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 Company's acquisition of 71% equity interests in Burwill Coil Centre (Yangzhou) Company Limited from Burwill Times Industrial Limited, 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.

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 or bills. 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 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 Service Agreement from 1 January 2006 to 31 December 2006 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 (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 2006, 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 payment made by the Company to Holding in respect of the Sales and Purchase of Iron Ore Agreement from 1 January 2006 to 31 December 2006 was as follows:

Unit RMB'000

	Amount paid	**Proportion of transactions of the same category (%)**
Purchases of iron ore	1,631,201	18.43

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 Sales and Purchase of Iron Ore Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2006, the total value of the year of the agreed services did not exceed 8.74% of the audited cost of sales of the Company.

(3) Save for the connected transactions made pursuant to the Service Agreement and the 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	8,951	0.03
Water, electricity, telephone and other services acquired by Holding from the Company	23,221	4.19
Payment by the Company for fixed assets and construction services	295,468	5.40
Payment by the Company to Holding for other services	126,569	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 2006 and did not have any adversely impact on the Company's profits.

The continuing connected transactions between the Company and Holding under the Service Agreement and the Sales and Purchase of Iron Ore Agreement for the year 2006 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. Ernst & Young, the auditors of the Company, has implemented the confirmation procedures for such financial information and issued reports regarding the implementation of confirmation procedures.

- As at 31 December 2006, save for ordinary business transactions and dividends due to Holding, there is no amount due to or from the Company and connected parties.

- Material contracts with the controlling shareholder

  Save for the above-mentioned "Service Agreement" and the "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, and the "Sales and Purchase of Iron Ore Agreement" for 2007 to 2009 entered into on 18 October 2006 and approved at the extraordinary general meeting held on 14 December 2006, 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 2006.

6) The Company did not entrust, contract or lease any assets of other companies, or 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 utilised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB65 million, which has not been utilised; and guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully utilised.

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB7,793 million and a remaining balance of RMB7,728 million. The total guarantee amount represented 38.41% 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 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, save for the undertakings made by Holding, the controlling shareholder, during the State Share Reform, neither the Company nor any shareholders who were interested in 5% or more of the Company's shares disclosed their commitments 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) STATE SHARE REFORM

The State Share Reform Proposal of the Company, whereby Holding offered holders of circulating A shares 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 meeting of shareholders relevant to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. Trading in the A shares of the Company resumed on 31 March 2006.

In the process of the State Share Reform, Holding made the following special undertakings:

(1) After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the date of listing, and the State-owned shares held by Holding also will not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

(2) Holding pays all the costs and expenses arising from the State Share Reform.

Moreover, Holding makes representations as follows:

(1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the China Securities Regulatory Commission and the SSE, and will bear any legal liabilities accordingly.

(2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise. During the reporting period, Holding fully complied with such undertakings.

During the reporting period, Holding complied fully with such undertakings.

9) INTERNAL CONTROL SYSTEM OF THE COMPANY

Please refer to "(6) Internal Control" in "1. Code on Corporate Governance Practices" of "VI. Corporate Governance" in this annual report.

10) INCOME TAX

As one of the nine pilot joint-stock limited enterprises which formed the first batch of 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 enjoyed an income tax rate of 15%. "The Enterprise Income Tax Law of the People's Republic of China" was approved at the fifth meeting of the tenth session of the National People's Congress on 16 March 2007, and will be implemented on 1 January 2008. The new enterprise income tax law introduces a series of changes, such as the uniform enterprise income tax rate of 25% for both domestic and foreign enterprises. As the detailed implementation guidelines and management rules are not available yet, it is impossible to make reasonable estimates on the future financial impact on the Company to be brought by the implementation of the new enterprise income tax law.