



Corporate Governance Report

The board of directors (the “Board”) of Shougang Concord Century Holdings Limited (the “Company”) is committed to practicing and achieving a high standard of corporate governance. The Board also recognizes that an effective internal control system is crucial to the long term development of the Company. In order to maintain a sound and effective internal control system, the Board periodically reviews the daily governance practices and procedures of the Company. As such, the Company has strictly complied with the relevant laws and regulations, and the rules and guidelines of regulatory bodies such as The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

CORPORATE GOVERNANCE PRACTICES

The Company has made detailed disclosures in relation to the accounting period covered in this annual report in compliance with the requirements of Corporate Governance Report set out in Appendix 23 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Also, the Company has applied and complied with all the principles and code provisions of the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006 except for the deviations from Code Provisions A.1.1, A.4.1 and C.2.1 of the Code with detailed explanation as below.

1. Code Provision A.1.1 – *The Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.*

During the accounting period covered in 2006, regular board meetings were held twice to consider, among other things, for reviewing and approving the interim and annual results of the Group, because certain executive directors had frequent business trips to explore further business development of the Group, including but not limited to subscription of new shares by NV Bekaert SA (the “Bekaert Subscription”), hence, no further regular board meeting was held during the financial year of 2006. However, the other Board members must be kept informed of any progress of any further business development and performance from time to time.

In order to comply with the above code provision, the Board will endeavour to hold at least four regular board meetings annually, at approximately quarterly intervals, in persons or through other means of electronic communication in accordance with the articles of association of the Company (the “Articles”).

2. Code Provision A.4.1 – *Non-executive directors should be appointed for a specific term and subject to re-election.*

All non-executive directors of the Company are not appointed for a specific term.

The considered reason for this deviation is stated hereunder the heading “NON-EXECUTIVE DIRECTORS”.

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3. Code Provision C.2.1 – *Directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries.*

The Company has implemented our internal management and control system since 1999 and also has reviewed and approved the system from time to time, if necessary. The approval and adoption of the Company's internal management and control manual (the "Internal Control Manual") has been passed by a written resolution of all directors during the financial year of 2006. In addition, the Board has endeavoured to improve the internal control system, in particular, on the greatest risk areas and therefore has engaged an external consultancy firm (the "External Consultancy Firm") rendering the internal audit services for hedging activities of metal prices, foreign exchange and interest rate in August 2006. Notwithstanding, the Board has not convened a regular meeting to review the effectiveness of the internal control system during the financial year of 2006.

In order to comply with the above code provision, the External Consultancy Firm has been engaged again to render internal audit services for the purpose of the advance improvement in good corporate governance, establishment of a good internal control environment, nurture of an ethical corporate culture, and development of mechanisms to help the Company to manage its business, risks and fulfill its obligations to its shareholders and stakeholders of the Group in 2007. The External Consultancy Firm will evaluate the internal control environment of the Company and focus attention on those areas that have greatest risks to the Company and need for strong internal controls to manage these risks. In addition, the Board plans to convene a relevant meeting once a year for conducting a review of the effectiveness of the internal control system.

DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Board has adopted a Model Code for Securities Transactions by Directors of Shougang Concord Century Holdings Limited (the "SCCHL Code") on terms no less exacting than the required standard of the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealing by all directors in the securities of the Company. In order to bring the SCCHL Code in line with the changes brought upon by the relevant amendments to law, rules and regulations, the Board has also adopted the revised SCCHL Code on 4 April 2005. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the SCCHL Code for the year ended 31 December 2006.



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THE BOARD

The Board is currently consists of nine members, including five executive directors (namely Messrs. Cao Zhong, Li Shaofeng, Tong Yihui, Tang Cornor Kwok Kau and Geert Johan Roelens), a non-executive director (namely Mr. Leung Shun Sang, Tony) and three independent non-executive directors (namely Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Chu, Kwok Tsu Gilbert). The directors' biographical details are set out on pages 5 to 7 under the heading "Biographical Details of Directors".

The major duties of the Board are set out below:

- Formulating the strategies, planning and development 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.

Each director owes a fiduciary duty towards the Company. He should act in good faith and in the best interests of both the Company and its shareholders as a whole. Also, the Board has three independent non-executive directors which represents one-third of the Board so that there is a strong element of independence in the Board. The independent non-executive directors are of sufficient caliber and number for their views to carry weight. Moreover, one of them has appropriate professional qualifications or accounting or related financial management expertise which has fully complied with Rules 3.10(1) and (2) of the Listing Rules.

The Company has received from each of independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Also, the Company considers all of independent non-executive directors are independent throughout the year under review. Furthermore, all independent non-executive directors should be re-elected at least every three years at annual general meeting and the reasons the Board believes that the individual to be independent are contained in the relevant circulars. In addition to the above, to the best knowledge of the directors, there is no financial, business, family or other material/relevant relationship among members of the Board and in particular, between the Chairman and the Managing Director.

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During the year under review, the Company held two board meetings and the details of directors' attendance at both formal meetings (including the board meetings, audit committee meetings, annual general meeting, extraordinary general meeting, the independent board committee meeting and remuneration committee meeting) and informal meeting are set out in the following table:

	Number of Meetings Attended and Held						
	Formal Meeting						Informal Meeting
	Board Meetings	Audit Committee Meetings	Annual General Meeting	Extraordinary General Meeting	Independent		Budget Meeting
Board Committee Meeting					Remuneration Committee Meeting		
Cao Zhong	2/2		1/1	1/1		1/1	
Li Shaofeng	2/2		1/1	1/1			1/1
Tong Yihui	2/2		1/1	1/1			1/1
Leung Shun Sang, Tony	2/2		1/1	0/1		1/1	
Tang Cornor Kwok Kau	2/2	2/2	1/1	1/1			1/1
Yip Kin Man, Raymond	2/2	5/5	1/1	1/1	1/1	1/1	
Law, Yui Lun	2/2	5/5	1/1	1/1	1/1	1/1	
Chu, Kwok Tsu Gilbert	1/2	5/5	1/1	1/1	1/1	1/1*1	

Notes:

- *1. Mr. Chu, Kwok Tsu Gilbert attended the meeting by way of telephone conference.
- 2. Mr. Geert Johan Roelens was appointed as director of the Company on 15 December 2006 and had not attended any formal meeting or informal meeting during the year of 2006.



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CHAIRMAN AND MANAGING DIRECTOR

The roles of the Chairman and Managing Director are segregated and performed by Mr. Cao Zhong and Mr. Li Shaofeng respectively. The Chairman, Mr. Cao Zhong, is responsible for formulating the overall strategies and policies of the Company, while the Managing Director, Mr. Li Shaofeng is authorized by the Board to manage the day-to-day business operations of the Company in accordance with the goals set by the Board and the internal control policies and procedures of the Company. He is also supported by the Board members and senior management.

NON-EXECUTIVE DIRECTORS

All directors of the Company (including non-executive directors and executive directors) are not appointed for a specific term as required under Code Provision A.4.1, but are subject to retirement by rotation at least every three years at annual general meeting in accordance with the Articles. Therefore, we believe that the requirement of retirement by rotation and re-election of non-executive directors have given the Company's shareholders the right to approve continuation of their offices. However, the Company shall take relevant measures towards compliance with this code provision.

BOARD COMMITTEES

The Board has established the Board Committees, namely Remuneration Committee, Nomination Committee and Audit Committee to manage particular aspects of the Company's affairs and to aid in sharing the responsibilities of the Board. Moreover, all the Board Committees have been formulated their specific written terms of reference in accordance with the requirements of the Code and need to report their decisions and recommendations to the Board, if necessary.

Remuneration Committee

The Remuneration Committee has been established on 4 April 2005 and it consists of five members with a majority of independent non-executive directors. They are:–

Mr. Leung Shun Sang, Tony (*Chairman*)

Mr. Cao Zhong (*Vice-Chairman*)

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

Mr. Law, Yui Lun (*Independent Non-executive Director*)

Mr. Chu, Kwok Tsu Gilbert (*Independent Non-executive Director*)

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and its 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.

During the year under review, a Remuneration Committee Meeting was held and the attendance record of the committee members is set out in the table on page 24 of this report.



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

Nomination Committee

The Nomination Committee has been established on 4 April 2005 and it consists of five members with a majority of independent non-executive directors. They are:–

Mr. Cao Zhong (*Chairman*)

Mr. Leung Shun Sang, Tony (*Vice-Chairman*)

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

Mr. Law, Yui Lun (*Independent Non-executive Director*)

Mr. Chu, Kwok Tsu Gilbert (*Independent Non-executive Director*)

and its 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 Officer 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.

During the year under review, in the opinion of the Nomination Committee, the existing composition and structure of the Nomination Committee are in place. As such, no physical Nomination Committee Meeting was held, but nomination of a new director was approved by a written resolution of all the committee members of the Nomination Committee. However, the Company shall endeavour to hold at least a meeting for each financial year, if necessary.

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Audit Committee

The Audit Committee has been established on 30 September 1998. At present, it consists of three members and all of them are independent non-executive directors. They are:–

Mr. Yip Kin Man, Raymond (*Chairman*)

Mr. Law, Yui Lun

Mr. Chu, Kwok Tsu Gilbert

and its 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;
- iv) to develop and implement policy on the engagement of external auditors to supply non-audit services. For this purpose, external auditors 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;



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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.
- 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.

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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 auditors' management letter, any material queries raised by the external auditors 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 auditors' 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.

During the year under review, five Audit Committee Meetings were held and the attendance record of the committee members is set out in the table on page 24 of this report.

The Audit Committee members had met with the external auditors to discuss the half year and annual financial statements for the financial year of 2006. The external auditors also had met the Audit Committee members without executive director present save for the Financial Controller and the Company Secretary, who may attend to answer any query regarding the financial results.



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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 that 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.

During the financial year of 2006, the Audit Committee has given many positive contributions, and independent and informed comments for the development of the Company's strategy and policies, including but not limited to their efforts on the corporate exercises of the Share Reform Plan, the Amended Share Reform Plan, the Bekaert Subscription and the Proposed Continuing Connected Transactions. In addition, the External Consultancy Firm was instructed by the Audit Committee to undertake a review for the hedging activities of metal prices, foreign exchange and interest rate of the Group. All of above are in the interests of the shareholders of the Company.

Auditors' Remuneration

During the year ended 31 December 2006, 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 2006 amounted to HK\$630,000 for audit services and HK\$245,000 for non-audit services comprising fees for review of interim financial statements.

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SHAREHOLDERS' RIGHTS

The Board recognizes its responsibility to ensure the interests of the shareholders, to communicate with shareholders and to enhance their value. In order to maintain ongoing dialogue with shareholders, the Company has particular opportunities of direct communication with shareholders at various annual general meetings and other general meetings where the shareholders are encouraged to actively participate in and vote for. Besides, at the 2006 annual general meeting, the Chairman of the Board and the Chairman of each of Remuneration Committee, Nomination Committee and Audit Committee were present to answer any shareholder's questions.

The procedures of annual general meeting are in line with the standard of the Code. Notice of annual general meeting and related papers (including circular together with proxy form) are despatched to all shareholders at least 21 days prior to the meeting. For any other general meeting, the related papers are sent to shareholders at least 14 days prior to the meeting unless the business to be conducted at the meeting requires special notice. Moreover, circular regarding granting of general mandates for the issuance and repurchases of shares and notice of the annual general meeting is set out the details of each proposed resolutions, voting procedures (including the procedures for demanding and conducting a poll) and other relevant information. The Chairman will explain the procedures for demanding and conducting a poll at the commencement of the meeting and there will be sufficient time for shareholders to raise their questions and opinions.

INVESTOR RELATIONS

The Company puts a high regard for the aspect of investor relations and it recognizes that investor relations can enhance its transparency, maximize its value and increase investors' understanding of and trust in the Company. Therefore, the management regularly meets with shareholders, potential and institutional investors and research analysts. The management also provides them with the information of the latest business development of the Group and answers their queries. The corresponding presentation material is available upon request.

In order to further promote a sound communication, the Company fully utilizes its website (<http://www.shougangcentury.com.hk>) as a mean to provide the latest and updated information in a timely manner and to strengthen the communication with both the shareholders and public. Also, the Company Secretarial Department will respond to the telephone enquiries and email correspondences from shareholders or investors in respect of various issues. Any opinions, view and suggestions of shareholders will be solicited and brought upon the Board and senior management for their attention, if necessary.



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For the year ended 31 December 2006, the following general meeting was held by the Company:–

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
26 May 2006	JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong	Annual General Meeting	<ol style="list-style-type: none"> 1. To receive the report of the directors of the Company and the audited financial statements of the Company for the year ended 31 December 2005. 2. To re-elect the retiring directors. 3. 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. 4. To approve the general mandate to issue and dispose of additional shares not exceeding 20% of the issued share capital of the Company. 5. To approve the general mandate to repurchase shares not exceeding 10% of the issued shares of the Company and allot additional shares. 	By show of hands
6 November 2006	Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong	Extraordinary General Meeting	To approve, confirm and ratify the Bekaert Subscription Agreement, the allotment and the issue of the Bekaert Subscription Shares to Bekaert and the Service Contract and the Supply Contract subject to the Service Fee Cap and the Sales Cap respectively in relation to the Continuing Connected Transactions	By way of poll

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INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system of the Company and also for reviewing and monitoring the internal operation of the Company. The Company has adopted the Internal Control Manual and implemented the internal control system since 1999. The internal control system covers all material functions, including financial, operational and compliance controls and risk management. In order to align with the changes of relevant laws, rules and regulations as well as the advance improvement of the internal control system, the Board will review and refine the system periodically, if necessary.

During the year under review, the adoption of the revised Internal Control Manual has been approved the Board. Moreover, the Board has endeavoured to improve the internal control system, in particular, on the greatest risk areas and therefore has engaged the External Consultancy Firm rendering the internal audit services for hedging activities of metal prices, foreign exchange and interest rate in August 2006. Notwithstanding, the Board has not convened a regular meeting to review the effectiveness of the internal control system during the financial year of 2006, hence it constituted a deviation from Code Provision C.2.1 of the Code. In order to comply with this code provision, the Company has taken a remedial step that it has engaged the External Consultancy Firm again to render internal audit services for reviewing the effectiveness of the internal control system in January 2007.