

Corporate Governance

1. CURRENT STATUS

In accordance with the requirements of the relevant law and 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 General Manager were clear and unambiguous. The Company has made improvement to its corporate governance structure continuously. Pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited which became effective during the reporting period and the relevant requirements of the China Securities Regulatory Commission, "the Articles of Association of Maashan Iron & Steel Company Limited" were revised and the "Work Regulations for the General Manager of Maashan Iron & Steel Company Limited" were formulated which has further upgraded the principal management systems of the Company.

The convocation and the convening of the shareholder's general meeting of the Company complied with the requirements of the relevant law and regulations.

The Company's Board of Directors comprises eleven directors, of whom four are independent directors, nominated by the Board of Directors and elected at the general meeting by shareholders and are completely independent from the Company and its shareholders. Two independent directors possess the qualification of solicitor and two independent directors have expertise in accounting and financial management, thus the Board of Directors has a reasonable structure. The members and composition of the Board of Directors complied with the requirements of the relevant law and regulations of the PRC or overseas jurisdiction. The Board of Directors were able to carry out its duties in accordance with the requirements of the relevant law and regulations and those empowered by 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 were carried out with the relevant directors' abstention and with independent directors' confirmation.

During the reporting period, the Company received from the four independent directors independent confirmation letters which were submitted in accordance with paragraphs 12A and 12B of Appendix 16 of the Rules Governing the Listing of Securities. The Company is of the opinion that the independent directors are all independent.

The Company's Supervisory Committee comprises six supervisors, of whom three are independent directors. The members and composition of the Supervisory Committee complied with the relevant law and regulations. The Supervisory Committee was able to carry out duties in accordance with the requirements of the relevant law and regulations and those empowered by the Articles of Association of the Company, including supervision on the Company's operation to ensure

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compliance with the relevant law; examination of the Company's financial situation; evaluation on whether the transaction prices of the Company's acquisitions or sale of assets were reasonable; and evaluation on the fairness of connected transactions and whether they prejudiced the interests of certain shareholders. The Supervisory Committee has also furnished its independent opinions toward the above-mentioned matters.

2. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

During 2004, the Company's independent directors including Madam Cheng Shaoxiu, Mr Wu Junnian, Mr Shi Jianjun and Mr Chan Yuk Sing had dutifully discharged their responsibilities; actively involved themselves in making major decisions of the Company; personally or appointed a representative to attend all directors' meetings; and audited and expressed opinions on company matters such as adjustments on the depreciation rates of the company's fixed assets, connected transactions, the company's current and aggregate guarantee conditions, and the implementation of the aforementioned requirements. The attendance at board meetings by independent directors during the reporting period is as follows:

Name	No. of board meetings to attend	Attendance in person	Attendance by proxy
Cheng Shaoxiu	7	7	–
Wu Junnian	7	7	–
Shi Jianjun	7	5	2
Chan Yuk Sing	7	7	–

The independent directors had not raised any objections to the Company's affairs during the reporting period.

The Audit Committee of the Board of Directors, set up and chaired by independent directors, had reviewed the 2003 annual accounts and 2004 interim accounts of the Company, conscientiously playing the role of reviewing and inspecting the financial and internal control functions of the Group. The independent directors of the Company were both diligent and responsible to both the Company and the shareholders, not in the least affected by the Company's major shareholders, de facto controllers and any unit or person having interests in the Company. As such, they have protected the overall interests of the Company and the lawful rights of public shareholders in the society.

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

- (1) Employees: The Company's production, technical, financial and sales personnel are independent of the controlling shareholder. Senior management personnel such as General Manager and Deputy General Manager are on the Company's payroll without holding any important positions at Holding.

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- (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 accounting and auditing have been developed, as well as a sound financial management system.
 - (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 the Company's results and 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.