



## Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 45 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### RESULTS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 123.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group, is set out below:

	<b>2005</b>	2004	2003	2002	2001
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)		
PROFIT FOR THE YEAR	<b><u>62,228</u></b>	<u>148,524</u>	<u>66,324</u>	<u>42,481</u>	<u>19,900</u>
TOTAL ASSETS	<b>967,215</b>	939,780	717,245	599,209	574,873
TOTAL LIABILITIES	<b>(273,462)</b>	(305,538)	(131,028)	(69,218)	(87,090)
MINORITY INTERESTS	<u>—</u>	<u>—</u>	<u>—</u>	<u>(86,502)</u>	<u>(95,011)</u>
	<b><u>693,753</u></b>	<u>634,242</u>	<u>586,217</u>	<u>443,489</u>	<u>392,772</u>

The figures for the financial years 2003 and 2004 have been adjusted to reflect the changes in accounting policies, as described in note 2 to the financial statements.



## Report of the Directors

### INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Particulars of the Group's investment properties as at 31 December 2005 are summarised on page 124 of this annual report.

Details of movements in the investment properties, property, plant and equipment of the Group during the year are set out in notes 14 and 15, respectively to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 35 to the financial statements. The Company introduced a share option scheme in 2002. Details of share options are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 42 to the financial statements.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 52 and 53 of this annual report and in note 36 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$4,274,000.



## Report of the Directors

### DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Cao Zhong (*Chairman*)

Li Shaofeng (*Managing Director*)

Tong Yihui (*Deputy Managing Director*)

Leung Shun Sang, Tony

Tang Cornor Kwok Kau (*Deputy Managing Director*)

Yip Kin Man, Raymond (*Independent Non-executive Director*)

Chen, Kelvin Siu Min (*Independent Non-executive Director*) (retired on 13 June 2005)

Hui, Hung Stephen (*Independent Non-executive Director*) (resigned on 30 September 2005)

Law, Yui Lun (*Independent Non-executive Director*) (appointed on 18 April 2005)

Chu, Kwok Tsu Gilbert (*Independent Non-executive Director*) (appointed on 30 September 2005)

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92 and 96 of the Company's articles of association. Messrs. Li Shaofeng, Tong Yihui, Yip Kin Man, Raymond and Chu, Kwok Tsu Gilbert will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and in note 42 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



## Report of the Directors

### APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent.

### SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 42 to the financial statements.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, save for the interest of the Directors in the shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the shares, underlying shares or debentures of the Company or any of their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

#### Long Positions in shares

##### (a) Ordinary shares of HK\$0.10 each of the Company

Name of Director	Total number of shares held	Approximate % with respect to total number of issued share capital as at 31 December 2005	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.24%	Beneficial owner (Note)

Note: Those shares were beneficially owned by Mr. Tang and in which of 200,000 shares were also jointly owned by his wife.



## Report of the Directors

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### (b) Share options

As at 31 December 2005, there were a total of 163,196,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

Name of director	Options to subscribe for shares of the Company							Capacity in which interests are held	Approximate % of the issued share capital as at 31 December 2005
	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise	Outstanding options at the end of the year	Date of grant (Note b)	Exercise period		
Cao Zhong	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	
	57,350,000 (Note a)	-	-	-	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780	
	65,002,000	-	-	-	65,002,000				Beneficial owner 6.34
Li Shaofeng	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	
	30,614,000 (Note a)	-	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365	
	38,266,000	-	-	-	38,266,000				Beneficial owner 3.73
Tong Yihui	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	
	38,268,000 (Note a)	-	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365	
	45,920,000	-	-	-	45,920,000				Beneficial owner 4.48
Leung Shun Sang, Tony	4,592,000	-	-	-	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	
	3,060,000	-	-	-	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325	
	4,592,000	-	-	-	4,592,000	25/8/2003	25/8/2003 to 24/8/2013	0.740	
	12,244,000	-	-	-	12,244,000				Beneficial owner 1.19
Mr. Tang	1,000,000	-	-	-	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740	Beneficial owner 0.10
Yip Kin Man, Raymond	382,000	-	-	-	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	
	382,000	-	-	-	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740	
	764,000	-	-	-	764,000				Beneficial owner 0.07
	<u>163,196,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,196,000</u>				



## Report of the Directors

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### (b) Share options (continued)

Other than the holdings and option holdings disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations at 31 December 2005.

Note:

- (a) Share options granted were in excess of the individual limit and the approval from shareholders of the Company was obtained in general meetings held on 25 June 2003 and 2 October 2003.
- (b) The vesting period of the share option is from the date of grant to the end of the exercise period.

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.



## Report of the Directors

### INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO

As at 31 December 2005, so far as was known to the Directors, the following parties had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

#### Long position in shares

Name of shareholder	Total number of shares/ underlying shares held	Approximate % with respect to total number of issued share capital as at 31 December 2005	Capacity
Richson Limited ("Richson")	148,537,939	14.48	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	27.94	Beneficial owner and deemed interest <sup>(1)</sup>
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	27.94	Deemed interest <sup>(2)</sup>
Able Legend Investments Limited ("Able Legend")	126,984,000	12.38	Beneficial owner <sup>(3)</sup>
Shougang Holding (Hong Kong) Limited ("Shougang HK")	431,961,179	42.10	Deemed interest <sup>(4)</sup>
Morgan Stanley	69,919,000	6.81	Interests of controlled corporations <sup>(5)</sup>
Cao Zhong	65,002,000	6.34	Beneficial owner <sup>(6)</sup>



## Report of the Directors

### INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

#### Long position in shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.
- (2) Shougang International is deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 15,016,000 shares held by Able Legend and Prime Success Investment Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 3,306,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the holding company of Shougang International.





## Report of the Directors

### INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

#### Long position in shares (continued)

Notes: (continued)

- (5) Morgan Stanley is interested in 69,919,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital as at 31 December 2005
			Direct interest	Deemed interest	
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	-	69,919,000	6.81
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	-	69,919,000	6.81
Morgan Stanley International Incorporated	Morgan Stanley	90	-	69,919,000	6.81
Morgan Stanley International Holdings Inc.	Morgan Stanley	80	-	69,919,000	6.81
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Holdings Inc.	90	-	69,919,000	6.81
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	-	69,919,000	6.81
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	Morgan Stanley Asia Regional (Holdings) III LLC	100	-	69,919,000	6.81
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	69,919,000	-	6.81

- (6) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.



## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group and Shougang HK and its subsidiaries and, Shougang International and its subsidiaries respectively are set out in note 44 to the financial statements.

### CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and the board of directors of the Company has 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 Code on Corporate Governance Practices – Appendix 14 of the Listing Rules. Further information on the Company's Corporate Governance Practices is set out in the Corporate Governance Report on pages 21 to 32 of this annual report.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

### DISCLOSURE PURSUANT TO RULES 13.13 AND 13.15 OF THE LISTING RULES

As at 31 December 2005, trade receivables (the "Trade Receivables") from a customer of the Group, Giti Tire (China) Investment Company Limited, a tire manufacturer in the PRC (the "Customer"), amounted to approximately HK\$42,543,000, which equals to approximately 11.1% of the market capitalization based on the average closing price of HK\$0.37 per share of the Company for the five business days immediately proceeding 31 December 2005 and the issued share capital of 1,026,066,556 shares.

The Trade Receivables arose from sales of steel cord products to the Customer, the ordinary course of business of the Group. The Customer is an independent third party not connected with the directors, chief executives and substantial shareholders of the Company or any of its subsidiaries or an associate of any of them. The Trade Receivables are unsecured and interest free and with payment terms of approximately 60 days.

### RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary course of business which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 44 to the financial statements.

Some of these transactions also constituted "Connected Transactions" under the Listing Rules, as identified below.



## Report of the Directors

### CONNECTED TRANSACTIONS

The Group has the following connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter Rules 14A, Rules 14A.32, 14A.45 to 14A.47 of the Listing Rules:

**(a) Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirements**

Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") and Meta International Limited ("Meta International"), both are engaged in processing and trading of copper and brass products, the wholly owned subsidiaries of the Company entered into between Santai Manufacturing Limited ("Santai"), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited which is defined as connected person pursuant to the Listing Rules whereby Santai purchased, and Hing Cheong and Meta International sold, copper sheets and brass sheets (the "Transactions"). The Transactions were entered into under the ordinary course of business basis. The Transactions constitute connected transaction for the Company and will extend over a period of time and will take place on continuing basis. The aggregate amount of the Transactions during the year was approximately HK\$4,154,000 which was fell within the proposed annual cap as disclosed in the published announcement of the Company dated 4 May 2004.

**(b) Tenancy Agreement**

A tenancy agreement dated 11 January 2005 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2005 to 31 December 2005 at a monthly rental of HK\$90,000, exclusive of rates and management fees. The details of this transaction was disclosed in the published announcement of the Company dated 12 January 2005.



## Report of the Directors

### CONNECTED TRANSACTIONS (continued)

**(c) Subsequent to the balance sheet date, the following transactions also constituted connected transactions to the Group:**

- i) A tenancy agreement dated 3 January 2006 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK\$108,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).
- ii) A tenancy agreement dated 3 January 2006 whereby a premise known as Flat 1612, Block Q, Kornhill, Hong On Street, Quarry Bay, Hong Kong with an aggregate gross floor area approximately 756 square feet was leased by Linksky Limited, an indirect wholly owned subsidiary of Shougang Grand which is an associate of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January to 2006 to 31 December 2006 at a monthly rental of HK\$10,800 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).
- iii) A tenancy agreement dated 3 January 2006 whereby a premise known as Flat 1906A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area approximately 508 square feet was leased by Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK\$8,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

The details of the above transactions are set out in the Company's announcement dated 3 January 2006.



## Report of the Directors

### EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition. The emoluments of the directors of the Company are decided by the Remuneration Committee having regard to individual's performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

The Company has adopted a share option scheme as an incentive to eligible participants (including directors of the Company), details of the scheme is set out in note 42 to the financial statements and the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 18 April 2006 prior to the issue of the annual report.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% (2004: 49%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 23% (2004: 15%).

Purchases from the Group's five largest suppliers accounted for approximately 40% (2004: 40%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17% (2004: 17%).

As far as the directors are aware, neither the directors, their associates, nor those shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.



## Report of the Directors

### AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution for reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

**Cao Zhong**

*Chairman*

Hong Kong, 20 April 2006