

Structure of Corporate Governance

1. CURRENT STATUS

In accordance with relevant regulations, the Company has set up a management system where there is a check-and-balance among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager were clear and unambiguous. In order to improve its corporate governance structure, the Company has also developed a series of relevant systems to regulate its operations.

The convocation of the Company's shareholders' general meeting complied with the relevant law and regulations. The 2003 Extraordinary General Meeting has reviewed The "Sale and Purchase of Iron Ore Agreement" and the "Service Agreement" for 2004-2006 entered into between the Company and the Holding were reviewed and passed at the 2003 Extraordinary General Meeting. Connected directors were abstained from the meeting at the time of voting by independent directors.

The Company's Board of Directors comprises 11 directors, including four independent directors and representing more than one third of the total number of directors. The members and composition of the Board of Directors complied with the relevant law and regulations. The Board of Directors was able to carry out its duties in accordance with the relevant law and regulations and the Articles of Association of the Company, including the convocation of shareholders' general meeting; implementation of the resolutions passed at the shareholders' general meeting; decisions made on the Company's operating plan for the year and material investment plans; formulation of the Company's financial budget, profit distribution plan, principal management system and so forth. Voting in respect of connected transactions by the Board of Directors was carried out with connected directors' abstention and with independent directors' confirmation.

The Company's Supervisory Committee comprises six supervisors, including three independent supervisors. The size and composition of the Supervisory Committee complied with the relevant law and regulations. The Supervisory Committee was able to carry out its duties in accordance with the relevant law and regulations and the Articles of Association of the Company, including supervision on the Company's operation to ensure compliance with the relevant law; examination of the Company's financial situation; evaluation on whether the transaction prices of the Company's acquisition or sale of assets were reasonable; evaluation on the fairness of connected transactions and whether they prejudiced the interests of some shareholders. The Supervisory Committee has also furnished its independent opinions toward the above-mentioned matters.

2. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

The Company's independent directors include Madam Cheng Shaoxiu, Mr Wu Junnian, Mr Shi Jianjun and Mr Chan Yuk Sing who were nominated by the Board of Directors and elected at the shareholders' general meetings. They are completely independent from the Company and its major shareholders. The four independent directors have carried out their duties in accordance with the relevant law and regulations and the Articles of Association of the Company. They have attended Board of Directors' meetings and taken part in the discussion and determination of significant matters, attended the shareholders' general meetings, reviewed connected transactions and furnished independent opinions.



The Company's audit committee comprises four independent directors. They are responsible for the review and supervision of the Group's financial and internal monitoring. During the year, the audit committee held two meetings and reviewed the Company's 2002 annual financial report and 2003 interim financial report.

On 19 August 2003, the four independent directors established an independent director committee. They have provided independent opinions in respect of the "Sale and Purchase of Iron Ore Agreement" and the "Service Agreement" for 2004 – 2006 entered into between the Company and the Holding.

3. SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS OPERATIONS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

- (1) Employees: The Company is independent in labour, personnel and remuneration management. Senior management personnel such as General Manager and Deputy General Manager are on the Company's payroll without holding any important positions at Holding.
- (2) Assets: The Company owns separate production systems, auxiliary systems and complementary facilities. Intangible assets such as industry property rights, trademarks and non-patent technologies are owned by the Company, as are systems for purchasing and marketing.
- (3) Finance: The Company is supported by an independent financial accounting department. Independent systems for auditing and financial management have been developed with separate bank accounts.
- (4) Organisation: The Company has established a sound corporate organisation. The Board of Directors, the Supervisory Committee and other internal departments have been operating independently without any subordination to departments at the controlling shareholder.
- (5) Business operations: The Company operates an independent and stand-alone business with the competence of self determination on its operation. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.

4. The Company has adopted an annual salary system for its directors, supervisors and senior management whereby their salaries were based on individual performance. The system of performance appraisal for directors, supervisors and senior management will be based on indicators such as the Company's asset value growth rate, net profit, etc.