



Corporate Governance Report

In November 2004, the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued its “Code on Corporate Governance Practices and Corporate Governance Report” (the “Stock Exchange Code”), with a grace period such that it would take effect for accounting periods commencing on or after 1 January 2005. The Stock Exchange Code sets out principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

The Stock Exchange has allowed issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate and provide reasons given for any deviation from the Stock Exchange Code.

During the financial year of 2005, the board of directors (the “Board”) of Shougang Concord Century Holdings Limited (the “Company”) approved and adopted a “Shougang Concord Century Holdings Limited Code on Corporate Governance” (the “SCCH Code”) on terms no less exacting than those set out in the Code Provisions of the Stock Exchange Code – Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The Board from time to time has assumed responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs. It also has fiduciary duties to act in the best interest of the Company as a whole. In this connection, the Company always attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. The Board and management will endeavor to establish a set of internal code of corporate governance in compliance with and excelling the regulations set by the regulatory authorities in Hong Kong.

In order to indicate the commitment of the Board and management to comply with the corporate governance standard, the SCCH code is formulated, and every effort will be made to comply with the principles and practices contained herein in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company’s governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.



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In the opinion of the Board, the Company has complied with the Stock Exchange Code since 1 January 2005 meanwhile, complied with the SCCH code, except that (i) the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's articles of association (the "Articles"); and (ii) not every director is subject to retirement by rotation at least once every three years. The reason for the first deviation is stated hereunder the heading of "Independent Non-executive Directors" and for the second deviation, it had been rectified by obtaining the shareholders' approval of amending the Articles at the annual general meeting held on 13 June 2005.

DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Company adopted its own Code of Conduct regarding Directors' Securities Transactions (the "Code") and the terms of the Company's Code of Conduct regarding Directors' Securities Transactions are no less exacting than the required standard set out in the Model Code – Appendix 10 of Listing Rules ("Model Code") and refined the Code on 4 April 2005. Having made specific enquiry of all directors whether they have complied with the required standard set out in the Model Code, none of the directors of the Company is aware of any information that would reasonably indicate that the directors of the Company or any of its directors is not or was not in compliance with the Model Code and the Code during the financial year of 2005.

THE BOARD

The Board is authorised by the shareholders of the Company in promoting the success of the Company by directing and supervising its affairs in an accountable, responsible and effective manner. Each director has a duty to act in good faith, in the best interests of the Company and properly complies with relevant ordinances, rules and regulations. The directors are aware of their collective and individual responsibilities to all shareholders of the Company for the manner in which the affairs of the Company are managed, controlled and operated to maximize the shareholders' investment return and the Company's long-terms value. Members of the Board should try their best to avoid actual or potential conflict of interests.

The types of decisions which are to be taken by the Board include those relating to:

- Directing the strategies of the Company;
- Setting up objectives of management;
- Monitoring the performance of management;
- Ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed;
- Reviewing and approving the Company's results and operations to be disclosed on a regular basis to the public; and
- Approving the Group's operating strategies, budget and strategies in collaboration with various jurisdictions enterprises, as well as other major investments, application of funds and other substantial exercises with other enterprises.



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During the financial year and at present, the Board comprises eight directors. Details of all directors, including the Chairman, Managing Director, Deputy Managing Directors, Independent Non-executive Directors are given on pages 6 to 7 of this annual report.

Details of directors' attendance at formal meetings (including the annual general meeting, board meetings and board committee meetings) and other informal meetings held in 2005 are set out in the following table:

Name of Director	Formal Meetings						Informal Meetings				Percentage of Average Attendance for an Individual		
	Date of Board Meetings		Date of Audit Committee Meetings			Date of Annual General Meeting	Number of Formal Meetings	Percentage of Formal Meetings Attendance	Date of Budget Meeting	Date of Business Meeting		Number of Informal Meetings	Percentage of Informal Meetings Attendance
	18/4/2005	14/9/2005	8/4/2005	22/4/2005	5/9/2005	13/6/2005			21/1/2005	15-16/7/2005			
Cao Zhong	Y	Y	N/A	N/A	N/A	Y	3	100	N	N/A	1	0	75
Li Shaofeng	Y	Y	N/A	N/A	N/A	Y	3	100	Y	N/A	1	100	100
Tong Yihui	N	Y	N/A	N/A	N/A	Y	3	67	Y	Y	2	100	80
Leung Shun Sang, Tony	Y	Y	N/A	N/A	N/A	Y	3	100	N/A	Y	1	100	100
Tang Cornor Kwok Kau	Y	Y	N/A	Y	Y	Y	5	100	Y	N/A	1	100	100
Yip Kin Man, Raymond	Y	Y	Y	Y	Y	Y	6	100	N/A	Y	1	100	100
Chen, Kelvin Siu Min (retired on 13/6/2005)	Y	N/A	Y ¹	N	N/A	N	4	50	N/A	N/A	N/A	N/A	50
Hui, Hung Stephen	Y	Y	Y	Y	Y	Y	6	100	N/A	Y	1	100	100
Law, Yui Lun (appointed on 18/4/2005)	N/A	Y	N/A	Y	Y	Y	4	100	N/A	Y	1	100	100
The average attendance rate of formal meetings, informal meetings for an individual during the financial year								91				78	89

Notes:

1. Mr. Chen, Kelvin Siu Min attended the meeting by way of telephone conference.
2. Mr. Chu, Kwok Tsu Gilbert was appointed as director of the Company on 30 September 2005 and had not attended any formal meeting or any other meeting during the year of 2005.

Y = Attend N = Not attend N/A = Not applicable



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CHAIRMAN AND MANAGING DIRECTOR

The positions and roles of the Chairman are separated from that of the Managing Director and have been clearly set out in writing. The Chairman, Mr. Cao Zhong, is responsible for formulating the overall strategies and policies of the Company. The Managing Director, Mr. Li Shaofeng, supported by the board committees and the senior management, is authorized by the Board to manage the day-to-day business operations of the Company in accordance with objectives and targets set by the Board and the Company's internal control policies and procedures.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed three independent non-executive directors (including one with appropriate professional qualifications, or accounting or related financial management expertise, details of their biography were set out in this annual report), which representing more than one-third of the Board). As such, we have of sufficient caliber and number for views to carry weight. However, they are not appointed for a specific term according to the Code Provision A.4.1 of the Stock Exchange Code ("Code Provision A.4.1"). They are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The reason for the deviation of Code Provision A.4.1 is because we believe that the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices. However, the Company shall take relevant measures towards compliance with this Code Provision, if appropriate.

The Company has received annual confirmation of independence from the three independent non-executive directors (the "INEDs") in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

BOARD COMMITTEES

Remuneration Committee

The Company established the Remuneration Committee on 4 April 2005. Members of such Committee comprise five directors with a majority of INEDs. They are:—

Leung Shun Sang, Tony (*Chairman*)

Cao Zhong (*Vice-Chairman*)

Yip Kin Man, Raymond (*INED*)

Law, Yui Lun (*INED*)

Chu, Kwok Tsu Gilbert (*INED*)



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and the terms of reference are summarized as follows:–

- i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- ii) to have the delegated responsibility to determine the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
- iii) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- iv) to review and approve the compensation payable to executive directors in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- v) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
- vi) to ensure that no director or any of his associates is involved in deciding his own remuneration;
- vii) to exercise such other powers, authorities and discretion, and perform such other duties, of the directors in relation to the remuneration as the Board may from time to time delegate to it, having regard to the Stock Exchange Code; and
- viii) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 13.68 of the Listing Rules amended from time to time.



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There was no Remuneration Committee Meeting held for the financial year ended 31 December 2005. The reason of such deviation is that there were changes in committee members during the financial year and the schedules for members were tight to have a meeting held in person. Further, there is no prominent or impending resolution in relation to the policy of remuneration of the Company needed to be discussed. However, the Remuneration Committee held a meeting on 3 March 2006. The Remuneration Committee Members decided to nominate an expert/consultant/adviser to review the existing policy for the remuneration of the directors and its composition and structure as well as the magnitude of the disclosure of the directors' remuneration in the annual report.

The information in respect of emolument policy of the Group is set out in the Report of the Directors.

Nomination Committee

The Company established the Nomination Committee on 4 April 2005. Members of such Committee comprise five directors with a majority of INEDs. They are:–

Cao Zhong (*Chairman*)
Leung Shun Sang, Tony (*Vice-Chairman*)
Yip Kin Man, Raymond (*INED*)
Law, Yui Lun (*INED*)
Chu, Kwok Tsu Gilbert (*INED*)

and the terms of reference are summarized as follows:–

- i) To review and monitor the structure, size and composition of the Board and make recommendations to the Board with particular regard to ensuring a substantial majority of the directors on the Board being independent of management;
- ii) To identify and or nominate and then select qualified individuals for appointment as additional directors other than the Chairman and Managing Director or Chief Executive Director or to fill Board vacancies as and when they arise. Such appointment is subject to the approval of the Board; and
- iii) The Committee shall make a statement or report to the Board after each meeting about its activities, the process used for appointments and explain if external advice has been used and disclose and publish in the annual report or other report as required subject to the Listing Rules amended from time to time.



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During the financial year ended 31 December 2005, Messrs. Law, Yui Lun and Chu, Kwok Tsu Gilbert were appointed as directors of the Company on 18 April 2005 and 30 September 2005 respectively. For the nomination procedures and criteria, the Nomination Committee had reviewed the profile of certain candidates and then conducted the interview with them. After careful consideration, the Nomination Committee would nominate the right candidate to the Board for further consideration of their appointment.

In the opinion of the Nomination Committee, as no impending actions should be taken to change the existing composition and structure of the Nomination Committee, there was no such kind of meeting being held during the financial year ended 31 December 2005. However, the Company shall try its best to hold at least a meeting for each financial year.

Audit Committee

The Company established the Audit Committee on 30 December 1998. At present, members of such Committee comprise three directors and all of them are INEDs.

They are:–

Yip Kin Man, Raymond (*Chairman*)

Law, Yui Lun

Chu, Kwok Tsu Gilbert

and the terms of reference are summarized as follows:–

Relationship with the Company's External Auditors

- i) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors;

Note: Rule 13.51(4) of the Listing Rules requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the Issuer.

- ii) to review and monitor the external auditors' independence and objectivity;
- iii) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;



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- iv) to develop and implement policy on the engagement of external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;
- v) to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of financial information of the Company

- vi) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports (if applicable), and to review any significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports (if applicable) before submission to the Board and the Audit Committee shall focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules and any other legal requirements in relation to financial reporting.



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- vii) In regard to (vi) above:-
 - (a) members of the Audit Committee must liaise with the Company's Board of Directors, senior management and the person appointed as the Company's qualified accountant;
 - (b) the Audit Committee must meet, at least once a year, with the Company's external auditors; and
 - (c) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer (if any) (or person occupying the same position), or external auditors.

Oversight of the Company's financial reporting system and internal control procedures

- viii) to review the Company's financial controls, internal control and risk management systems;
- ix) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- x) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- xi) to ensure co-ordination between the internal auditors (if any) and external auditors and to ensure that the internal audit function (if any) is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- xii) to review the Group's financial and accounting policies and practices;
- xiii) to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and the management's response;
- xiv) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- xv) to report on all of the above matters to the Board; and
- xvi) to consider any other matters specifically referred to the Audit Committee by the Board.



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The Audit Committee met three times during the year to discuss the following matters and the attendance record of individual committee members is set out in the table on page 23 of this report.

The Audit Committee met with the external auditors to discuss the half year and annual financial statements for the financial year of 2005. The external auditor also met the Audit Committee without executive director present save for the Financial Controller and the Company Secretary may attend to answer any query on the financial results. In addition, the external auditors were instructed by the Audit Committee to undertake a review of certain internal control systems of a major subsidiary of the Group during the financial year of 2005.

Besides, the Audit Committee Members had visited our plant in Jiaying PRC in July 2005 to have more understanding in the expansion plan of our core business segment.

The Audit Committee also discussed matters falling within its terms of reference with the external auditors in the presence of the Financial Controller and the Company Secretary from time to time as they requested. When there are uncertainties or ambiguities in interpretation of accounting standards in preparing the half year and annual accounts which might be likely to materially impact the financial position of the Group, the Company would prepare certain analysis explaining the scenario in relation thereto for the Audit Committee consideration and understanding. The Audit Committee has full access to, and the co-operation of, the Company's management in ensuring that it is satisfied with the Company's internal controls.

AUDITORS' REMUNERATION

During the year ended 31 December 2005, the fee paid/payable to the external auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

The fees charged by the external auditors of the Company, Deloitte Touche Tohmatsu for the year ended 31 December 2005 amounted to HK\$530,000 for audit services and HK\$265,000 for non-audit services comprising fees for review of interim financial statements.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourages their participation through annual general meetings or other general meetings.

Notices of the annual general meeting and related papers are sent to shareholders no less than 21 days before the meeting. For any other meetings, the relevant papers are sent to shareholders no less than 14 days before the meeting unless the business to be conducted at the meeting requires special notice.



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INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and research analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. Besides, the management of the Company regularly meets with shareholders, institutional investors and research analysts and makes presentations to them, so as to update them on the latest business development of the Group and answer their queries. The corresponding presentation is available upon request.

In order to further promote effective communication, the Company maintains a website (<http://www.shougangcentury.com.hk> or <http://www.irasia.com/listco/hk/sccentury/index.htm>) to disseminate the Company's information, financial reports, circulars and announcements electronically on a timely basis.

For the year ended 31 December 2005, the following shareholder meeting was held by the Company:—

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
13 June 2005	Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong	Annual General Meeting	<ol style="list-style-type: none"> To receive the report of the directors of the Company and the audited accounts of the Company for the year ended 31st December, 2004. To declare a final dividend for the year ended 31st December, 2004. To re-elect the retiring directors. To re-appoint Deloitte Touche Tohmatsu as auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorize the board of directors to fix their remuneration. To approve the general mandate to issue and dispose of additional shares not exceeding 20% of the issued share capital of the Company. To approve the general mandate to repurchase shares not exceeding 10% of the issued shares of the Company and allot additional shares. To amend the Articles of Association of the Company. 	By show of hands



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To align with changes of the Listing Rules, the Articles were amended accordingly and approved by shareholders at 2005 Annual General Meeting held on 13 June 2005. The relevant amendments of the changes of the Articles were stated on the circular to the shareholders dated 29 April 2005.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls in the Company. It delegated to the management the implementation of such system of internal controls and the review of relevant financial, operational and compliance controls and risk management procedures. We have implemented our internal management control system since 1999. We will review and improve the system from time to time, if appropriate.