



## 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.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 (except for the Chairman) 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 Bye-laws of the Company (the "Bye-laws"). 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.

- Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a special term, should be subject to retirement by rotation at least once every three years.

In order to comply with the applicable laws of Bermuda, the Chairman and the Managing Director are not subject to retirement by rotation under the Bye-laws. However, they will voluntarily retire and offer themselves for re-election at least once every three years in order to comply with the second part of code provision A.4.2 of the Code.

- Under the second part of code provision B.1.1 of the Code, a majority of the members of the remuneration committee should be independent non-executive directors.

Subsequent to the re-designation of Mr. Liu Wei from an Independent Non-executive Director to a Non-executive Director on 20 December 2006, the Company was left with two Independent Non-executive Directors, which only constituted half of the members of the Remuneration Committee. However, the Company has appointed Mr. Yip Kin Man, Raymond as an Independent Non-executive Director as well as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company on 19 January 2007. Thereafter, the Independent Non-executive Directors of the Company constitute the majority of the members of the Remuneration Committee.

## Corporate Governance Report

### CORPORATE GOVERNANCE PRACTICES (continued)

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

The Chairman of the Board of Directors of the Company had not attended the annual general meeting of the Company held on 26 May 2006 (the "Meeting") as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

### BOARD OF DIRECTORS

#### Composition

1. The Board currently comprises five Executive Directors, two 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. As at 31 December 2006, the Executive Directors were Mr. Cao Zhong (Vice Chairman and Managing Director), Mr. Chen Zheng (Managing Director of Operations), Mr. Wang Tian (Deputy Managing Director), Ms. Cheng Xiaoyu (Deputy Managing Director) and Mr. Yuan Wenxin (Deputy Managing Director), the Non-executive Directors were Mr. Wang Qinghai (Chairman), Mr. Leung Shun Sang, Tony and Mr. Liu Wei and the Independent Non-executive Directors were Mr. Tam King Ching, Kenny and Ms. Zhou Jianhong. Subsequent to the year end date, Mr. Yip Kin Man, Raymond has been appointed as an Independent Non-executive Director of the Company and Mr. Liu Wei resigned as an Non-executive Director of the Company. 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.



## Corporate Governance Report

### BOARD OF DIRECTORS (continued)

#### Composition (continued)

- 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

- The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (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.
- The Board has 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 By-laws. During the financial year ended 31 December 2006, the Directors have made active contribution to the affairs of the Group and seven 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:

	<b>Meetings attended/ Eligible to attend</b>
<i>Chairman</i>	
Wang Qinghai	0/7
<i>Executive Directors</i>	
Cao Zhong	6/7
Chen Zheng	6/7
Wang Tian	5/7
Cheng Xiaoyu	2/7
Yuan Wenxin	3/7
<i>Non-executive Directors</i>	
Leung Shun Sang, Tony	6/7
Choy Hok Man, Constance (retired on 26 May 2006)	0/1
<i>Independent Non-executive Directors</i>	
Tam King Ching, Kenny	7/7
Zhou Jianhong	7/7
Liu Wei (re-designated as a Non-executive Director on 20 December 2006)	3/7

## 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.



## Corporate Governance Report

### 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 Bye-laws, 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 but except for the Chairman and the Managing Director, 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 Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Cao Zhong serves as the Vice Chairman and the Managing Director of the Company. The Chairman provides leadership for the Board and the Vice Chairman assists the Chairman to discharge his duties. 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.

## Corporate Governance Report

### 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 September 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. Chen Zheng, Mr. Wang Tian, Ms. Cheng Xiaoyu and Mr. Yuan Wenxin.
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, eight meetings of the Executive Committee were held.



## Corporate Governance Report

### 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. As at 31 December 2006, the Chairman of the Audit Committee was Mr. Tam King Ching, Kenny, an Independent Non-executive Director of the Company. Another member was another Independent Non-executive Director, namely Ms. Zhou Jianhong. Subsequent to the year end date, Mr. Yip Kin Man, Raymond has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company. 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:

	<b>Meetings attended/ Eligible to attend</b>
Tam King Ching, Kenny ( <i>Chairman</i> )	2/2
Zhou Jianhong	2/2
Liu Wei ( <i>ceased to act as a member of the Audit Committee on 20 December 2006</i> )	2/2

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.
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.

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### BOARD COMMITTEE (continued)

#### Nomination Committee

1. The Company established the Nomination Committee in September 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. As at 31 December 2006, the Chairman of the Nomination Committee was Mr. Cao Zhong, the Vice Chairman and the Managing Director of the Company. The other members comprised Mr. Leung Shun Sang, Tony, a Non-executive Director of the Company and two Independent Non-executive Directors, namely Mr. Tam King Ching, Kenny and Ms. Zhou Jianhong. Subsequent to the year end date, Mr. Yip Kin Man, Raymond has been appointed as an Independent Non-executive Director and a member of the Nomination Committee of the Company. 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.





## Corporate Governance Report

### 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 re-designation of Mr. Liu Wei from an Independent Non-executive Director of the Company to a Non-executive Director of the Company. The attendance of each member is as follows:

	<b>Meetings attended/ Eligible to attend</b>
Cao Zhong ( <i>Chairman</i> )	1/1
Leung Shun Sang, Tony ( <i>Vice Chairman</i> )	1/1
Tam King Ching, Kenny	1/1
Zhou Jianhong	1/1
Liu Wei ( <i>ceased to act as a member of the Nomination Committee on 20 December 2006</i> )	0/1

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 September 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.

## Corporate Governance Report

### BOARD COMMITTEE (continued)

#### Remuneration Committee (continued)

2. As at 31 December 2006, the Chairman of the Remuneration Committee was Mr. Leung Shun Sang, Tony, a Non-executive Director of the Company. The other members comprised the Vice Chairman and the Managing Director of the Company, Mr. Cao Zhong, and two Independent Non-executive Directors, namely Mr. Tam King Ching, Kenny and Ms. Zhou Jianhong. Subsequent to the year end date, Mr. Yip Kin Man, Raymond has been appointed as an Independent Non-executive Director and a member of the Remuneration Committee of the Company. The Independent Non-executive Directors of the Company constitute the majority of the committee.
  
3. During the financial year ended 31 December 2006, two meetings of the Remuneration Committee were held for, amongst other things, reviewing the remuneration policies of the Company and the remuneration and terms of service contracts of the Executive Director of the Company, determining the incentive payments 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> )	2/2
Cao Zhong ( <i>Vice Chairman</i> )	2/2
Tam King Ching, Kenny	2/2
Zhou Jianhong	2/2
Liu Wei ( <i>ceased to act as a member of the Remuneration Committee on 20 December 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.



## Corporate Governance Report

### 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 helps 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 organisation 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. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. 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. The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems. The Company has set up an Internal Audit Department which assists the Audit Committee to discharge its duties in this aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Audit Committee with its findings and make recommendations to improve the internal control systems of the Group.

## Corporate Governance Report

### 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 (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems.

### AUDITORS' REMUNERATION

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

<b>Services rendered</b>	<b>Fee paid/payable</b> HK\$'000
Audit services	1,650
Non-audit services:	
Review on interim financial report	500
Special audit services	2,100
	4,250

### 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 consolidated financial statements of the Group is set out in the Independent Auditors' Report on pages 56 to 57 of this annual report.



## Corporate Governance Report

### COMMUNICATION WITH SHAREHOLDERS

1. To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and press announcements. All shareholders' communications are also available on the Company's website at [www.shougang-grand.com.hk](http://www.shougang-grand.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.