of the Company's total issued H shares; and
- (2) a total of 398,817,500 H shares of the Company, representing 96.35% of the Company's total issued H shares, were registered in its name, all of which were held on behalf of various clients' accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31st December 2000, the Company has not redeemed any of its securities, neither the Company nor its subsidiary has purchased, or sold any of the Company's securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under PRC Laws and the Company's Articles of Association.

USE OF PROCEEDS FROM THE NEW ISSUE

The Company raised Rmb690.1 million from its issue of H shares in 1997, of which Rmb200 million was intended to be used for repayment of bank loans and the balance was planned to be used for investment in technological improvement projects. In order to reduce interests for bank loans, improve capital utilization and increase the benefits of the Company, the Company used Rmb100 million and Rmb209.75 million (totalled Rmb309.75 million) in addition to the original budgeted amounts in 1997 and 1998 respectively to repay bank loans which were high interest-bearing. The Company will obtain new loans from banks when the Company's technological improvement projects require capital. Up to the year ended 31st December 2000, Rmb509.75 million had been used to repay bank loans and Rmb180.35 million had been applied to technological improvement projects. The Company

has applied Rmb36.7 million from the proceeds on technological improvement projects during the year. The proceeds planned to be used for investment in technological improvement projects have been fully utilized at the end of 2000.

Details of the application of Rmb36.7 million during the year are as follows:

	Rmb
70,000-cubic-meter coking coal gas storage tank	414,800
Refining system outside furnace for molten steel(LF)	14,765,000
Sintering machine improvement project	8,633,500
Efficiency improvement projects of continuous casting machine for steel plate slab	535,100
Blast furnace coal blower	2,686,600
12,000KW power generating unit	5,884,000
Blast furnace coal gas water treatment system	1,064,000
Replacing blast furnace blower	222,700
Molten iron desulphurisation	489,000
Steel section rolling machines improvement project	646,300
Steel cutter track improvement project	1,366,400
Total	36,707,400

DIRECTORS AND SUPERVISORS

Directors and supervisors of the Company who held offices during the year and up to the date of this report are as follows:

Directors:

Mr. Tang Min Wei	Chairman	(re-appointed on 9th June 2000)
Mr. Pan Xiang Yu		(appointed on 12th August 2000)
Mr. Chen Shan		(appointed on 12th August 2000)
Mr. Dong Rong Hua		(re-appointed on 9th June 2000)
Ms. Zeng Chao Bi		(re-appointed on 9th June 2000)
Mr. Zhu Jian Pai		(resigned on 11th August 2000)
Mr. Jiang Tao		(resigned on 11th August 2000)

Mr. Chiu Chi Cheong, Clifton	(Independent Non-executive Director)	(re-appointed on 9th June 2000)
Mr. Wu Zhong Fu	(Independent Non-executive Director)	(re-appointed on 9th June 2000)

Supervisors:

Mr. Zhu Jian Pai	(Chairman of the Supervisory Committee)	(appointed on 12th August 2000)
Ms. Liu Xiu Ying		(re-appointed on 19th May 2000)
Mr. Huang You He		(re-appointed on 9th June 2000)
Ms. Wang Zu Qin		(re-appointed on 9th June 2000)
Mr. Su Quan Lin		(re-appointed on 9th June 2000)
Mr. Li Cheng Fu		(resigned on 11th August 2000)

Pursuant to Articles 93 and 121 of the Articles of Association of the Company, the term of directors and supervisors shall be three years commencing from the date of appointment or re-appointment, and may be re-appointed to serve consecutive terms.

Brief biographies of the directors, supervisors and senior management are set out on pages 24 to 26 of the Annual Report.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 12th January 2000, the Board of Directors resolved to dismiss Mr. Ding Shu Chen from his office of the Secretary to the Board of Directors of the Company, and to terminate his capacity as the Authorised Representative of the Company, and to appoint Mr. Zhang Yu as the Secretary to the Board of Directors and the Authorised Representative of the Company.
2. On 18th January 2000, Ms. Choy Hok Man, Constance tendered her resignation as the Secretary to the Board of Directors. The Board of Directors accepted the resignation tendered by Ms. Choy effective from 20th January 2000.
3. The term of the members of the first Board of Directors and Supervisory Committee expired on 11th August 2000. The members of the second Board of Directors and the Supervisory Committee were elected at the Annual General Meeting of the Company held on 9th June 2000. (Biographies of the members of the second Board of Directors and the Supervisory Committee are set out on pages 24 and 25 of the Annual Report).
4. On 10th August 2000, due to work reallocation, the Board of Directors resolved to dismiss Mr. Zhang Yu from his office of the Secretary to the Board of Directors and to terminate his capacity as the Authorised Representative of the Company on the ground of work re-allocation. Mr. Liu Da Wei was appointed as the Secretary to the Board of Directors and the Authorised Representative of the Company.

5. On 10th August 2000, the Board of Directors appointed Mr. Tu De Ling as the Chief Accountant of the Company.
6. On 11th November 2000, upon the nomination by Mr. Tang Min Wei, the Company's General Manager, the Board of Directors appointed Mr. Chen Hong as the Company's Deputy General Manager and dismissed Mr. Luo Fu Qin from his office of Deputy General Manager of the Company.
7. On 26th March 2001, the Board of Directors resolved to dismiss Mr. Liu Da Wei from his office of the Secretary to the Board of Directors and to terminate his capacity as the Authorised Representative of the Company. Mr. You Xiao An was appointed as the Secretary to the Board of Directors and the Authorised Representative of the Company.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All directors and supervisors of the Company have entered into service contracts with the Company which will expire on 31st August 2003. Either parties may terminate the service contract by serving three months notice to the other party.

None of the independent non-executive directors of the Company has entered into any service contract with the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS

At 31st December 2000, the interests of the directors and supervisors in the shares of Hengda, as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

Name	Number of Shares		Total
	Personal Interests	Family Interests	
Pan Xiang Yu	1600	*-	1,600
Chen Shan	800	*-	800
Wang Zu Qin	800	800	1,600

Save as disclosed above, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations at 31st December 2000.

During the year ended 31st December 2000, none of the directors or supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

No contracts of significance in relation to the Company's business to which the Company, its subsidiary, its fellow subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiary, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS, SECRETARY TO THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Directors:

Mr. Tang Min Wei, aged 58, is the Chairman and General Manager of the Company. He is also the Chairman of the Holding Company. Mr. Tang holds the title of professor-grade senior engineer. Mr. Tang joined the Holding Company in 1964 and became a director of the Company in 1999.

Mr. Pan Xiang Yu, aged 46, is a Director of the Company and a Director, the Chairman of Workers' Union and the Head of the Promotion Department of the Holding Company. He holds the title of senior political work specialist. Mr. Pan joined the Holding Company in 1980 and was appointed as director of the Company in 2000.

Mr. Chen Shan, aged 47, is a Director and the Secretary of the Communist Party Committee and the Head of the Organisation Department of the Company. He holds the title of senior engineer. Mr. Chen joined the Holding Company in 1982 and was appointed as director of the Company in 2000.

Mr. Dong Rong Hua, aged 48, is a Director and Deputy General Manager of the Company and the Chairman of Hengda. He holds the title of senior engineer. Mr. Dong joined the Holding Company in 1971 and became a director of the Company in 1997.

Ms. Zeng Chao Bi, aged 56, is a Director of the Company. She holds the title of senior accountant. Ms. Zeng joined the Holding Company in 1985 and became a director of the Company in 1997.

Independent Non-executive Directors:

Mr. Chiu Chi Cheong, aged 46, is an Independent Non-executive Director and the Chairman of the Audit Committee of the Company. He is also a Director and the General Manager of Harrester (Holdings) Company Limited, Vice Chairman of the Takeovers and Mergers Committee of the Hong Kong Securities and Futures Commission, Vice Chairman of the Listing Committee of the Growth Enterprise Market of the Stock Exchange, and a member of the Shenzhen Municipal Political Consultative Committee. Mr. Chiu graduated from South California University in 1977. He holds a master's degree in Business Administration and is a chartered accountant of the United States. Mr. Chiu became an Independent Non-executive Director of the Company in 1999,

Mr. Wu Zhong Fu, aged 62, is an Independent Non-executive Director, a member of the Audit Committee of the Company and the President of the Chongqing University. He is a Professor in Computer Science and Technology and a tutor to doctoral candidates. Mr. Wu became an Independent Non-executive Director of the Company in 1997.

Supervisors:

Mr. Zhu Jian Pai, aged 43, is the Chairman of the Supervisory Committee of the Company, a Director and Deputy Secretary to the Communist Party Committee of the Holding Company. He holds the title of senior engineer. Mr. Zhu joined the Holding Company in 1982.

Ms. Liu Xiu Ying, aged 50, is a Supervisor and the Chairman of the Workers' Union of the Company and a Supervisor and the Vice Chairman of the Workers' Union. She holds the title of senior political work specialist. Ms. Liu joined the Holding Company in 1971.

Mr. Huang You He, aged 49, is a Supervisor of the Company and the Holding Company and the Head of the Law and Regulations Department of the Holding Company. He holds the title of senior economist. Mr. Huang joined the Holding Company in 1983.

Ms. Wang Zu Qin, aged 55, is a Supervisor of the Company and the Holding Company and the Director of the Audit Department of the Holding Company. She holds the title of senior economist. Ms. Wang joined the Holding Company in 1971.

Mr. Su Quan Lin, aged 55, is a Supervisor of the Company and the Head of the Communist Party Committee Office of the Holding Company. He holds the title of senior political work specialist. Mr. Su joined the Holding Company in 1970.

Secretary to the Board of Directors:

Mr. You Xian An, aged 37, is the Secretary to the Board of Directors and the Head of General Office of the Company. Mr. You joined the Holding Company in 1985.

Other Senior Management

Mr. Guo De Yong, aged 45, is Deputy General Manager of the Company. He holds the title of senior engineer. Mr. Guo joined the Holding Company in 1982.

Mr. Chen Hong, aged 45, is the Deputy General Manager of the Company. He holds the title of senior engineer. Mr. Chen joined the Holding Company in 1982.

Mr. Tu De Ling, aged 38, is the Chief Accountant and the Head of the Finance Department of the Company. He holds the title of senior accountant. Mr. Tu joined the Holding Company in 1988.

MATERIAL CONTRACTS WITH THE HOLDING COMPANY

1. Services and supply agreement

Under the service and supply agreement dated 29th September 1997, the Holding Company has agreed to supply or to procure its subsidiaries (the Holding Company and its subsidiaries excluding the Group are hereinafter collectively referred to as the "Holding Company Group") to supply certain equipment and materials and to provide certain welfare and support services to the Group; and the Company has agreed to supply or to procure its subsidiary to supply certain materials and to provide certain services including the supply of water, electricity and gas to the Holding Company Group. The agreement is effective from 29th September 1997 for a term of 10 years. The consideration payable for these services is based, if applicable, on market prices or government-regulated prices, as provided for in the agreement.

2. Land leasing agreements

Under the lease agreements dated 14th August 1997 and 13th August 1997, each as amended by a supplemental agreement dated 29th September 1997, the Company and Hengda lease the land on which the Group's plants are located from the Holding Company for a term of 50 years from 14th August 1997 and 13th August 1997 respectively. For the years 1998 to 2000, the total rental is Rmb11,994,000 per annum. Thereafter, the rent shall be adjusted not more than once every three years by agreement between the Group and the Holding Company subject to a maximum increment of 10% of the latest applicable rental amount.

Connected Transactions

1. Details of the related party transactions entered by the Group during the year ended 31st December 2000 are set out in note 24 to the Accounts on page 70. Such transactions also constituted connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
2. The connected transactions discloseable according to Chapter 14 of the Listing Rules are set out below:
 - (1) Connected transactions that have been granted waivers

Connected transactions between the Group and the Holding Company Group described in paragraphs (2), (4) to (9) on pages 76 to 80 of the Prospectus and pages 70 and 71 of this Annual Report (the "Transactions") have been waived by the Stock Exchange from strict compliance with the provisions of Chapter 14 of the Listing Rules, provided that the conditions as set out in the letters from the Stock Exchange dated 28th November 1997 and 7th December 1999 (the details of which are set out in paragraph (3) headed "Sale of Steel Products" below) are fulfilled.

The independent non-executive directors of the Company have reviewed the Transactions during the year and have confirmed that:

- (a) the Transactions have been entered into in the ordinary course of business of the Group;
- (b) the Transactions have been entered into on normal business terms (i.e. terms determined with reference to transactions of a similar nature or entered into by similar companies in the PRC) or, where there was no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the Transactions were entered into: (1) in accordance with the terms of the agreements that governed the Transactions, or (2) where there was no such agreement, on terms no less favourable than those available to third parties;
- (d) the amount of each of the Transactions has not exceeded the cap set out on pages 78 to 81 of the Prospectus and page 5 of the circular relating to the sale of steel products issued by the Company dated 21st October 1999.

(2) Pledge of Shares by the Holding Company

On 18th January 1999, the Company published an announcement in respect of the pledge by the Holding Company of 650,000,000 shares of Rmb1 each in the Company (the "Pledged Shares") to a bank in the PRC (the "Bank") on 13th October 1998 by way of security for repayment obligations of the Company in respect of loans up to a maximum principal amount of Rmb650,000,000 extended to the Company by the Bank during the period from 12th October 1998 to 12th October 2003. The Pledged Shares represent the Holding Company's entire stake in the Company and represent 61.09% of the issued share capital of the Company.

The above pledge has not been released as at 31st December 2000.

(3) Sale of Steel Products

On 30th September 1999, the Company published an announcement in relation to the proposal of sale of steel products by the Group to the Holding Company Group (the "Sales Transactions"). The Holding Company Group purchased the steel products of the Group for further processing, and turned the processed steel products to machinery products and materials for infrastructure. The total value of the Connected Transaction during the year ended 31st December 1999 did not exceed 8% of the audited turnover of the year. During the two years ended/ending 31st December 2000 and 31st December 2001, the total value of the Connected Transaction will not be more than 19% of the audited turnover of the respective years.

Despite the oversupply in the steel market in the PRC and the keen competition among steel manufacturers, the Sales Transactions will bring new clients to the Group. The Sales Transactions are made in accordance with the price setting policies of the Company in accordance with the principle of equity in the ordinary course of business based on normal business terms, and are in the interests of the Group and the shareholders.

On 21st October 1999, the Company dispatched a circular to its shareholders in connection with the sale of steel products to the Holding Company Group. The circular contains the letters of the Board of Directors as well as the opinions of the independent directors and the independent financial consultants. They considered the terms and upper limit of ratio of the total value of transaction of the Sales Transactions are fair and reasonable so far as the shareholders are concerned, and are in the interests of the Group and the shareholders.

At the extraordinary general meeting held on 6th December 1999, the Sales Transactions were approved.

The Stock Exchange issued a letter to the Company dated 7th December 1999 in respect of the granting of a waiver from strict compliance with the disclosure requirements and the approval from shareholders in relation to the Sales Transactions, provided that the conditions set out in such letter of waiver are fulfilled. The waiver conditions and amounts are detailed in the announcement of the Company dated 21st October 1999.

During the year, the total amount of steel products which were sold by the Company to the Holding Company Group did not exceed 19% of the audited turnover of the Group.

(4) Acquisition of Assets

The Board of Directors of the Company resolved on 4th November 1999 and 25th February 2000 respectively to acquire the Iron and Steel Research Office of the Holding Company and all of the fixed assets which are owned by the Holding Company within the area of the high-speed wire rods plant of the Company.

On 28th September 2000, the Company entered into an asset transfer agreement with the Holding Company. On 29th September 2000, the Company published an announcement in respect of the acquisitions. The total value of these assets amounted to Rmb27,835,200 as at 31st December 1999, representing 1.65% of the net tangible assets of the Company on the same day.

The acquisition of such assets will strengthen the Company's ability to develop new products, optimize product mix, enhance market competitiveness and secure smooth operation of the high-speed steel cutter for wire rods project which had commenced operation during the year.

The directors (including independent non-executive directors) are of the opinion that such transactions were made on normal commercial terms and are fair and reasonable so far as the shareholders are concerned.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSIT

During the year ended 31st December 2000, the Group did not hold any designated deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

MATERIAL LITIGATION

During the year, the Group was not involved in any litigation or arbitration of material importance.

SIGNIFICANT EVENTS

1. In order to reduce the number of connected transactions such as the purchase of equipment, parts and accessories from the Holding Company, and to increase operating efficiency, strengthen market competitiveness and optimize product mix, the Company established the Equipment Supply Department and High-Speed Steel Cutter for Wire Rods Plant on 6th April 2000.
2. The Company's Audit Committee was established on 19th April 2000. The Board of Directors appointed Mr. Chiu Chi Cheong, Clifton, an Independent Non-executive Director, as the Chairman of Audit Committee; Mr. Wu Zhong Fu, an Independent Non-executive Director as the member of the Audit Committee. The authority and duties of the Audit Committee were also approved.
3. The members of the second Board of Directors and Supervisory Committee were appointed at the Annual General Meeting of the Company held on 9th June 2000.
4. In June 2000, the first test run of heating furnace of the High-speed Plant was successful. The test run of the thermal loading machine which was conducted in July 2000 was satisfactory. The Plant commenced operation in August 2000. As at 31st December 2000, the Plant has been operating smoothly.
5. On 28th September 2000, the Company entered into an asset transfer agreement with the Holding Company in respect of the acquisition of the Iron and Steel Research Office of the Holding Company and all of the fixed assets which are owned by the Holding Company within the area of the High-Speed Steel Cutter for Wire Rods Plant.
6. During the year, the Company successfully developed new products such as A36M, 09MnCuPTi, 15MnWNq, Q345-A/Cu steel plates, No. 37 spherical flat steel, No. 14 H shaped steel and No. 12.5 weatherproof angle steel. These new products were produced to satisfy the special requirements of certain customers in order to develop new markets, and satisfactory economic efficiency was attained.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out on pages 57 to 58 of the Annual Report.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on pages 64 to 66 of the Annual Report.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank and other loans are set out on pages 63, 66 and 67 of the Annual Report.

INTEREST CAPITALIZATION

The amount of interest capitalized by the Group during the year is set out on page 56 of the Annual Report.

STAFF RETIREMENT AND BENEFITS SCHEME

Details of the Group's staff retirement benefits scheme are set out on page 53 of the Annual Report.

SALE OF STAFF QUARTERS

During the year ended 31st December 2000, the Group had not sold any quarters to its employees, nor had it incurred any expenses as a result of the Holding Company's sale of quarters to the Group's employees.

FINANCIAL ARRANGEMENT OF HOUSING POLICY REFORM

According to the document CZ [2000] No. 295 issued by the Ministry of Finance of the PRC on 6th September 2000. "Notice on the issues of the accounting treatment with respect to the reform on enterprises' staff housing system", all state-owned enterprises other than those in the financial services industry should stop the physical allocation of staff quarters and implement the staff housing welfare fund system. These enterprises are also required to pay a one-off housing subsidy in cash to those staff who joined the work force prior to 31st December 1998 and have yet to receive physical allocation of staff quarters. The document required provincial and municipal governments to take responsibility for setting out the detailed regulations with respect to the timing and procedures for the implementation of the policy as required by the above document.

Prior to the establishment of the Company, the Holding Company had changed its housing scheme and implemented the housing welfare fund system in accordance with the requirements as stipulated in the document YZGF [1994] No. 05 issued by the Housing Policy Reform Leadership Committee of the Chongqing Finance Bureau in 1994. The Holding Company and its staff each contributes to the staff housing welfare fund based on a percentage of the staff salaries. The staff housing welfare fund is owned by the staff and is administered by the Housing Fund Administrative Committee in Chongqing. After the Restructuring in 1997, the Company has been making contributions to the staff housing welfare fund in accordance with the above mentioned document.

As at the date of this report, the Chongqing Finance Bureau has not yet issued any detailed arrangements and regulations for the implementation of the policy as required by the above document CZ [2000] No. 295. In the event that the Chongqing Finance Bureau implements the document CZ [2000] No. 295 mentioned above, the Company estimates that the housing subsidy in connection with those employees who joined the Company prior to 31st December 1998 and have yet to receive physical allocation of staff quarters to be approximately Rmb6 million. The Holding Company has undertaken to assume the liabilities that may arise as mentioned above, and will directly pay the relevant housing subsidy to those qualified employees.

In view of the above, the Company has not provided for any housing subsidy in the accounts for the year ended 31st December 2000.

Major Customers and Suppliers

The Group's sales to the five largest customers together account for less than 30% of the Group's gross sales amount.

The percentage of the Group's purchases attributable to major suppliers is as follows:

Percentage of purchases attributable to the Group's largest supplier	9%
Percentage of purchases attributable to the Group's five largest suppliers	36%

The Group's five largest suppliers include two fellow subsidiaries

Except for the above, none of the directors, supervisors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the above major suppliers.

THE YEAR 2000 ("Y2K") PROBLEM OF COMPUTER SYSTEMS

As at 31st December 2000, the Group has not encountered any Y2K problem.

POLICY OF ENTERPRISE INCOME TAX

No Hong Kong profits tax has been provided as the Group had no taxable profit in Hong Kong for the year.

In accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to that of the joint stock company with foreign investment. In accordance with Article 8 of the Income Tax Law of the PRC Enterprises with foreign investment and Foreign Enterprises, Foreign investment enterprises engaged in production business are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ended 31st December 2000 is the Group's first profitable year after the change mentioned above; accordingly, no taxation has been provided in the accounts.

At the beginning of 2000, the State Council of the PRC government issued a notice "Notice for Correcting the Levy First and Refund Later Policy adopted by the Local Government", stipulating the suspension of the Levy First and Refund Later policy adopted by local governments with effect from 1st January 2000. The suspension of the "tax refund treatment" would have no impact on the Company as the Company has been granted the preferential tax treatment applicable to joint stock companies with foreign investment since 7th December 1998.

CODE OF BEST PRACTICE

The Company has set up the Audit Committee on 19th April, 2000. Except for the absence of an Audit Committee during the period from 1st January to 18th April 2000, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year ended 31st December 2000.

AUDIT COMMITTEE

The Company has set up the Audit Committee on 19th April 2000 according to the requirements of Rule 14 of Appendix 14 of the Listing Rules. The committee consists of two independent non-executive directors. Mr. Chiu Chi Cheong, Clifton was appointed as the Chairman of the Audit Committee and Mr. Wu Zhong Fu as the member of the Audit Committee. The committee has, since 19th April 2000, carried out its work in accordance with the authority and duties as adopted by the Board of Directors and has reviewed the financial statements for the year.

AUDITORS

The accounts for the year have been audited by PricewaterhouseCoopers who has already completed their term of appointment, and has expressed its acceptance of the re-appointment. The Board of Directors will submit a resolution to re-appoint PricewaterhouseCoopers as auditors of the Company for 2001 at the forthcoming General Meeting.

By Order of the Board

Tang Min Wei

Chairman

Chongqing, PRC

9th April 2001