

Corporate Governance

In accordance with the requirements of relevant laws and regulations, the Company has set up a corporate governance structure comprising 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.

1) CODE ON CORPORATE GOVERNANCE PRACTICES

In 2006, the Company has complied with all code provisions of the Code on Corporate Governance (the "Code") in Appendix 14 of the Listing Rules.

(1) Directors

- The Directors and the Composition of the Board of Directors

The Company's Board of Directors comprises ten directors, of whom five are executive directors and five are non-executive directors. Among the five non-executive directors, four of them are independent directors, accounting for one-fifth of the members of the Board of Directors.



Both the executive and non-executive directors of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction and are capable of making rational decisions on the matters to be resolved by the Board of Directors. Among the four independent directors, there is a director of a financial consultancy in Hong Kong, with years of experience in the accounting profession; a general manager in corporate finance at the MTR Corporation Limited in Hong Kong with extensive experience in finance management; a head of the Enterprise Management Department of the School of Management of Fudan University who is knowledgeable in the aspect of corporate management; and a professor of the School of Law at University of Anhui who is very experienced in legal matters. These independent directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board of Directors fully complied with the requirements of the relevant laws and regulations and regulatory documents within and outside the PRC. The names of all directors were published in the Company's announcement and specifications were made on independent directors.

During the reporting period, so far as the Board of Directors is aware of, there are no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board of Directors (including Chairman and General Manager) that are required to be disclosed.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

The Company received from the four independent directors independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors", "Authorised Representatives and Directors" in the Listing Rules. The Company's Board of Directors is of the opinion that the four independent directors are all independent.

- Attendance of Directors at Board Meetings in 2006:

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
Executive Director					
Gu Jianguo	7	7	0	0	100
Gu Zhanggen	7	4	3	0	100
Zhu Changqiu	7	6	1	0	100
Su Jiangang	7	7	0	0	100
Gao Haijian	7	6	1	0	100
Non-executive Director					
Zhao Jianming	7	7	0	0	100
Independent Non-executive Director					
Wong Chun Wa	7	6	1	0	100
Su Rong	7	5	2	0	100
Hui Leung Wah	7	5	2	0	100
Han Yi	7	7	0	0	100

- Chairman and General Manager

The positions of the Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by simple majority of all directors in the Board of Directors. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board of Directors, ensuring that the Board of Directors will review all matters involved in an appropriate manner, and facilitating an effective operation of the Board of Directors.

The Chairman is entitled to chair shareholders' general meetings, to convene and chair board meetings, to review the implementation of resolutions by the Board of Directors, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board of Directors, the Chairman may convene shareholders' general meetings. Between sessions of the board meeting, the Chairman shall give guidance to the major activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board of Directors, and shall be accountable to the Board of Directors. The General Manager lead the senior management, and is responsible for the usual course of operation in production and management, and organising the implementation of various resolutions by the Board of Directors. The General Manager shall regularly report to the Board of Directors or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board of Directors or the Supervisory Committee.

- Non-executive Directors

The term of the Company's non-executive directors is the same as that of other directors, which is three years starting from 31 August 2005 and ending at 31 August 2008.

- Performance of Duties by Independent Directors

In 2006, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, performed their duties in a fiduciary manner and actively participated in the decision-making on significant matters of the Company. They have attended all the Company's board meetings in person or by proxy. The independent directors have not had any objection to any matters of the Company.

The Company's independent directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company's substantial shareholders, beneficial owners, or other units or individuals who have interests in the Company. As such, the interests of the Company as a whole as well as the lawful interests of the public shareholders were protected.

During the reporting period, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, have reviewed and given their independent opinions on the Company's connected transactions, external guarantees for the period and accrued, and the execution of the aforesaid matters.

- Duties and Authorities of the Board of Directors and the Management

The Board of Directors performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including:

- To convene the shareholders' general meeting and to execute the resolutions of the shareholders' general meeting;
- To resolve on the annual operating plans and key investment proposals of the Company;
- To formulate the budget, the profit appropriation plan, the fundamental management system, substantial acquisitions or disposal plans;
- To resolve on the establishment of special committees and to appoint and remove their officers-in-charge;

- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's senior management, such as deputy general managers and financial officers pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board of Directors;
- To manage information disclosure issues of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;
- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and finance management within the limit as provided in the Articles of Association.

There are two committees under the Board of Directors, namely the Audit Committee and the Remuneration Committee. The major responsibilities of the Audit Committee are to evaluate the services being provided by the Company's external auditors, to review the Company's financial information and disclosure, and to monitor the implementation of the Company's financial management, internal control and risk management systems. The major responsibilities of the Remuneration Committee are to formulate the remuneration policies, plans or schemes for all directors and senior management and to monitor the implementation of the Company's remuneration system.



The Company's management performed their major responsibilities in accordance with the duties conferred by the Articles of Association:

- To organise the implementation of the Company's annual operating plans and key investment proposals;
- To propose the Company's internal management and establishment schemes;
- To propose the Company's fundamental management system;
- To formulate the Company's basic constitutions;
- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board of Directors;

- To resolve on the rewards and penalty, promotion and demotion, salary increase or decrease, appointment, recruitment or removal and termination of the Company's staff;
 - To deal with the important external businesses of the Company on its behalf;
 - To propose the convening of special board meetings.
- Board Meeting

The Board of Directors convenes four meetings regularly every year. The directors were given an opportunity to include matters in the agenda. Notice of at least 14 days with details about time and date, location and agenda of a regular board meeting was given so as to give all directors an opportunity to attend. All or most of the directors attended the regular board meeting in person. In voting for connected transactions at the board meeting, the connected directors had abstained from voting and the connected transactions were approved by the non-connected directors. All directors were entitled to and had the opportunity to review the minutes of Board Meeting.

The secretary to the Board of Directors is responsible to organise and prepare the board meeting, and assist the Chairman to ensure the rules of procedures for the meeting complied with the requirements by relevant laws and regulations and regulatory documents.

(2) Directors' Remuneration

As approved at the 2005 extraordinary general meeting, the annual aggregate remuneration of the entire fifth session of the Company's directors did not exceed RMB0.43 million (taxes inclusive). The Company has adopted an annual salary system for its directors, which has taken into account the performance of the Company and the directors' personal contribution. The amounts were advised by the Remuneration Committee of the Company's Board of Directors and implemented after the approval by the Board of Directors. The annual remuneration for each of the independent directors did not exceed RMB40,000 (taxes excluded).

The Remuneration Committee of the Board of Directors comprises independent directors Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi and directors Mr. Zhao Jianming and Mr. Su Jiangang. Mr. Su Yong is the Chairman of the Committee, and was designated to formulate the working regulations of the Committee. The major responsibilities of the Committee are as follows:

- To recommend to the Board of Directors with respect to the remuneration policies for all directors and senior management of the Company, and to formulate the procedures for such policies in a proper and transparent manner;
- To review the remuneration of the directors and senior management in accordance with the corporate objectives formulated by the Board of Directors;
- To review the compensation to be paid to the directors or senior management with respect to their removal or appointment;

- To ensure no directors or any of its associates may decide on their own remuneration;
- Other responsibilities as delegated by the Board of Directors.

During the reporting period, the Remuneration Committee met once and all six members attended the meeting. At the meeting, the Committee considered and approved the “Remuneration Assessment Method (Trial) for Directors and Senior Management of Maanshan Iron & Steel Company Limited” and discussed the remuneration with respect to the directors and senior management of the Company for 2005.

(3) Nomination of Directors

A new session for the Company’s Board of Directors is elected every three years. The term of all directors is the same as the term of the Board of Directors for such session. Upon the expiry of the session, re-election must be conducted.

Candidates for directors are nominated by the Company’s Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 5% of the issued shares in the Company. Candidates for independent directors are nominated by the Company’s Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 1% of the issued shares in the Company.

The nomination of directors by the Company has taken into consideration the career, academic background, job title and detailed work experience, full time/part time basis, with the consent of the candidate obtained in advance. With respect to the nomination of independent directors, the Board of Directors will issue its opinion on the qualifications and independence of the candidates as independent directors. The candidates will also issue a public statement that there is no relationship between them and the Company that may affect his independent and objective judgment to any extent. Prior to convening the relevant shareholders’ general meeting, the Company will submit the related materials on the candidates for independent directors to the CSRC, the competent local authority designated by the CSRC at the domicile of the Company and the SSE.



Prior to convening the relevant shareholders’ general meeting, the Company disclosed detailed information about the candidates for directors (including their brief biographies and background), so as to ensure that the shareholders have adequate understanding about the candidates before voting. Prior to convening the shareholders’ general meeting for election of directors, the Company’s Board of Directors published the statements of the candidates and their nominators in accordance with the regulations.

(4) Audit Committee

The Audit Committee of the Board of Directors comprises Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors. Mr. Wong Chun Wa is the Chairman of the Committee. According to the amended working regulations, the major duties of the Committee are:

- To propose the appointment or removal of external auditors;
- To monitor the Company's internal audit system and its implementation;
- To communicate between the internal and external auditors;
- To review the Company's financial information and its disclosure;
- To review the Company's internal control systems.

During the reporting period, the Audit Committee convened four meetings and duly performed its roles of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2005 annual accounts, the 2006 first quarterly accounts, the 2006 interim accounts and the 2006 third quarterly accounts of the Company and gave its independent opinion on the appointment of the auditors. Attendance by the members of the Committee was as follows:

Name	Number of Meetings (Times)	Attendance (Times)	Attendance rate (%)
Wong Chun Wa	4	4	100
Su Rong	4	4	100
Hui Leung Wah	4	4	100
Han Yi	4	4	100

(5) Auditors' Remuneration

Ernst & Young and Ernst & Young Hua Ming were appointed as the international and the PRC auditors of the Group respectively. They have audited the financial statements and financial reports prepared under Hong Kong Accounting Standards and PRC Accounting Standards, respectively. The remuneration for the two accounting firms amounted to HK\$5.75 million in aggregate. Among the total remuneration, HK\$5.10 million represented the annual audit fee and HK\$0.65 million represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. Meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2006, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Company for 13 consecutive years. Mr. Ge Ming and Mr. Qin Tongzhou were the certified public accountants who have signed the Company's 2006 auditors' report. Mr. Ge Ming has provided auditing services to the Company for two consecutive years, while Mr. Qin Tongzhou has provided auditing services to the Company for four consecutive years.

In addition, Ernst & Young Hua Ming provided professional services in relation to the Company's Bonds with Warrants issuance, as well as issuing the "Special Report on the Use of Previous Fundraising Proceeds", the "Internal Control Assessment Report" and the "Verification Report on the Actual Receipt of Proceeds from the Issuance of Bonds with Warrants", for a fee of HK\$0.40 million. Ernst & Young Da Hua provided verification services for the booking of the subscription amounts for the Company's online issuance of Bonds with Warrants for a fee of HK\$10,000. Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. The fee was HK\$11,300.

(6) Internal control

The internal control system encompasses the whole production operation process which includes financial budgeting and accounting, production planning, purchases of materials, product sales, external investments, human resource management and internal auditing. The system ensures orderly conduction of various work of the Company and forms a regulated management system, giving effective control over operating risks.

The finance departments of the Company and its subsidiaries are empowered with the functions of monitoring the financial affairs, and are the principal executors of the internal control systems. The audit department of the Company is responsible for monitoring and examining the execution of the internal control systems of the Company and its subsidiaries. When performing the annual audit, the auditors will issue their "Management Recommendations" by evaluating the internal control systems and their execution by the Company and its subsidiaries and identifying relevant issues.

The Audit Committee monitors the execution of the Company's internal control systems and risk management procedures through evaluating the work of the Audit Department and the auditors. The Board of Directors confirms whether the internal control systems and the risk management procedures of the Company and its subsidiaries are effective or not in accordance with the report from the Audit Committee.

The Board of Directors confirmed that the internal control systems and the risk management procedures of the Company and its subsidiaries in 2006 have been effective.



(7) Other provisions as set out in the Code apart from the above

During the reporting period, the Company's directors acknowledged their responsibilities to the preparation of the accounts. Ernst & Young, the auditors, disclosed a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firm as the auditors for 2006. The Board of Directors does not have any contrary opinion and the relevant resolution was considered and approved at the 2005 annual general meeting held on 13 June 2006.

2) SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS

- (1) As regards employees, the Company's personnel in production, technical, financial and sales 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.
- (2) As regards 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) As regards finance, the Company has established independent financial departments. Independent systems for accounting and auditing have been developed, as well as a sound financial management system.
- (4) As regards 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 being subordinated to any functional departments at the controlling shareholder.
- (5) As regards business operations, the Company possesses independent and comprehensive operating businesses and the competence of autonomous operations. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.