

# Report of the Directors

## 1. DAILY WORK OF THE BOARD OF DIRECTORS

- (1) Seven board meetings were convened during the reporting period to consider the following major resolutions:
- Approval on the Company's 2003 annual report and its summary;
  - Approval on 2003 Work Report of the Board of Directors, the 2003 audited financial statements and profit appropriation plan for 2003, and the proposals for submitting the above to the Annual General Meeting for approval;
  - Approval on the Company's fixed asset investment plan for 2004;
  - Approval on the provision of a guarantee by the Company for Ma Steel International Trade and Economic Corporation, the Company's wholly-owned subsidiary, for the import of iron ore and other credit facilities totalling RMB922 million, with the actual guarantee amounts and durations being subject to the terms of the guarantee contracts;
  - Approval on the Company's provision of a guarantee for stand-by letter of credit financing totalling USD3 million granted to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary of the Company;
  - Approval on the Company's adjustments on fixed assets depreciation rates;
  - Approval on the Company's investment in 上海大宗鋼鐵電子交易中心有限公司;
  - Approval on the 2004 first quarterly report of the Company;
  - Approval on the "Work Regulations for the General Manager of Maanshan Iron & Steel Company Limited";
  - Approval on the amendments to the "Articles of Association of Maanshan Iron & Steel Company Limited", the proposal to grant a mandate to the Board of Directors for the placing and issue of new shares (H Shares) when appropriate; and the proposals for submitting the above to the Annual General Meeting for approval;
  - Approval on the Company's 2004 interim report and its summary;
  - Approval on the Company's 2004 interim financial statements;
  - Approval on the Company's provision of a guarantee for the 3-year credit facility amounting to RMB14 million granted by Maanshan City Commercial Bank to Anhui Masteel K. Wah New Building Materials Co., Ltd., the Company's controlling subsidiary, with the actual guarantee amounts calculated in accordance with the Company's investment proportion;

- Approval on the establishment of Maanshan Iron & Steel (Australia) Pty Ltd., a wholly-owned subsidiary, in Australia; and on that company's investment in Wheelarra Joint Venture, a non-legal entity;
  - Approval on the 2004 third quarterly report of the Company;
  - Approval on the acquisition of equity interests of 71% in Anhui Masteel Holly Packaging Co., Ltd., which is held by Magang (Group) Holding Company Limited, the Company's controlling shareholder.
- (2) The Board of Directors completed the implementation of the profit appropriation plan approved at the Annual General Meeting held on 1 June 2004.
- (3) The Board of Directors determined the auditors' remunerations pursuant to the mandate granted at the general meeting.
- (4) The Board of Directors completed the submission and approval on the Articles of Association of the Company pursuant to the mandate granted at the general meeting.
2. Profit appropriation proposal for the current period: The Board of Directors recommends payment of a final dividend of RMB0.22 (tax inclusive) per share for year 2004. No capital reserve will be transferred to share capital .

As audited by the domestic and international auditors, the net profit of the Company for 2004 amounted to RMB3,574 million under PRC Accounting Standards and Systems and RMB3,520 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit under PRC Accounting Standards and Systems for contribution to the statutory common reserve and another 10% to the statutory public welfare fund and taken into account the Company's retained profit as at the end of 2003, the total profit available for distribution to shareholders for year 2004 amounted to RMB3,789 million under PRC Accounting Standards, and RMB3,845 million under Hong Kong Accounting Standards. In accordance with the Articles of the Association of the Company, the Company distributed profits based on the lower of the respective profit amounts reported in the two financial statements. As a result, profit available for distribution to shareholders for year 2004 was RMB3,789 million. In view of improvement in the Company's profitability, a dividend payment of RMB0.22 (tax inclusive) per share was recommended, thereby resulting in a total dividend payment of RMB1,420 million. The remaining undistributed profit will be carried forward to 2005.

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### 3. SPECIFIC STATEMENT OF REGISTERED ACCOUNTANTS ON THE UTILISATION OF FUNDS BY THE SUBSTANTIAL SHAREHOLDER OF THE COMPANY AND OTHER RELATED PARTIES

Pursuant to the Circular Zheng Jian Fa [2003] No.56 issued by the China Securities Regulatory Commission ("CSRC"), Ernst & Young Hua Ming has issued the "Specific Statement on the Utilisation of Funds by the Substantial Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties and the Issue on Guarantees Provided to the Controlling Shareholder and the Corporate Entities of the Controlling Shareholder". In the opinion of the auditors, based on the information provided by the Company, as at 31 December 2004, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, they are not aware of any misappropriation of funds by the controlling shareholder of Maanshan Iron & Steel Company Limited and other related parties as stated in the Circular Zheng Jian Fa [2003] No.56, and the Company has not provided any guarantee to the controlling shareholder and its corporate entities.

### 4. In accordance with the Circular Zheng Jian Fa [2003] No.56, Madam Cheng Shaoxiu, Mr Wu Junnian, Mr Shi Jianjun and Mr Chan Yuk Sing, all being Independent Directors of the Company, have furnished their independent opinions in respect of the Company's accumulated and current portion of external guarantees and the implementation status of the above-mentioned regulations, which are stated as follows:

- (1) As at 31 December 2004, all the external guarantees of the Company had been approved by the Board of Directors.
- (2) As at 31 December 2004, no guarantees were provided directly or indirectly to any company with a gearing ratio exceeding 70%. And no guarantees were provided by the Company to its controlling shareholder and other connected parties, non-legal person entities or individuals holding less than 50% of the Company's shares.
- (3) As at 31 December 2004, the total amount of accumulated and current portions of external guarantees were lower than 50% of the net assets of the Company as reported in the 2004 consolidated financial statements.

### 5. OTHER MATTERS

- (1) For information analysed by business segments as at 31 December 2004, please refer to Note 4 to the Financial Statements prepared under Hong Kong Accounting Standards.
- (2) The Group's profit for the year ended 31 December 2004 and the Group's operating status as at that date are set out on pages 104 to 179 of the Accounting Statements prepared under PRC Accounting Standards and Systems and pages 51 to 102 of the Financial Statements prepared under Hong Kong Accounting Standards.

### **(3) Fixed assets**

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2004 are set out in Note V (10) to the financial statements prepared under the PRC Accountings Standards and Systems and note 14 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

### **(4) Pre-emptive rights**

Neither the Articles of Association of the Company nor the Laws of the PRC provide for any pre-emptive rights.

### **(5) Purchase, sale and redemption of listed shares**

During 2004, the Company has not redeemed any of its listed shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

### **(6) Reserves**

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2004 are set out in Note V (30) to (32) to the financial statements prepared under PRC Accounting Standards and Systems, note 30 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

### **(7) Charitable donations**

Charitable donations made by the Group during the year totalled RMB1, 726,000.

### **(8) Service contracts of directors and supervisors**

The current Board of Directors and the Supervisory Committee were elected at the Extraordinary General Meeting held on 31 August 2002 with a term of office of three years commencing from 1 September 2002. 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 that is not terminable by the Company within one year without compensation other than statutory compensation.

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## **(9) Directors' and supervisors' interests in contracts**

During the year, none of the Directors or Supervisors had any direct or indirect 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.

## **(10) Directors' interests in competing businesses**

During the year and as at the disclosure date of this annual report, none of the Directors were or had been deemed, pursuant to the Listing Rules of the Stock Exchange, to be directly or indirectly interested in any business that was competing or in possible competition with the Group's business, except for businesses for which the directors of the Company are appointed as directors for the interests of the Company or the Group.

## **(11) Compliance with the code of best practice**

To the best knowledge of the Board of Directors, the Company had 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 2004. Upon making reasonable enquiries to all the Directors, there were no non-compliance by any of the Directors with the Model Code for Securities Transactions by Directors of Listed Companies under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.