

Report of the Directors

1) DAILY WORK OF THE BOARD OF DIRECTORS

(1) Description of the Board meetings in 2006 and details of the resolutions:

- On 11 April 2006, the Company convened the fourth 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 12 April 2006.
 - On 25 April 2006, the Company convened the fifth 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 26 April 2005.
 - On 29 May 2006, the Company convened the sixth 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 30 May 2006.
 - On 1 August 2006, the Company convened the seventh 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 2 August 2006.
 - On 18 October 2006, the Company convened the eighth 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 19 October 2006.
 - On 26 October 2006, the Company convened the ninth meeting of the fifth session of the Board of Directors to approve the agenda for the 2006 second extraordinary general meeting of the Company. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 27 October 2006.
 - On 14 December 2006, the Company convened the tenth 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 15 December 2006.
- (2) The Board of Directors completed the implementation of the profit appropriation plan approved at the Annual General Meeting held on 13 June 2006.
- (3) The Board of Directors determined the auditors' remuneration 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 RMB0.13 (TAX INCLUSIVE) PER SHARE FOR YEAR 2006. NO CAPITAL RESERVE FUND WILL BE TRANSFERRED TO SHARE CAPITAL.

As audited by the domestic and international auditors, net profit of the Company for 2006 amounted to RMB2,313 million under PRC Accounting Standards and RMB2,269 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit under PRC Accounting Standards for contribution to the statutory reserve and taken into account the Company's retained profit as at the end of 2005, the total profit available for distribution to shareholders for year 2006 amounted to RMB5,647 million under PRC Accounting Standards, and RMB5,549 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 2006 amounted to RMB5,549 million, while a dividend payment of RMB0.13 (tax inclusive) per share was recommended, thereby resulting in a total dividend payment of RMB839 million. The remaining undistributed profit will be carried forward to 2007.

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 2006, 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 2006, all the external guarantees of the Company had been approved by the Board of Directors.
- (2) As at 31 December 2006, no guarantee was provided either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company's external guarantees, no guarantees were provided to any shareholders, their actual controlling persons or any of their connected parties, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.

Report of the Directors (Continued)

- (3) As at 31 December 2006, 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 2006 consolidated financial statements.

5) OTHER MATTERS

- (1) For information analysed by business segments as at 31 December 2006, please refer to Note VI to the Financial Statements prepared under PRC Accounting Standards and Note 4 to the Financial Statements prepared under Hong Kong Accounting Standards.

- (2) The Group's profit for the year ended 31 December 2006 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 2006 are set out in Note V (10) to the financial statements prepared under PRC Accounting 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 2006, 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 2006 are set out in Note V (31) to (33) to the financial statements prepared under PRC Accounting Standards and Note 38 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

(7) 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.

(8) 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.

(9) 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.