

## 1. Ongoing Work of the Board

### (1) Details of Meetings and Resolutions

- On 10th February 2006, the Company convened meeting of the Board at which the following resolutions were approved: Approval of a new Lease Agreement entered between the Company and the Parent Company in respect of an additional land of approximately 337,476.4 square meters; appointment of Richards Butler, the legal advisor of the Company, as the legal advisor for the disclosure of the transaction. The details concerning the above transaction were published in The Wen Wei Po and The Standard on 11th February 2006.
- On 30 March 2006, the 11th meeting of the third session Board was convened, at which, the following resolutions were passed: the Chairman's Statement, the Board of Directors' Report for 2005, the 2005 Annual Financial Report; the Corporate Governance report, connected transactions and audited accounts for 2005 and auditor's report; approval of 2005 results announcement and annual report; presentation to 2005 AGM for authorization of the Board to determine whether to distribute 2006 interim dividends as well as reappointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as Hong Kong and domestic auditors of the Company. approval of the profit distribution plan for 2005 which distributed Rmb0.15 per share and 3 bonus shares for every 10 existing shares. approval of the amendments to the Articles of Association; the nominated candidates for the 4th Board of directors and Supervisory Committee of the controlling shareholders of the Company, Chongqing Iron & Steel Company (Group) Limited; resolution on extension of validation period of resolution in respect of A share issue.
- On 26 April 2006, the 12th meeting of the third session Board was convened, at which, the following resolutions were passed: the election of Mr. Luo Fu Qin as the chairman of the Company and its appointment as authorized representative of the Company.
- On 9th June 2006, the first meeting of the fourth session Board was convened, at which the following resolutions were passed: election of Mr. Luo Fu Qin as the chairman of the fourth session Board and its appointment as authorized representatives; the appointments of the chairman and members of the third session audit committee; the appointments of the chairman and members of the second session strategic committee; the appointments of the chairman and members for the second session Salary and Remuneration Review Committee; approval of Rules of Procedures for Audit and Review Committee, Rules of Procedures for Strategic Committee and Rules of Procedures for Salary and Remuneration Review Committee, the abolishment of Working Rules for Special Committee under the Board of Directors and Working Rules for Audit Committee at the same time.
- On 31st August 2006, the 2nd meeting of the fourth session Board was convened, at which, the following resolutions were passed: approval of un-audited interim accounts for 2006; approval of interim profit distribution plan for 2006 which declare interim dividend Rmb0.08 per share; approval of interim results announcement and interim report of the Company for 2006.

**(2) The Board completed the implementation to profit distribution plan which passed in AGM dated 9th June 2006 and to interim profit distribution plan dated 31st August 2006.**

**(3) In accordance with the authorisation of the General Meeting, the Board determined the remuneration of the auditors.**

### **2. Profit distribution proposal for the year: the Board proposed to distribute final dividend of Rmb0.10 per share for the year 2006, and did not recommend converting capital reserve into share capital.**

Audited by overseas accountants, the Company achieved net profit Rmb314,837,000 under PRC accounting standards and regulations; the net profit of the Company was Rmb254,095,000 under the Hong Kong accounting standards. After 10% statutory provident fund was transferred from the net profit under PRC accounting standards and regulations, together with the retained profit at the end of 2005, the total profit attributable to shareholders of the Company for 2006 was Rmb1,600,132,000 under PRC accounting standards and Rmb1,562,446,000 under Hong Kong accounting standards. The lesser of profits in the two statements will be adopted as basis when the Company distributes its profit. Therefore, the profit attributable to shareholders of the Company for 2006 is Rmb254,095,000.

The Board proposed to distribute final dividend of Rmb0.10 (tax inclusive) per share for the year 2006 with total amount of Rmb173,313,000. The remaining undistributed profit will be carried down to 2007. The dividend plan will be put forward to 2006 AGM for approval and come into effect in two months after the AGM if it is approved. Dividends for H shares will be paid in Hong Kong dollars and is translated into HK dollars at the average exchange rate of Renminbi to Hong Kong dollar as quoted by the People's Bank of China for the week before the date of the 2006 Annual General Meeting of the Company.

According to the provisions of the document Hui Fa (1999) No. 372 issued by the Foreign Exchange Administration Bureau of the State and the State Taxation Bureau, the final dividends for 2006 which would be paid by the Company to its shareholders were tax free.

### **3. Pursuant to the provisions of ZJF (2003) No.56, Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing, the independent directors of the Company, made the following independent comments on the cumulative and current guarantees made by the Company and the execution status of the abovementioned provision.**

- (1) As at 31st December 2006, all guarantees made by the Company had been approved by the Board in advance.
- (2) As at 31st December 2006, the Company has not directly or indirectly provided any guarantee in connection with any loan of a party with an asset-liability ratio over 70%. The Company has not provided guarantee to the controlling shareholder or any other connected party, non-legal person body or individual in which the Company holds less than 50% of interests.
- (3) As at 31st December 2006, the total amount of guarantee provided by the Company to outside parties did not exceed 50% of its net assets as stated in the combined accounting statement for 2006.

### **4. Other Events**

- (1) **Operation analysis as at 31st December 2006 is set out in the Note 5 to the financial statements prepared under Hong Kong accounting standards and the Note 4(26) to the financial statements prepared under the PRC accounting standards and regulation.**

## 4. Other Events (Continued)

### (2) Fixed Assets

For the year ended 31st December 2006, movements in the fixed assets of the Company are set out in Note 6 to the financial statements prepared under the PRC accounting standards and regulations and the Note 4(7) to the financial statements prepared under the PRC accounting standards and regulations.

### (3) Pre-emptive Right

There is no provision for pre-emptive rights under PRC Laws and the Company's Articles of Association.

### (4) Purchase, Sale or Redemption of the Securities of the Company

For the year ended 31st December 2006, the Company has not redeemed, purchased or sold any securities of the Company. During the period, the Company did not purchase or sell any of the listed securities of the Company.

### (5) Reserves

For the year ended 31st December 2006, movements in the reserves of the Company are set out in Note 15 to the financial statements prepared under the Hong Kong Accounting Standard and the consolidated statement of changes in equity prepared under Hong Kong accounting standards and Notes 4(23), 4(24) and [ ] to the financial statements prepared under the PRC accounting standards and regulation.

### (6) Entrusted Deposits and Overdue Time Deposits

As at 31st December 2006, the Company had no entrusted deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

### (7) Pledge of Assets and Contingent Liabilities

The Company has pledged certain of its property, plant and equipment and land use rights as securities for bank loans. As at 31st December 2006, the net book value of the Company's pledged property, plant and equipment and land use rights amounted to Rmb579,560,000 and Rmb26,914,000 (31st December 2005: Rmb558,102,000 and Rmb27,290,000 respectively).

As at 31st December 2005, the Company had no material contingent liabilities.

### (8) Foreign Exchange Risk

During the year, the Company had foreign currency assets or liabilities. However, there was no any financial derivative tool adopted by the Company against economic risks arising from exchange rate fluctuation.

## 4. Other Events *(Continued)*

### (9) Directors' and Supervisors' Service Contracts

The Board of directors and Supervisory Committee were elected at AGM on 9th June 2006 for a term of three years starting from 9th June 2006.

The selected directors and supervisors entered into a service contract with the Company for a term of three years. Mr. Cheng Hong was appointed as the director of the Company at EGM on 20th September 2006 for a term of three years starting from 20th September 2006.

No director or supervisor has entered into a service contract with the Company which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

### (10) Interests of Directors and Supervisors in Contracts

During the year, none of the Directors or Supervisors had any material interest, directly or indirectly, in any contract of significance the Company or any of its subsidiaries was a party.

### (11) Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### (12) Pledged shares of the Company held by the parent

On 4th January 2006, as approved by Ministry of Commerce of the PRC, the parent company pledged 650,000,000 shares in the Company to Chongqing Guodi Assets Operation and Management Company. On 18th December 2006, Chongqing Guodi Assets Operation and Management Company, Chongqing State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and the parent company signed the Termination Agreement to terminate the above-mentioned pledge. The parties hereunder had no liabilities or obligations for the said pledge termination.

### (13) On 31st October 2006, the Board of Directors of the Company declared the resolution to divide the Production Safety and Environmental Protection Department into Production Management Department and Safety and Environmental Protection Department.

### (14) Issue of A Shares

The application for issuing 350,000,000 A shares of the Company had been approved in written under the approval ZJFXZ [2007] No.23 of CSRC. The shares of the Company were listed on 28th February 2007 under the approval of Shanghai Stock Exchange.