

1. CORPORATE GOVERNANCE PRACTICE

With shares listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for sound corporate governance practice and procedures with strict implementation, so as to ensure the interests of its shareholders and to maximise the investment return for its shareholders in the long run.

Following the coming into effect of the Code on Corporate Governance Practices (“the Code”) issued by Hong Kong Stock Exchange, the Company has further improved its corporate governance pursuant to the Code. During the reporting period, the Company has complied with all code provisions and most of the recommended best practices set out in the Code.

2. SECURITIES TRANSACTIONS OF DIRECTORS

The Board has adopted the relevant code for securities transactions by Directors in compliance with the Listing Rules. After specific enquiries to each of Directors, the Directors confirmed that they have complied with the standards set out in Appendix 10 to the Listing Rules.

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the reporting period, the Board has been in compliance with the Rule 3.10(1) of the Listing Rules, which requires a listed company to maintain at least three independent non-executive directors, and with the Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to possess appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has verified with its independent non-executive directors in respect of their independence as follows: the Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

4. THE BOARD AND ITS SPECIAL COMMITTEES

(1) Composition of the Board and its Special Committees

The Board of the Company comprises 14 members including 1 Chairman, 7 executive directors, 1 non-executive director and 5 independent non-executive directors. The number of independent non-executive directors represents one-third of the Board.

The Board establishes 4 special committees, which are comprised of the Company's directors only. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Review Committee are independent non-executive directors who are also the convenors. There is at least one independent non-executive director in the Audit Committee who possess appropriate professional qualifications in accounting. Each of the special committees reports to the Board and submits proposals to the Board for consideration and approval.

The composition of the Board and the attendance of the Directors at the meeting during the reporting period are set out as follows:

Name	Position in the Board	Attendance to meetings
LIU Jie	Chairman (resigned)	100%
TANG Fuping	Executive Director	100%
YANG Hua	Executive Director	100%
HUANG Haodong	Executive Director	100%
Wang Chunming	Executive Director	100%
LIN Daqing	Executive Director	100%
FU Wei	Executive Director	100%
FU Jihui	Executive Director and Board Secretary	100%
YU Wanyuan	Non-executive Director	100%
Wu Xichun	Independent Non-Executive Director	100%
Wang Linsen	Independent Non-Executive Director	100%
LIU Yongze	Independent Non-Executive Director	100%
Francis Li Chak Yan	Independent Non-Executive Director	100%
WANG Xiaobin	Independent Non-Executive Director	100%

All the Directors, including the non-executive directors and independent non-executive directors are subject to a term of 3 years and may be re-elected.

4. THE BOARD AND ITS SPECIAL COMMITTEES *(continued)*

(2) Duties and Operation of the Board

The Board is accountable to the general meetings and exercises the following powers:

- i. to convene and report to shareholders at the general meetings;
- ii. to implement the resolutions passed at the general meetings;
- iii. to decide the Company's business and investment plans;
- iv. to prepare the Company's annual budget and its implementation plan;
- v. to prepare the Company's profit distribution plan and loss recovery plan;
- vi. to prepare the proposals for the increase or reduction of the Company's registered capital and the issue of its corporate debentures;
- vii. to draw up plans for the merger, division or dissolution of the Company;
- viii. to determine the Company's internal management structure;
- ix. to appoint or dismiss the Company's general manager; to appoint or dismiss the Company's deputy general manager and other senior management (including financial controller) as nominated by the general manager, and determine their remunerations;
- x. to prepare the Company's basic management system; and
- xi. to prepare proposed amendments to the articles of association of the Company.

Save for the resolutions in respect of the matters specified in sub-paragraphs vi, vii and xi above, which shall be passed by at least two-thirds of the directors, the resolutions in respect of other matters specified above may be passed by at least half of the directors.

The Board of the Company is responsible for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs, results and cash flows of the Company during the relevant period.

In 2006, the Board held a total of 9 Board meetings.

4. THE BOARD AND ITS SPECIAL COMMITTEES (continued)

(3) Remuneration and Review Committee

Members of the Remuneration and Review Committee and their attendance at the meetings during the reporting period are set out as follows:

Name	Position	Attendance to meetings
Francis Li Chak Yan	convenor	100%
Tang Fuping	member	100%
Wang Chunming	member	100%
Wu Xichun	member	100%
Liu Yongze	member	100%

Main duties of the Remuneration and Review Committee are:

- i. to review the assessment criteria of directors and senior management; to carry out the assessment and provide advices; and
- ii. to study and review the remuneration policies and terms of employment for the directors and senior management.

In 2006, the Remuneration and Review Committee of the Company held 1 meeting. During that meeting, the performance of the directors and senior management of the Company during 2005 was assessed and their remunerations during 2005 were reviewed, and submitted to the Board for consideration.

(4) Nomination Committee

Members of the Nomination Committee and their attendance at the meetings during the reporting period are set out as follows:

Name	Position	Attendance to meetings
WANG Linsen	convenor	100%
LIU Jie	member	100%
YANG Hua	member	100%
WANG Chunming	member	100%
LIU Yongze	member	100%

4. THE BOARD AND ITS SPECIAL COMMITTEES (continued)

(4) Nomination Committee (continued)

Main duties of the Nomination Committee are:

- i. to study and review the criteria and procedures of selection of directors and senior management, and provide suggestions;
- ii. to conduct extensive search for qualified candidates of directors and senior management; and
- iii. to assess the candidates for directors and senior management and provide relevant recommendations.

In 2006, the Nomination Committee of the Company held a total of 3 meetings to nominate candidates for directors and senior management in accordance with the qualification requirements and the relevant laws and regulations and the articles of association of the Company and to submit the same for the consideration of the Board.

(5) Audit Committee

Members of the Audit Committee and their attendance at the meetings during the reporting period are set out as follows:

Name	Position	Attendance to meetings
LIU Yongze	convenor	100%
YU Wanyuan	member	100%
WANG Linsen	member	100%
Francis LI Chak Yan	member	100%

Main duties of the Audit Committee are:

- i. to make proposals in relation to the engagement and termination of external auditors;
- ii. to supervise the Company's internal auditing process and implementation;
- iii. to facilitate communication between internal auditing department and external auditors;
- iv. to review financial information of the Company and its disclosure; and
- v. to review the Company's internal control system.

4. THE BOARD AND ITS SPECIAL COMMITTEES *(continued)*

(5) Audit Committee *(continued)*

In 2006, the Audit Committee of the Company held a total of 4 meetings. During the meetings, the Audit Committee reviewed the quarterly, interim and annual financial statements and financial information set out in the quarterly, interim and annual reports of the Company, reviewed the internal control system of the Company, and made recommendations in relation to the engagement of external auditors.

The Audit Committee and the management of the Company have reviewed the accounting policy adopted by the Company, and have communicated on the issues in relation to the auditing, internal control and financial statements of the Company (including review of the audited financial statements for the year ended 31 December 2006).

5. CHAIRMAN AND GENERAL MANAGER

The positions of Chairman and General Manager of the Company are assumed by different persons with definite division of duties.

Duties of the Chairman

- i. to preside over the shareholders' general meetings and to convene and preside over the Board meetings;
- ii. to supervise the implementation of resolutions of the Board;
- iii. to sign the share certificates issued by the Company; and
- iv. to exercise other powers conferred by the Board.

Duties of the General Manager

The General Manager of the Company reports to the Board and exercises the following powers:

- i. to take charge of the Company's operation and management and to implement the resolutions of the Board;
- ii. to implement the Company's annual business plan and investment plan;
- iii. to make proposals in relation to the Company's internal management structure;
- iv. to make proposals in relation to the Company's basic management system;
- v. to prepare the basic rules and regulations of the Company;
- vi. to make proposals in relation to the appointment and the termination of appointment of the deputy general manager or other senior management of the Company (including the financial controller);
- vii. to make proposals in relation to the appointment and the termination of the management personnel other than those required to be appointed or terminated by the Board; and
- viii. to exercise other powers as conferred under the articles of association of the Company or granted by the Board.

6. AUDITORS' REMUNERATION

KPMG and KPMG Huazhen were appointed at the 2005 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2006. The remuneration of the Company's auditors for 2006 amounted to HK\$7.5 million. The Company reimbursed the auditors out of pocket expenses arising from auditing. KPMG and KPMG Huazhen have been appointed as the international and domestic auditors of the Company to provide auditing services for ten consecutive years.

7. INTERNAL CONTROL

In accordance with the requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company has established an internal control system to enhance internal control and management and to guard against corporate operating risks. Upon discreet review, the board of directors of the Company is of the view that the internal control system of the Company operates efficiently to cover the needs of all its businesses. The system, designed to incorporate the practical situation of the Company, also complies with the requirement of a modern corporate system and has no significant deficiency and abnormality in term of completeness, systematic requirements, efficiency and compliance with regulations. The existing internal control system of the Company can respond and adjust promptly to significant changes in the assets and business structure of the Company in the event of consolidation of the Company's principal steel and iron business. The internal control system also plays a positive role in standardizing the operation of the Company, upgrading the standard of scientific management and protecting the interest of its shareholders. The Company will continue to improve its internal control system in accordance with the needs of its business development so as to increase the value of the Company.

8. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

In 2006, the Company entertained as much as nearly 100 domestic and overseas investors and industry analysts in over 50 company visits. The Company helped visitors gain better understanding of the Company as a whole and witness its developments by arranging visits to its production sites, and responding to visitors' concerns in the form of a seminar. Besides, the Company communicated and exchanged with the domestic and overseas investors by participating in forums held by renowned banks and securities companies. After the release of the Company's interim or annual report, press conference for the announcement of its results will be held in Hong Kong for communication with investors. In the second half of 2006, the Company held presentation meetings in Beijing and Shanghai. The information provided by the Company and issues discussed in the meetings above were in strict compliance with the "Guide to Fair Information Disclosure of Listed Companies" and other relevant domestic and overseas requirements.

8. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS (continued)

Major Field Activities during the Reporting Period

Date	Venue	Form	Participants	Issues discussed and information provided
29 August	Board Secretary Room	On-site visit of production facilities and seminar	Research group of 36 persons coordinated by Credit Suisse (Hong Kong) Limited	1. Production and operation condition of the Company
31 August			Ma Keming, Research Centre of Huatai Securities	2. Development trend of the Company
3 September			Lin Xuehai and 3 others, Macquarie Securities (Asia) Pte Limited	3. Updates of local and overseas iron & steel Industry
4 September	Shanghai	Seminar	Luo Wei and 9 others, China International Capital Corporation Limited	1. Analysis of the Company's interim results 2. Production and operation condition of the Company
25 September	Beijing	Seminar	Zhou Xizheng and 13 others, Citic Securities Co., Ltd.	3. Development trend of the Company 4. Updates of local and overseas iron & steel Industry
30 September	Board Secretary Room	On-site visit of production facilities and seminar	Ma Nan, Sinopac Securities (Asia) Ltd., Shanghai Representative Office	1. Production and operation condition of the Company 2. Development trend of the Company
18 October			He Sixian, BNP Paribas Peregrine Securities Ltd	3. Updates of local and overseas iron & steel Industry

8. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS (continued)

Major Field Activities during the Reporting Period (continued)

Date	Venue	Form	Participants	Issues discussed and information provided
19 October	Board Secretary Room	On-site visit of production facilities and seminar	Liu Xiaowei, Daiwa Securities (Hong Kong), Shanghai Representative Office	1. Production and operation condition of the Company
30 October			Zhou Tao and 1 other, SINOLINK Securities Co. Ltd.	2. Development trend of the Company
27 November			Le Tianfu, Credit Lyonnais Securities Co. Ltd.	3. Updates of local and overseas iron & steel Industry
12 December			Li Yujia, Yinhua Fund Management Co., Ltd.	
20 December			Liu Guojie and 2 others, China International (Hong Kong) Capital Corporation Limited	
29 December			Chi Yu, Industrial Securities Co. Ltd.	