

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31 December 2006, except for the following deviations:–

- Under code provision A.1.1 of the Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

During the financial year ended 31 December 2006, three physical Board meetings had been held for considering the interim and final results of the Group, and other ad hoc projects. Other issues which required approval from the Board were passed by way of written resolutions. Coupled with the assistance of the Executive Committee, a committee of the Board which have been vested with the delegated authorities from the Board and the responsibilities for overseeing the management and operations of the Group and had held 18 meetings during the year for discharging its duties, the Board is of the opinion that all issues relating to the management of the businesses of the Group had been properly considered and addressed either by the Board or by the Executive Committee during the year under review.

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors of the Company is appointed for a specific term. However, Non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the articles of association of the Company (the "Articles"). As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.



Corporate Governance Report

BOARD OF DIRECTORS

Composition

1. The Board currently comprises five Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The Board includes a balanced composition of executive and non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to, (i) bringing an independent judgement at Board meetings; (ii) taking the lead where potential conflicts of interests arise; (iii) serving on Board committees if invited; and (iv) scrutinising the Company's performance.
2. The Executive Directors are Mr. Cao Zhong (Chairman), Mr. Chau Chit (Managing Director), Mr. Tzu San Te, Mr. Chen Jianyong and Mr. Tse Chun Sing, the Non-executive Directors are Mr. Chen Jang Fung, Mr. Leung Shun Sang, Tony and Mr. Chan Wah Tip, Michael and the Independent Non-executive Directors are Ms. Kan Lai Kuen, Alice, Mr. Wong Kun Kim and Mr. Leung Kai Cheung. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biography" of this annual report.
3. Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

1. The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

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BOARD OF DIRECTORS (continued)

Role and function (continued)

2. The Board intends to hold four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles. During the financial year ended 31 December 2006, the Directors have made active contribution to the affairs of the Group and three Board meetings were held to consider, among other things, reviewing and approving the interim results and annual results of the Group. Details of Directors' attendance records in 2006 are as follows:–

	Meetings attended/ Eligible to attend
<i>Executive Directors</i>	
Cao Zhong	3/3
Chau Chit (<i>appointed on 16 June 2006</i>)	2/2
Tzu San Te	3/3
Chen Jianyong (<i>appointed on 16 June 2006</i>)	2/2
Tse Chun Sing	3/3
Zhang Wenhui (<i>resigned on 22 September 2006</i>)	2/2
<i>Non-executive Directors</i>	
Chen Jang Fung	0/3
Leung Shun Sang, Tony	3/3
Chan Wah Tip, Michael	1/3
Choy Hok Man, Constance (<i>retired on 26 May 2006</i>)	0/1
<i>Independent Non-executive Directors</i>	
Kan Lai Kuen, Alice	3/3
Wong Kun Kim	3/3
Leung Kai Cheung (<i>appointed on 16 June 2006</i>)	2/2
Kwan Bo Ren, Dick (<i>resigned on 11 July 2006</i>)	0/1



Corporate Governance Report

BOARD OF DIRECTORS (continued)

Role and function (continued)

3. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary. The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.
4. The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.
5. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.
6. The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.
7. If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.
8. Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

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BOARD OF DIRECTORS (continued)

Independent Non-executive Directors

1. Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.
2. The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Appointments and re-election of Directors

1. Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.
2. According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such annual general meeting. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.
3. Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

1. The roles of Chairman and the Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Cao Zhong assumes the role of the Chairman and Mr. Chau Chit serves as the Managing Director of the Company. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.
2. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.



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MODEL CODE FOR SECURITIES TRANSACTIONS

1. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.
2. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2006.
3. Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

1. An Executive Committee of the Board was established in April 2005 and comprises all Executive Directors of the Company. As at 31 December 2006, the Chairman of the Executive Committee was Mr. Cao Zhong. Other members were Mr. Chau Chit, Mr. Tzu San Te, Mr. Chen Jianyong and Mr. Tse Chun Sing.
2. The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. The Executive Committee meets as and when required. During the financial year ended 31 December 2006, 18 meetings of the Executive Committee were held.

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BOARD COMMITTEE (continued)

Audit Committee

1. The Company has an Audit Committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants in December 1997. In November 2005, the Board adopted new terms of reference as the terms of reference of the Audit Committee for compliance with the requirements of the Listing Rules. Its principal duties include, among other things, (i) to oversee the relationship with the Company's auditors; (ii) to review the interim and annual financial statements; and (iii) to review the Company's financial reporting system and internal control procedures. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.
2. The Chairman of the Audit Committee is Mr. Wong Kun Kim, an Independent Non-executive Director of the Company. The other members comprise one Non-executive Director, namely Mr. Chan Wah Tip, Michael and the other two Independent Non-executive Directors, namely Ms. Kan Lai Kuen, Alice and Mr. Leung Kai Cheung. None of the members of the Audit Committee are former partners of the auditors of the Company.
3. During the financial year ended 31 December 2006, two meetings of the Audit Committee were held for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2005 and the interim results of the Group for the six months ended 30 June 2006. The attendance of each member is as follows:–

	Meetings attended/ Eligible to attend
Wong Kun Kim (<i>Chairman</i>)	2/2
Chan Wah Tip, Michael	2/2
Kan Lai Kuen, Alice	2/2
Leung Kai Cheung (<i>appointed on 16 June 2006</i>)	1/1
Choy Hok Man, Constance (<i>retired on 26 May 2006</i>)	0/1
Kwan Bo Ren, Dick (<i>resigned on 11 July 2006</i>)	0/1

4. The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.



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BOARD COMMITTEE (continued)

Audit Committee (continued)

5. During the financial year ended 31 December 2006, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors.

Nomination Committee

1. The Company established the Nomination Committee in April 2005 with specific written terms of reference which deal clearly with its authority and duties. The principal duties of the Nomination Committee include (i) to review the structure, size and composition of the Board; (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board; (iii) to make recommendations to the Board on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors; and (iv) to assess the independence of Independent Non-executive Directors. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.
2. The Chairman of the Nomination Committee is Mr. Cao Zhong, the Chairman of the Company. The other members comprise Mr. Leung Shun Sang, Tony, a Non-executive Director of the Company and all the three Independent Non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Wong Kun Kim and Mr. Leung Kai Cheung. The Independent Non-executive Directors of the Company constitute the majority of the committee.
3. Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

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BOARD COMMITTEE (continued)

Nomination Committee (continued)

4. During the financial year ended 31 December 2006, one meeting of the Nomination Committee was held for considering the nomination of Mr. Chau Chit and Mr. Chen Jianyong as Executive Directors and Mr. Leung Kai Cheung as Independent Non-executive Director of the Company. The attendance of each member is as follows:–

	Meetings attended / Eligible to attend
Cao Zhong (<i>Chairman</i>)	1/1
Leung Shun Sang, Tony (<i>Vice Chairman</i>)	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung (<i>appointed on 16 June 2006</i>)	0/0
Kwan Bo Ren, Dick (<i>resigned on 11 July 2006</i>)	1/1

5. The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

Remuneration Committee

1. The Company established the Remuneration Committee in April 2005 with specific written terms of reference which deal clearly with its authority and duties. The principal duties of the Remuneration Committee include (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group; (ii) to review and approve performance-based remuneration; (iii) to determine the specific remuneration packages of all Executive Directors and senior management and to make recommendation to the Board of the remuneration of Non-executive Directors; (iv) to review and approve the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and (v) to ensure that no Director or any of his associates is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.



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BOARD COMMITTEE (continued)

Remuneration Committee (continued)

2. The Chairman of the Remuneration Committee is Mr. Leung Shun Sang, Tony, a Non-executive Director of the Company. The other members comprise the Chairman of the Company, Mr. Cao Zhong, and all the three Independent Non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Wong Kun Kim and Mr. Leung Kai Cheung. The Independent Non-executive Directors of the Company constitute the majority of the committee.

3. During the financial year ended 31 December 2006, three meetings of the Remuneration Committee were held for, amongst other things, reviewing the remuneration policies of the Company and the remuneration and terms of employment contracts of the Executive Directors of the Company, determining the incentive payment of the Executive Directors for the year 2005, and making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2005 and 2006. The attendance of each member is as follows:–

	Meetings attended/ Eligible to attend
Leung Shun Sang, Tony (<i>Chairman</i>)	3/3
Cao Zhong (<i>Vice Chairman</i>)	3/3
Kan Lai Kuen, Alice	3/3
Wong Kun Kim	3/3
Leung Kai Cheung (<i>appointed on 16 June 2006</i>)	1/1
Kwan Bo Ren, Dick (<i>resigned on 11 July 2006</i>)	1/2

4. The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

5. The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

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INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee and the Audit Committee help the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee. Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks. The business plans and budgets are finally subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and brings relevant matters to the attention of the Audit Committee. The internal control system is documented and if any revision is required, such information will be submitted to the Executive Committee for evaluation.



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INTERNAL CONTROL (continued)

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee, continuously reviewing the effectiveness of the Group's internal control systems. In the year, the Audit Committee took the initiatives to strengthen the overall internal control function and enhance risk management within the Group by making recommendation to the Board to carry out an independent internal control review. On the recommendation of the Audit Committee, the Group has engaged professional firms in early 2007 to carry out independent review on the key internal control systems of the Group.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:–

Services rendered	Fee paid/payable HK\$'000
Audit services	2,158
Non-audit services:	
Taxation	430
	<u>2,588</u>

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosure required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 43 to 44 of this annual report.

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COMMUNICATION WITH SHAREHOLDERS

1. To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and press announcement. All shareholders' communications are also available on the Company's website at www.shougang-tech.com.hk.
2. The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditors are also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.
3. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.
4. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the newspapers and on the Company's website.