

# Report of the Directors

## 1) DAILY WORK OF THE BOARD OF DIRECTORS

### (1) Description of the Board meetings in 2005 and details of the resolutions:

- On 5 January 2005, the Company convened the 20th meeting of the fourth session of the Board of Directors. The following resolutions were approved at the meeting: the budget of the Company for 2005; the implementation plan for the Company's "10-5" Structural adjustments and preliminary budgets of certain projects; the investment in the establishment of Ma'anshan BOC-Ma Steel Gases Company Limited; and the investment in the establishment of 馬鞍山馬鋼華陽設備診斷工程公司; matters regarding donations; notification on the new regulations by the China Securities Regulatory Commission (the "CSRC"), the SSE and the Hong Kong Stock Exchange and impact on the Company.
- On 16 March 2005, the Company convened the 21st meeting of the fourth session of the Board of Directors. The following resolutions were approved at the meeting: the investment in the establishment of Masteel (Jinhua) Processing Co., Ltd.; the nomination of candidates as directors and supervisors of Anhui Masteel Holly Packing Co. Ltd.; and approval on the establishment and alternations of relevant organisations of the Company. During the meeting, all directors also studied the relevant materials on the working meeting of the Anhui Securities and Futures Regulatory Commission.
- On 25 April 2005, the Company convened the 22nd meeting of the fourth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 26 April 2005.
- On 28 April 2005, the Company convened the 23rd meeting of the fourth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 29 April 2005.
- On 13 July 2005, the Company convened the 24th meeting of the fourth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 14 July 2005.
- On 15 August 2005, the Company convened the 25th meeting of the fourth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 16 August 2005.
- On 31 August 2005, the Company convened the 1st meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 1 September 2005.

## Report of the Directors (continued)

- On 19 October 2005, the Company convened the 2nd meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 20 October 2005.
- On 29 December 2005, the Company convened the 3rd meeting of the fifth session of the Board of Directors. The following resolutions were resolved at the meeting: the budget of the Company for 2006; to approve the preliminary budget for the Company's investment in six projects including cold-rolled non-oriented silicon steel; to approve the extension of term of operation for 8 branches of the Company including Repair and Construction Company. During the meeting, all directors also studied the Company Law (amended), the Securities Law and the Opinions on Improving Quality of Listed Companies issued by the CSRC.

- (2) The Board of Directors completed the implementation of the profit appropriation plan approved at the Annual General Meeting held on 14 June 2005.
- (3) The Board of Directors determined the auditors' remuneration pursuant to the mandate granted at the general meeting.
- (4) The Board of Directors completed the submission for 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 HAS RECOMMENDED TO DECLARE A FINAL DIVIDEND OF RMB0.16 (TAX INCLUSIVE) PER SHARE FOR YEAR 2005. NO CAPITAL RESERVE FUND WILL BE TRANSFERRED TO SHARE CAPITAL.**

As audited by the domestic and international auditors, net profit of the Company for 2005 amounted to RMB2,787 million under PRC Accounting Standards and RMB2,677 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit under PRC Accounting Standards 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 2004, the total profit available for distribution to shareholders for year 2005 amounted to RMB4,598 million under PRC Accounting Standards, and RMB4,544 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 2005 amounted to RMB4,544 million, while a dividend payment of RMB0.16 (tax inclusive) per share was recommended, thereby resulting in a total dividend payment of RMB1,033 million. The remaining undistributed profit will be carried forward to 2006.

## Report of the Directors (continued)

### 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 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 2005, 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, MR. WONG CHUN WA, MR. SU YONG, MR. HUI LEUNG WAH AND MR. HAN YI, 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 2005, all the external guarantees of the Company had been approved by the Board of Directors.
- (2) As at 31 December 2005, 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 2005, the total amount of accumulated and current portions of external guarantees was lower than 50% of the net assets of the Company as reported in the 2005 consolidated financial statements.

### 5) OTHER MATTERS

- (1) For information analysed by business segments as at 31 December 2005, please refer to Note 3 to the Financial Statements prepared under Hong Kong Accounting Standards.
- (2) The Group's profit for the year ended 31 December 2005 and the Group's operating status as at that date are set out in the Accounting Statements prepared under PRC Accounting Standards and Systems and 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 2005 are set out in Note V (10) to the financial statements prepared under PRC Accounting Standards and Systems and note 13 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

## Report of the Directors (continued)

### **(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 2005, 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 2005 are set out in Note V (31) to (33) to the financial statements prepared under PRC Accounting Standards and Systems and Note 35 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 RMB2.8 million.

### **(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 2005 with a term of office of three years commencing from 31 August 2005. 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.

### **(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, Holding or any of the subsidiaries of 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 Hong Kong 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.