

Significant Matters

1) SIGNIFICANT LITIGATIONS AND ARBITRATIONS

- (1) The Company had no material litigation and arbitration during the reporting period.
- (2) Two material litigations of the Company had been settled in the past but were lasting until the reporting period. Their judgments were enforced as follows:

Litigations against CITIC Ningbo Inc. and SEG International Trust & Investment Corporation: Their judgments and enforcement were disclosed in the 2002 Annual Report and published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the SSE website (<http://www.sse.com.cn>) on 3 April 2003. There has been no change during the reporting period.

- 2) The principal of HK\$7,138,000 and an interest amount of HK\$2,296,000 were due to the Company by China Venturetech Investment Corporation. In December 2004, the People's Bank of China terminated the liquidation team (hereinafter referred to as the "Liquidation Team") and carried out the first fund distribution for repayment of debt. The Company received RMB757,000. In February 2005, the Liquidation Team carried out the second fund distribution for the repayment of debt, and the Company received RMB757,000. In November 2005, the Liquidation Team carried out the third fund distribution for the repayment of debt and the Company received RMB757,000. In February 2006, the Liquidation Team carried out the final fund distribution for the repayment of debt and the Company received RMB3,632,085.34. Liquidation is therefore completed.
- 3) The principal and interest of the deposit totalling RMB36,460,000 was due to the Company by Guangdong International Trust & Investment Corporation. The Liquidation Team carried out three property distributions in August 2000. A total of RMB7,103,000 has been received by the Company. Details were published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the SSE website (<http://www.sse.com.cn>) on 26 April 2005. There has been no change during the reporting period.
- 4) Apart from the acquisition of the steel structure manufacturing and installation business and the electrical and mechanical installation business from the Construction Co. Ltd of Magang (Group) Holdings Co., Ltd. (details as set out under "Connected Transactions" in this section regarding "Equity Transfer between the Company and Holding in 2005") and the transfer of 40% equity interests in 五環報廢汽車回收拆解有限責任公司, there were no other significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period. Nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

Significant Matters (continued)

5) CONNECTED TRANSACTIONS

- Usual Business Transactions between the Company and Holding

The usual business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding and were settled in cash. The details of which are as follows:

- (1) With a view to ensuring that the Company would continue to operate efficiently and the employees of the Company would continue to enjoy certain staff training and necessary supporting services that the Company might not be able to obtain or easily obtain from independent third parties in Maanshan, Anhui Province, the PRC, the Company entered into a Service Agreement (effective from 2004 to 2006) with Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The service fees which the Company and Holding may charge each other should be equal to or lower than the State prices of the agreed services; or in the absence of such State prices, the market prices of the agreed services. The market prices should be determined upon negotiation by both parties and shall be equal to or lower than the market prices approved by the registered price certification appraiser of Maanshan Market Price Certification Centre.

Details of the amounts paid by the Company to Holding according to the new Service Agreement from 1 January 2005 to 31 December 2005 are as follows:

Unit: RMB'000

Major Item	Pricing basis	Total value	Proportion of transactions of the same category (%)
On-the-job staff training	State Prices	21,020	100
Catering and sanitation services	Market Prices	48,540	100
Environmental sanitation and maintenance of roads	State Prices	13,980	100
Afforestation and management of factory districts	Market Prices	24,730	100
Total		108,270	

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out in daily operational process between the Company and Holding in the normal course of business on normal commercial terms or terms no less favourable than those offered to

Significant Matters (continued)

(or offered by, if appropriate) independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were processed in respect of terms as set out in the Service Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2005, the total value of the year of the agreed services did not exceed the upper limit of the Service Agreement.

- (2) To ensure that the Company has sufficient iron ore to meet the production requirement, Holding agreed to continuously provide the Company with iron ore on a first priority basis. The Company entered into the Sales and Purchase of Iron Ore Agreement with Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The price of iron ore per tonne purchased every year by the Company from Holding will be determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price per tonne charged by the top three independent suppliers supplying the largest amount of iron ore to the Company in the previous year of the contracting year. The prices of limestone and dolomite are determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price charged by the top three independent suppliers supplying the largest amounts of limestone and dolomite to the Company in the previous year of the contracting year.

The payment made by the Company to Holding in respect of the new Sales and Purchase of Iron Ore Agreement from 1 January 2005 to 31 December 2005 was as follows:

	Unit RMB'000	
	Amount paid	Proportion of transactions of the same category (%)
Purchases of iron ore, limestone and dolomite	1,408,068	15.74

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out in daily operational process between the Company and Holding in the normal course of business on normal commercial terms or terms no less favourable than those offered to (or offered by, if appropriate) independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were processed in respect of terms as set out in the new Sales and Purchase of Iron Ore Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2005, the total value of the year of the agreed services did not exceed 8.74% of the audited cost of sales of the Company.

Significant Matters (continued)

- (3) Save for the connected transactions made pursuant to the new Service Agreement and the new Sales and Purchase of Iron Ore Agreement as mentioned above, amounts of other connected transactions in the ordinary course of business with Holding are as follows:

Unit: RMB'000

	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	8,479	0.03
Water, electricity, telephone and other services acquired by Holding from the Company	27,497	28.40
Payment by the Company for fixed assets and Construction services	266,777	4.68
Payment by the Company to Holding for other services	137,974	100

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out between the Company and Holding in the normal course of business and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The total amount of these transactions, accounting for approximately 2.4% of the audited tangible asset value of the Company for the year ended 31 December 2005 and did not have any adversely impact on the Company's profits.

The auditors of the Company, Ernst & Young considers that the Service Agreement entered into by the Company and Holding and the continuing connected transactions under the Sales and Purchase of Iron Ore Agreement for the year 2005 have been approved by the Board of Directors of the Company, in compliance with the terms of these agreements and not exceeding the maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange.

- Other connected transactions between the Company and Holding in 2005

On 28 April 2005, in order to broaden the sales mix, reduce construction costs and shorten construction schedules, it was decided by the Company's Board of Directors to acquire the steel structure manufacturing and installation business and the electrical and mechanical installation business of Construction Co. Ltd. of Magang (Group) Holdings Co., Ltd. (hereinafter referred to as the "Construction Company") under Holding with its own internal resources and was settled by cash. An acquisition agreement was entered into accordingly. The total consideration of the acquisition was RMB149,773,600, which was determined on the

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basis of valuation conducted by Jiangsu Tianhang Accounting Firm as engaged by the Company on the steel structure manufacturing and installation business and the electrical and mechanical installation business of the Construction Company, for which its net asset value as at 31 January 2005 was RMB149,773,600. Transfer of property rights in the assets involved in this acquisition was completed and the debts and obligations were also assigned accordingly.

The Independent Directors consider that the terms of the transaction are in compliance with normal commercial rules. The terms are fair and reasonable, in line with the Company's overall development strategy and are in the best interests of the Company and its shareholders as a whole.

- As at 31 December 2005, save for ordinary business transactions, there is no amount due to or from the Company and connected parties.
- Material contracts with the controlling shareholder

Save for the above-mentioned new "Service Agreement" and the new "Sales and Purchase of Iron Ore Agreement" entered into on 9 October 2003 and approved at the Extraordinary General Meeting held on 11 December 2003, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholders at any time during the year ended 31 December 2005.

- 6) The Company did not entrust, contract or lease any assets of other companies, nor vice versa, and did not entrust any other parties to implement cash assets arrangement.

The Company was in strict compliance with the document "Notice of Certain Issues Relating to the Standards of Capital Dealings with Connected Parties by Listed Companies and Provisions of External Guarantees by Listed Companies" (Zheng Jian Fa [2003] No.56) and did not provide any guarantee in breach of the laws. The Company's guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, amounting to RMB7,714 million, which amount has been fully recognised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB67 million, which amount has not been recognised; guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully recognised.

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB7,795 million and a remaining balance of RMB7,728 million. The total guarantee amount represented 41.03% of the Company's net assets during the reporting period. The guarantees are all guarantees with ancillary responsibilities. All the guarantees were approved by the Board of Directors beforehand and the guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company; loans necessary for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the opening of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery. The guarantee for Anhui Masteel K. Wah New Building Materials Co., Ltd. is only provided

Significant Matters (continued)

for land construction and the purchase of equipment, all the guarantees are not applicable for external investments; provision of guarantees for external parties; provision of loans to external parties; or grants to external parties.

- 7) During the reporting period, neither the Company nor any shareholders who were interested in 5% or more of the Company's shares disclosed their commitment in designated newspapers and website. None of the Company's directors and senior management of the Company were investigated, punished, criticised or reprimanded in public by regulatory authorities.

8) CORPORATE PENSIONS

In order to establish the pension insurance system at various levels and to improve the social security system, it was decided by the Company to establish a supplementary pension insurance system commencing from 1 January 2005, in accordance with the Provisional Measures for Corporate Annuities, which is Order No. 20 of the Ministry of Labour and Social Security of the State and the relevant documents of the Anhui Provincial Government. The corporate annuities shall be contributed jointly by the Company and individual staff. The pension fee to be contributed by the Company is calculated from the contribution by the staff on the same basis and same proportion. The contribution base shall be adjusted once a year on 1 July. The total contribution to be made by the Company shall not exceed one twelfth of the total salary of the staff for the previous year. An amount of RMB61 million was paid in 2005.

9) STATE SHARE REFORM

The State Share Reform Proposal of the Company, whereby Holding offered Circulating A Shareholders 3.4 shares for every 10 shares they held, was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province on 20 February 2006. It was further approved by the relevant shareholders' meeting to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. With effect from 31 March 2006, the stock abbreviation of A shares of the Company was changed to "G Masteel".

10) UNIFICATION OF INCOME TAX RATE AND CANCELLATION OF TAX REBATES OFFERED BY LOCAL GOVERNMENTS

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 the State Tax Bureau, the Company continued to be subject to an income tax rate of 15% and this was unrelated to the cancellation of tax rebates offered by local governments. As at the date of this report, no document from any authorities indicating any change in income tax rates applicable to the Company has been received.