



## Corporate Governance Report

The Company is committed to maintain 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”) (with the exception of code provision C.2 on internal control which is effective for accounting periods commencing on or after 1 July 2005) 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 2005, 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 are subject to retirement by rotation and re-election at annual general meetings 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. To further improve its corporate governance structure, the Company will try its best to procure any future appointment of non-executive director with a specific term and subject to retirement.

During the year, the board of directors of the Company (the “Board”) has approved the amendments to the Articles to ensure compliance with the code provisions A.4.2 and E.2.1 of the Code. The relevant proposed amendments to the Articles will be put forward to the shareholders of the Company at the forthcoming annual general meeting for approval. Details are set out as follows:

- Pursuant to code provision A.4.2 of the Code, every director, including those appointed for a specific terms, should be subject to retirement by rotation at least once every three years. Accordingly, the Board proposes to amend the Articles to specify that at each annual general meeting of the Company, one-third of the directors of the Company (the “Directors”) for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.
- Code provision A.4.2 also provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Accordingly, the Board proposes to amend the Articles to specify that any Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting, instead of the next following annual general meeting.



## Corporate Governance Report

### CORPORATE GOVERNANCE PRACTICES (continued)

- Code provision E.2.1 provides that pursuant to Rule 13.39(3) of the Listing Rules, the chairman of a general meeting of the Company and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. Accordingly, the Board proposes to amend the Articles to reflect the provisions of code provision E.2.1.

### BOARD OF DIRECTORS

#### Composition

1. The Board currently comprises a Chairman, three executive directors, four 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) bring an independent judgement at board meetings; (ii) take the lead where potential conflicts of interests arise; (iii) serve on board committees if invited; and (iv) scrutinise the Company's performance.
2. As at 31 December 2005, the Chairman was Mr. Cao Zhong. The executive directors were Mr. Zhang Wenhui (President), Mr. Tzu San Te and Mr. Tse Chun Sing, the non-executive directors were Mr. Chen Jang Fung, Mr. Leung Shun Sang, Tony, Mr. Chan Wah Tip, Michael and Ms. Choy Hok Man, Constance and the independent non-executive directors were Ms. Kan Lai Kuen, Alice, Mr. Kwan Bo Ren, Dick and Mr. Wong Kun Kim. 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 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.



## Corporate Governance Report

### 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 2005, 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 2005 are as follows:

	<b>Meetings attended / Eligible to attend</b>
<i>Chairman</i>	
Cao Zhong	3/3
<i>Executive Directors</i>	
Zhang Wenhui	3/3
Tzu San Te	3/3
Tse Chun Sing	3/3
Yuan Wenxin (resigned on 5 August 2005)	1/1
<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	2/3
<i>Independent Non-executive Directors</i>	
Kan Lai Kuen, Alice	3/3
Kwan Bo Ren, Dick	1/3
Wong Kun Kim	3/3



## 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. Two of the independent non-executive directors have 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 proposed amendment to be made to the Articles at the forthcoming annual general meeting, 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.



## Corporate Governance Report

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

1. The roles of Chairman and the President 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. Zhang Wenhui serves as the President of the Company. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The President 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 President 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.

### 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 2005.
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 to deal in shares of the Company during the black-out period.



## Corporate Governance Report

### 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 has been established in April 2005 and comprises of executive directors of the Company.
2. The Executive Committee meets as and when required to oversee the day-to-day operation of the Group and has all the general powers of the Board except those matters specifically reserved for the Board which are reviewed by the Board from time to time.

#### 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. Mr. Wong Kun Kim, an independent non-executive director of the Company, is the Chairman of the Audit Committee. The other members comprise two non-executive directors, namely Mr. Chan Wah Tip, Michael and Ms. Choy Hok Man, Constance and the other two independent non-executive directors, namely Ms. Kan Lai Kuen, Alice and Mr. Kwan Bo Ren, Dick. None of the members of the Audit Committee are former partners of the auditors of the Company.



## Corporate Governance Report

### BOARD COMMITTEE (continued)

#### Audit Committee (continued)

3. During the financial year ended 31 December 2005, 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 2004 and the interim results of the Group for the six months ended 30 June 2005. The attendance of each member is as follows:

	<b>Meetings attended / Eligible to attend</b>
Wong Kun Kim ( <i>Chairman</i> )	2/2
Chan Wah Tip, Michael	2/2
Choy Hok Man, Constance	1/2
Kan Lai Kuen, Alice	2/2
Kwan Bo Ren, Dick	0/2

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 2005, 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.





## Corporate Governance Report

### BOARD COMMITTEE (continued)

#### Nomination Committee (continued)

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. Kwan Bo Ren, Dick and Mr. Wong Kun Kim. 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.
4. No Nomination Committee meeting was held during 2005. The first Nomination Committee meeting has been scheduled for later this year. During 2005, no director was appointed by the Board.
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.



## Corporate Governance Report

### 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. Kwan Bo Ren, Dick and Mr. Wong Kun Kim. The independent non-executive directors of the Company constitute the majority of the committee.
3. No Remuneration Committee meeting was held during 2005. The first Remuneration Committee meeting held in March 2006 to review and consider, amongst others, the remuneration policies of the Company and the directors' fee for the year 2005.
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.

### 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>
	<i>HK\$'000</i>
Audit services	1,422
Non-audit services:	
Taxation	311
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	1,733
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## Corporate Governance Report

### 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 Report of the Auditors on page 41 of this annual 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-tech.com.hk](http://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.