

The Company asserts strength and niche on its well-established sales network, reputation on quality, resources on expertise, competitiveness on cost control and its belief in applying technology to production process. While sticking to sound corporate governance principles, the Company strives to enhance transparency and independence of operation, with effective accountability system to ensure its healthy and sustainable development. In 2006, the Company continued to improve its corporate governance structure in accordance with relevant regulations from CSRC and under the Listing Rules on HKEx.

## 1. The Board of Directors

The Board of Directors is capable of discharging its authority specified by laws, regulations and the Articles of Association of the Company. On 9th June 2006, the new Board of Directors of the Company was elected at expiration of the former Board. The new Board has continued to set up the Strategic Committee, the Audit Committee and the Salary and Remuneration Review Committee. The major duty of the Board is to exercise the management and decision right as authorised by the general meeting in relation to corporate development strategy, management structure, investment and financing, planning, financial control and human resources.

The positions of Chairman and General Manager are assumed by different individuals with distinct roles. Chairman presides over the work of the Board and superintends the implementation of resolutions of the Board while General Manager is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the aid of the Board and other senior management members.

The Board of Directors of the Company shall be re-elected every three years. All the directors are also subject to a term of three years and subject to re-election at expiration of the previous term. The candidates for directors were nominated by the Board of Directors, the Supervisory Committee and the shareholders holding separately or jointly 5% or more of the issued shares.

The candidates for directors were nominated after knowledge of their personal information including occupation, education, professional title, detailed work experience and all part-time work, and with their content before the nomination. For nomination of independent directors, the Board of Directors gave opinions on the nominees' qualification for the position of the independent director and on their independence, and the nominees also made a statement that they do not have any relations with the Company that would affect their independent and objective judgement. Before the convening of relevant general meeting, the Company submitted the materials of the nominees for independent directors to CSRC, the local office of CSRC at the location of the Company and Shanghai Stock Exchange.

Prior to the relevant general meeting, the Company had disclosed the detailed information about the nominees for directors (including resume and basic information) to ensure that the shareholders had a sufficient understanding of the candidates before voting. Prior to the general meeting for election of independent directors, the Board of Directors of the Company disclosed the contents of the statements made by the nominators and the nominees.

During the reporting period, the Board of Directors of the Company was re-elected after expiration of the previous term. On 30th March 2006, the third Board of Directors convened its 12th meeting, at which the candidates for the 4th Board of Director were discussed, and relevant information was announced in the designated newspaper for information disclosure on the next day and published on the website of HKEx for investors' reference.

The fourth Board of Directors was elected at the General Meeting held on 9th June 2006. The members on the Board of Directors have varied industry background and have expertise in the field of corporate management, financial management and about the iron & steel industry, whose profiles were set out on page [•] to page [•] of this Annual Report. The Board of Directors comprises 9 directors, including 6 executive directors and 3 independent directors. The number of the independent directors accounts for one-third of the total members of the Board. The present independent non-executive directors of the Company hold profound experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non-executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

## 1. The Board of Directors *(Continued)*

As at the end of the reporting period, the members of the Board were as follows:

|                        |   |
|------------------------|---|
| Chairman:              | Mr. Luo Fu Qin  |
| Executive directors:   | Mr. Yuan Jin Fu, Mr. Chen Shan, Mr. Sun Yi Jie, Mr. Tu De Ling, Mr. Chen Hong |
| Independent directors: | Mr. Wang Xiang Fei, Mr. Sun Yu, Mr. Liu Xing                                  |

In 2006, the Board of the Company convened five meetings with X% attendance, details of which are set out on page [•] of this Annual Report. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through secretary of the Company. In order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

As approved by the General Meeting, the annual average remuneration of directors of the four Board of the company in their term is paid at 4 to 10 times the annual average remuneration of all the employees of the Company. The remuneration of directors is set out under the section "Remuneration of Directors, Supervisors and Senior Management" on pages 31 of this Annual Report.

## 2. Special Committees of the Board

The Board has three special committees, each of which has specified terms of reference and is responsible for supervision of specific businesses.

### (1) Audit Committee

The third Audit Committee of the Company was appointed by the Board of Directors on 9th June 2006, consisting of three independent directors. For the period, Audit Committee performed its duties specified by relevant laws, regulations and the Articles of Association of the Company, including auditing annual and interim financial statements, considering appointment of external auditors and relevant adjustments, and reviewing efficiency and quality of their work. Besides, Audit Committee also provided advice and recommendation to the Board regarding the running of internal control system and the effect of regulatory measures as well as studying corporate operation and possible impact on financial statements of the Company from domestic and foreign regulations and regulatory rules and relevant policies.

As at the end of the reporting period, the members of the Audit Committee were as follows:

|           |                          |
|-----------|--------------------------|
| Chairman: | Mr. Wang Xiang Fei       |
| Member:   | Mr. Sun Yu, Mr. Liu Xing |

During year 2006, Audit Committee convened two meetings both with full attendance, details of which are set out on page 24 of this annual report. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

The second Audit Committee of the Company convened the sixth meeting on 29th March 2006. The following matters were considered and approved at the meeting: 2005 Year-end Result Announcement, 2005 Annual Report, 2005 audited financial statements and auditor's report, connected transactions of 2005 and the appointment of outside auditors.

The third Audit Committee of the Company convened the first meeting on 28th August 2006. The 2006 Interim Report and 2006 unaudited financial statements and result announcement were considered and approved at the meeting.

## 2. Special Committees of the Board *(Continued)*

### (2) Strategic Committee

The Strategic Committee of the Company was set up on 21st August 2003. The current Strategic Committee was the second one appointed by the Board on 9 June 2006, comprising 5 members in full compliance with relevant domestic and foreign laws, regulations and the Work Regulations of Strategic Committee. The major duty of Strategic Committee is to give suggestions based on study of long-term strategies on development and significant investment decisions.

As at the end of the reporting period, the members of the Strategic Committee were as follows:

Chairman: Mr. Luo Fu Qin  
Member: Mr. Chen Shan, Mr. Sun Yi Jie, Mr. Tu De Ling, Mr. Liu Xing

In 2006, the Strategic Committee convened one meeting with 100% attendance, details of which were set out on page 24 of this Annual Report. At the meeting, the Work Regulations of Strategic Committee (draft) were considered and approved.

### (3) Salary and Remuneration Review Committee

The Salary and Remuneration Review Committee was set up on 21st August 2003. The current Salary and Remuneration Review Committee was the second one appointed by the Board on 9 June 2006, comprising 5 members in full compliance with relevant domestic and foreign laws, regulations and the Work Regulations of Salary and Remuneration Review Committee. The major duty of Salary and Remuneration Review Committee is to study benchmarks for directors and senior management of the Company, conduct the assessment as well as study and review remuneration policies and schemes of directors and managers.

As at the end of the reporting period, the members of Salary and Remuneration Review Committee were as follows:

Chairman: Mr. Sun Yu  
Member: Mr. Yuan Jin Fu, Mr. Wang Xiang Fei, Mr. Liu Xing

In 2006, the Salary and Remuneration Review Committee convened one meeting with full attendance, details of which were set out on page 24 of this Annual Report. At the meeting, the 2006 remuneration policy for executive directors and senior management of the Company and the Work Regulations of Salary and Remuneration Review Committee (draft) were considered and approved.

## 3. Supervisory Committee

The Supervisory Committee shall exercise its supervisory right independently and safeguard the lawful interest of shareholders, the Company and its staff. The number and constitution of supervisors of the Company are in accordance with requirements of relevant laws and regulations. Shareholder representatives elected at the general meeting on 9th June 2006 and staff representatives elected at the staff representative meeting on 21st March 2006 constitutes jointly the fourth Supervisory Committee of the Company. The current Supervisory Committee consists of 5 members, of which 3 are shareholder representatives and 2 are staff representatives. The shareholder representatives were elected at the general meeting and staff representatives were directly elected at the staff representative meeting.

As at the end of the reporting period, the members of the Supervisory Committee were as follows:

Member: Mr. Yuan Jin Fu, Mr. Wang Xiang Fei, Mr. Liu Xing  
Chairman: Mr. Zhu Jian Pai  
Member: Ms. Yuan Xu Bing, Mr. Huang You He, Ms. Chong Hong, Ms. Lu Kang Mei

During year 2006, Supervisory Committee convened three meetings and attended all Board meetings as an observer, duly performing its duties. Details of attendance at meetings of the Supervisory Committee are set out on page 24 of this Annual Report.

## 3. Supervisory Committee (Continued)

Attendance at the Board meetings and meetings of each special committee in 2006  
(Attendance in person / Number of meetings (Attendance rate))

| Name<br>Board of Directors    | Audit<br>Committee | Strategic<br>Committee | Salary and<br>Remuneration | Review<br>Committee | Supervisory<br>Committee |
|-------------------------------|--------------------|------------------------|----------------------------|---------------------|--------------------------|
| <b>Directors:</b>             |                    |                        |                            |                     |                          |
| Luo Fu Qin Note 1             | 3/3(100%)          | —                      | 1/1 (100%)                 | —                   | —                        |
| Tang Min Wei Note 2           | 1/2 (50%)          | —                      | —                          | —                   | —                        |
| Yuan Jin Fu                   | 5/5 (100%)         | —                      | —                          | 1/1 (100%)          | —                        |
| Chen Shan                     | 5/5 (100%)         | —                      | 1/1 (100%)                 | —                   | —                        |
| Sun Yi Jie                    | 5/5 (100%)         | —                      | 1/1 (100%)                 | —                   | —                        |
| Tu De Ling                    | 5/5 (100%)         | —                      | 1/1 (100%)                 | —                   | —                        |
| Chen Hong Note 3              | —                  | —                      | —                          | —                   | —                        |
| Yang Zhi Wei Note 4           | 4/5 (80%)          | —                      | 1/1 (100%)                 | —                   | —                        |
| <b>Independent directors:</b> |                    |                        |                            |                     |                          |
| Wan Xiang Fei                 | 4/5 (80%)          | 2/2 (100%)             | —                          | 1/1 (100%)          | —                        |
| Sun Yu                        | 4/5 (80%)          | 2/2 (100%)             | —                          | 1/1 (100%)          | —                        |
| Liu Xing Note 5               | 2/2 (100%)         | —                      | —                          | —                   | —                        |
| Wu Zhong Fu Note 6            | 3/3 (100%)         | 2/2 (100%)             | —                          | 1/1 (100%)          | —                        |
| <b>Supervisors:</b>           |                    |                        |                            |                     |                          |
| Zhu Jian Pai                  | —                  | —                      | —                          | —                   | 3/3 (100%)               |
| Huang You He                  | —                  | —                      | —                          | —                   | 3/3 (100%)               |
| Yuan Xue Bing                 | —                  | —                      | —                          | —                   | 3/3 (100%)               |
| Chen Hong                     | —                  | —                      | —                          | —                   | 3/3 (100%)               |
| Lu Kang Mei                   | —                  | —                      | —                          | —                   | 3/3 (100%)               |

Note 1: Mr. Luo Fu Qin was appointed as a director of the Company on 26th April 2006.

Note 2: Mr. Tang Min Wei left office on 26th April 2006.

Note 3: Mr. Chong Hong was appointed as a director of the Company on 20th September 2006.

Note 4: Mr. Yang Zhi Wei resigned from office on 25th July 2006.

Note 5: Mr. Liu Xing was appointed as an independent director, a member of the Audit Committee, the Strategic Committee and the Salary and Remuneration Review Committee of the Company on 9th June 2006.

Note 6: Mr. Wu Zhong Fu left office at expiration of his term on 9th June 2006.

## 4. Independence of the Company from its Holding Company in Personnel, Assets, Finance, Organisation and Operations

- (1) In respect of personnel, the production staff, technical staff, finance staff and sales staff are independent of the Holding Company, and the General Manager, Vice General Manager, and other senior management staffs receive remuneration from the Company and do not assume offices in the Holding Company.
- (2) Regarding assets, the Company has the independent production system, auxiliary system and supporting facilities, independent industrial property right and non-patent technologies, and the independent procurement and sales system.
- (3) In respect of finance, the Company has its independent finance department, has established an independent accounting system and formulated a completed financial management system.
- (4) In respect of organisation, the Company has set up a sound organisational structure; the Board and the Supervisory Committee operate separately; there are no subordinate relations between other internal organisations and the functional department of the Holding Company.
- (5) Regarding operations, the Company has its independent and complete businesses and has the ability to operate independently; there is no competition in the same industry between the Company and its Holding Company.

### 5. Compliance with Model Code Concerning the Securities Transactions by Directors

The Company takes the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of Listing Rules of the Stock Exchange ("Model Code") as the code for securities transactions by its Directors and Supervisors. Based on specific enquiries to all Directors and Supervisors, the Company confirms that all Directors and Supervisors had complied with the requirements of the Model Code concerning the securities transactions by Directors as at the reporting date.

### 6. Internal Control and Auditing

The Board is responsible for establishment and maintenance of the internal control system, to review financial, management and regulatory control procedures and safeguard interest of shareholders and assets of the Company. The Board authorises the management to carry out such work and review its performance through Audit Committee.

Audit Office was set up in April 2003. As the standing body of Audit Committee, its major responsibility is to review the performance of the Company's internal control system. During 2006, according to potential risks and materiality of the Company's internal control system on business and process, Audit Office reviewed, supervised and assessed activities including financial information disclosure, operation and internal control, providing independent and objective comments and suggestions in form of report. Besides, audit personnel is entitled to access to all information of the Company and making enquiries to relevant staff for work purpose, and Audit Office shall directly report to Audit Committee on the results and comments of relevant work.

### 7. Information Disclosure and Investor Relation Management

Secretary of the Company and Secretary Office of the Board are responsible for information disclosure of the Company and reception of shareholders and investors. On 27th February 2003, the Board passed the Code on Information Disclosure Management of the Company, aiming to standardise management of information disclosure, ensure open, arm's length and fair disclosure and enhance transparency of the Company.

As at the reporting date, as required by the letter dated 20th November 2006 from HKEx, the Board of Directors made a resolution on 12 December 2006 to approve the acceptance of the ESS on HKEx and authorized the secretary to the Board to sign relevant documents on behalf of the Company. Having completed ESS registration, and completed preparation for ESS use on 10th March 2007, the Company has the conditions for the new mode of information submission and publication. As arranged by HKEx, the Company is scheduled to implement the new disclosure system on 25th June 2007. With this system, the Company will publish information required to be disclosed in accordance with regulations via the electronic mode in Hong Kong, and cease to publish announcements in Hong Kong newspapers.

### 8. Corporate Governance Rules

During the reporting period, the Board of Directors amended the regulations for work of the special committees, formulated the Work Regulations of Audit Committee, Work Regulations of Strategic Committee and Work Regulations of Salary and Remuneration Review Committee. In 2006, the Company has fully complied with the stipulations of the Code on Corporate Governance Practices ("Code") set out in Appendix 14 to Listing Rules.

### 9. Auditor's Remuneration

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers were appointed as the domestic and international auditors of the Company respectively. They had audited the financial statements prepared in accordance with the PRC accounting standards and the financial report prepared in accordance with Hong Kong accounting standards. The remuneration for the auditors payable by the Company amounted to Rmb2,631,000.

As at 31st December 2006, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian Certified Public Accountants were appointed as the international auditors and the PRC auditors of the Company respectively for 10 years. The 2006 Audit Report was signed by the Certified Public Accountants Mr. Wang Xiao and Mr. Lei Fang.