

CORPORATE GOVERNANCE REPORT

Compliance with the Code on Corporate Governance Practices and the Model Code

The Company asserts strength and niche on its well-established sales network, reputation on quality, resources on expertise, competitiveness on cost control and its belief in applying technology to production process. While sticking to sound corporate governance principles, the Company strives to enhance transparency and independence of operation, with effective accountability system to ensure its healthy and sustainable development. The Board is of the opinion that during year 2005, the Company has fully complied with the stipulations of the Code on Corporate Governance Practices set out in Appendix 14 to Listing Rules (“the Code on Corporate Governance Practices”).

The Company takes the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of Listing Rules of the Stock Exchange as the code for securities transactions by its directors and supervisors. Based on special enquiries to all directors and supervisors, the Company confirmed that all directors and supervisors have complied with the requirements of the Model Code concerning the securities transactions by directors during the reporting period.

The Board of Directors

The Board of Directors (“the Board”), the third since the establishment of the Company, comprises nine directors and is capable of discharging its authority specified by laws, regulations and the Articles of Association of the Company. The major duty of the Board is to exercise the management and decision right as authorised by the general meeting in relation to corporate development strategy, management structure, investment and financing, planning, financial control and human resources.

Members of the Board who held offices during 2005 were:

Chairman: Mr. Tang Min Wei

Director: Mr. Yuan Jin Fu, Mr. Yang Zhi Wei*, Mr. Chen Shan,
Mr. Sun Yi Jie, Mr. Tu De Ling

Independent Non-executive Director: Mr. Wang Xiang Fei, Mr. Wu Zhong Fu, Mr. Sun Yu

* General Manager

The Board of Directors *(continued)*

With diversified industry background, the directors possess professional knowledge in areas including corporate management, financial management and steel industry, whose biographical details are set out on page 51 to page 55 of this annual report. The Board comprises three independent non-executive directors, accounting for 1/3 of the members. The present independent non-executive directors of the Company hold profound experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non-executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

Directors are elected or re-elected at general meeting by cumulative voting method. Shareholders and the Board of the Company are entitled to nomination of director candidates in writing. The term of office of directors is three years commencing from the date of appointment, and is renewable upon re-appointment or re-election. Independent non-executive directors shall not be connected with the management or substantial shareholders of the Company.

The positions of Chairman and General Manager are assumed by different individuals with distinct roles. Chairman presides over the work of the Board and superintend the implementation of resolutions of the Board while General Manager is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the aid of the Board and other senior management members.

During year 2005, four Board Meetings were convened with full attendance of directors or their proxies, details of which are set out on page 22 of this annual report. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through secretary of the Company. In addition, in order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

Remuneration of directors were considered and approved at general meeting. Details are set out in the section headed "Directors' and Supervisors' Remuneration" on page 100 to page 102 of this annual report.

Special Committees under the Board

The Board has three special committees, each of which has specified terms of reference and is responsible for supervision of specific businesses:

Audit Committee

Audit Committee was established in April 2000, comprising three independent non-executive directors. For the period, Audit Committee performed its duties specified by relevant laws, regulations and the Articles of Association of the Company, including auditing annual and interim financial statements, considering appointment of external auditors and relevant adjustments, and reviewing efficiency and quality of their work. Besides, Audit Committee also provided advice and recommendation to the Board regarding the running of internal control system and the effect of regulatory measures as well as studying corporate operation and possible impact on financial statements of the Company from domestic and foreign regulations and regulatory rules and relevant policies.

Members of Audit Committee of the Company during 2005 were:

Chairman: Mr. Wang Xiang Fei

Member: Mr. Wu Zhong Fu, Mr. Sun Yu

During year 2005, Audit Committee convened two meetings both with full attendance, details of which are set out on page 22 of this annual report. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

Special Committees under the Board *(continued)*

Strategic Committee

Strategic Committee was established on 21st August 2003, comprising five members in full compliance with relevant domestic and foreign laws, regulations and the Work Rules of Special Committees under the Board. The major duty of Strategic Committee is to give suggestions based on study of long-term strategies on development and significant investment decisions.

Members of Strategic Committee of the Company during 2005 were:

Chairman: Mr. Tang Min Wei

Member: Mr. Yang Zhi Wei, Mr. Sun Yi Jix, Mr. Tu De Ling, Mr. Wu Zhong Fu

During year 2005, Strategic Committee convened one meeting with all members in attendance, details of which are set out on page 22 of this annual report. The meeting considered and approved the Company's investment scheme of property, plant and equipment for 2006 and the 11th Five-Year Plan of the Company.

Salary and Remuneration Review Committee

Salary and Remuneration Review Committee was established on 21st August 2003, comprising five members in full compliance with relevant domestic and foreign laws, regulations and the Work Rules of Special Committees under the Board. The major duty of Salary and Remuneration Review Committee is to study benchmarks for directors and senior management of the Company, conduct the assessment as well as study and review remuneration policies and schemes of directors and managers.

Members of Salary and Remuneration Review Committee of the Company during 2005 were:

Chairman: Mr. Sun Yu

Member: Mr. Yuan Jin Fu, Mr. Chen Shan, Mr. Wang Xiang Fei, Mr. Wu Zhong Fu

During year 2005, Salary and Remuneration Review Committee convened one meeting with all members in attendance, details of which are set out on page 22 of this annual report. The meeting considered and approved the Company's remuneration policy for executive directors and senior management in 2005, approved the interim assessment of performance and remuneration of directors and senior management, and put forward recommendations to rationalise remuneration assessment and introduce incentive methods.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Attendance to Meetings of the Board / Supervisory Committee and Special Committee in 2005

(Number of attendance in person / Number of meetings (attendance))

Name	The Board	Supervisory Committee	Audit Committee	Strategic Committee	Salary and Remuneration Review Committee
<i>Director:</i>					
Tang Min Wei	4/4 (100%)	—	—	1/1 (100%)	—
Yuan Jin Fu	4/4 (100%)	—	—	—	1/1 (100%)
Yang Zhi Wei	4/4 (100%)	—	—	1/1 (100%)	—
Chen Shan	4/4 (100%)	—	—	—	1/1 (100%)
Sun Yi Jie	4/4 (100%)	—	—	1/1 (100%)	—
Tu De Ling	4/4 (100%)	—	—	1/1 (100%)	—
<i>Independent Non-executive Directors:</i>					
Wang Xiang Fei	4/4 (100%)	—	2/2 (100%)	—	1/1 (100%)
Wu Zhong Fu	4/4 (100%)	—	2/2 (100%)	1/1 (100%)	1/1 (100%)
Sun Yu	4/4 (100%)	—	2/2 (100%)	—	1/1 (100%)
<i>Supervisor:</i>					
Zhu Jian Pai	—	2/2 (100%)	—	—	—
Yuan Xue Bing	—	2/2 (100%)	—	—	—
Huang You He	—	2/2 (100%)	—	—	—
Chen Hong	—	2/2 (100%)	—	—	—
Lu Kang Mei	—	2/2 (100%)	—	—	—

Auditors' Remuneration

Analysis of auditors' remuneration is set out on page 99 of this annual report.

Supervisory Committee

Supervisory Committee shall exercise its supervisory right independently and safeguard the lawful interest of shareholders, the Company and its staff. The number and constitution of supervisors of the Company are in accordance with requirements of relevant laws and regulations. This Supervisory Committee established on 16th April 2003 comprises five supervisors, including four shareholder representatives and one staff representative who were elected at general meeting and staff representative meeting respectively.

Members of Supervisory Committee of the Company during 2005 were:

Chairman: Mr. Zhu Jian Pai

Supervisor: Ms. Yuan Xue Bing, Mr. Huang You He, Ms. Chen Hong, Ms. Lu Kang Mei

During year 2005, Supervisory Committee convened two meetings and attended all Board meetings, duly performing its duties. Details of attendance to the Supervisory Committee meetings are set out on page 22 of this annual report.

Internal Control and Auditing

The Board is responsible for establishment and maintenance of the internal control system, to review financial, management and regulatory control procedures and safeguard interest of shareholders and assets of the Company. The Board authorises the management to carry out such work and review its performance through Audit Committee.

Audit Office was set up in April 2003. As the standing body of Audit Committee, its major responsibility is to review the performance of the Company's internal control system. During 2005, according to potential risks and materiality of the Company's internal control system on business and process, Audit Office reviewed, supervised and assessed activities including financial information disclosure, operation and internal control, providing independent and objective comments and suggestions in form of report. Besides, audit personnel is entitled to access to all information of the Company and making enquiries to relevant staff for work purpose, and Audit Office shall directly report to Audit Committee on the results and comments of relevant work.

Information Disclosure and Investor Relation Management

Secretary of the Company and Secretary Office of the Board are responsible for information disclosure of the Company and reception of shareholders and investors. On 27th February 2003, the Board passed the Code on Information Disclosure Management of the Company, aiming to standardise management of information disclosure, ensure open, arm's length and fair disclosure and enhance transparency of the Company.

Corporate Governance Rules

On 27th February 2003, the Board passed series of regulations including Code on External Guaranty Decision, Procedures for Investment Decision, Code on Internal Financial Resources, Management Measures of Proceeds from Public Offering, Financial Accounting System, Internal Audit System, Rules of Connected Transaction, Work Rules of General Manager and Work Rules of Secretary to the Board. The general meeting on 16th April 2003 passed Rules of Procedure of General Meeting, Rules of Procedures of the Board, Rules of Procedures of Supervisory Committee and Independent Directors System. To date, the Company has fully implemented the above-mentioned regulations and will make amendments and supplements thereto from time to time, aiming at the improvement in corporate governance of the Company.