SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

Stock Code : 697

ANNUAL REPORT 2012

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Xu Ning *(Chairman)*
Li Shaofeng *(Managing Director)*
Zhang Wenhui *(Deputy Managing Director)*
Chen Zhouping *(Non-executive Director)*
Ip Tak Chuen, Edmond *(Non-executive Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Kan Lai Kuen, Alice
(Independent Non-executive Director)
Wong Kun Kim
(Independent Non-executive Director)
Leung Kai Cheung
(Independent Non-executive Director)

EXECUTIVE COMMITTEE

Li Shaofeng *(Chairman)*
Zhang Wenhui

AUDIT COMMITTEE

Kan Lai Kuen, Alice *(Chairman)*
Wong Kun Kim
Leung Kai Cheung

NOMINATION COMMITTEE

Xu Ning *(Chairman)*
Leung Shun Sang, Tony
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung

REMUNERATION COMMITTEE

Wong Kun Kim *(Chairman)*
Li Shaofeng
Leung Shun Sang, Tony
Kan Lai Kuen, Alice
Leung Kai Cheung

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

697

WEBSITE

www.shougang-intl.com.hk

DIRECTORS' BIOGRAPHIES

Mr. Xu Ning, aged 58, senior economist, graduated from the Party School of the Central Committee of the Communist Party of China. Mr. Xu was appointed a Non-executive Director and the Chairman of the Company in December 2012 and is the chairman of the Nomination Committee of the Company. He is also the chairman of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Xu joined Shougang Corporation, the ultimate holding company of Shougang Holding, in 1970 and is a director and the general manager of Shougang Corporation. Mr. Xu has extensive experience in management and operation of the steel industry.

An engagement letter was entered into with Mr. Xu for a term commencing on 21 December 2012 and expiring on 31 December 2013. Under the engagement letter, Mr. Xu is entitled to a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time. For the period from 21 December 2012 (the date of appointment of Mr. Xu as a Non-executive Director of the Company) to 31 December 2012, the director's fee of Mr. Xu is approximately HK$5,027 which was based on the director's fee of HK$170,000 for a full year and was paid in proportion to Mr. Xu's actual length of services. For the financial year ending 31 December 2013, the director's fee of Mr. Xu will be HK$170,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Xu. Such director's fees were determined with reference to Mr. Xu's experience and duties as well as the then prevailing market conditions.

Mr. Li Shaofeng, aged 46, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director and the Managing Director of the Company in May 2010 and is the chairman of the Executive Committee and a member of the Remuneration Committee of the Company. He joined Shougang Corporation in 1989 and is the vice chairman and managing director of Shougang Holding and a director of each of Grand Invest International Limited ("Grand Invest") and China Gate Investments Limited ("China Gate"). Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Li is the chairman of each of Shougang Fushan Resources Group Limited ("Shougang Resources"), Shougang Concord Technology Holdings Limited ("Shougang Technology"), Shougang Concord Grand (Group) Limited ("Shougang Grand"), Global Digital Creations Holdings Limited ("GDC") and Shougang Concord Century Holdings Limited ("Shougang Century"). He is also a non-executive director of Sinocop Resources (Holdings) Limited, a Hong Kong listed company. Mr. Li is a non-executive director of Mount Gibson Iron Limited ("Mount Gibson"), a company listed on the Australian Securities Exchange, and was an alternate director to Mr. Cao Zhong, an ex-director of Mount Gibson, from November 2011 to February 2012. Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Li is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Li's monthly salary is HK$350,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. Li's individual performance. Since January 2013, Mr. Li has voluntarily adjusted downward his monthly salary to HK$315,000.

DIRECTORS' BIOGRAPHIES

Mr. Zhang Wenhui, aged 57, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed an Executive Director and a Deputy Managing Director of the Company in September 2006 and is a member of the Executive Committee of the Company. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate. Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang is a non-executive director of Shougang Century. He was a non-executive director of Shougang Resources during the period from May 2010 to December 2012. Mr. Zhang joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. Mr. Zhang has extensive experience in management and company operations.

A service contract was entered into between Mr. Zhang and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Zhang is entitled to a monthly salary of HK$260,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Zhang's monthly salary is HK$260,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. Zhang's individual performance.

Mr. Chen Zhouping, aged 47, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed an Executive Director and a Deputy Managing Director of the Company in November 2002 and was re-designated as a Non-executive Director of the Company from 21 December 2012. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate. Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is the vice chairman and managing director of Shougang Resources. He is also a non-executive director of Mount Gibson. Mr. Chen has extensive experience in steel industry, engineering design, human resources and management.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company for his service as an Executive Director and the Deputy Managing Director of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Chen was entitled to a monthly salary of HK$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the period from 1 January 2012 to 20 December 2012, Mr. Chen's monthly salary was HK$250,000 which was paid in proportion to Mr. Chen's actual length of services as an Executive Director and the Deputy Managing Director of the Company during the period. Mr. Chen's service contract was terminated upon his re-designation as a Non-executive Director of the Company on 21 December 2012. After his re-designation, an engagement letter was entered into with Mr. Chen for his service as a Non-executive Director for a term commencing on 21 December 2012 and expiring on 31 December 2013. Under the engagement letter, Mr. Chen is entitled to a director's fee as may be determined by the Board from time to time. For the period from 21 December 2012 to 31 December 2012, the director's fee of Mr. Chen is approximately HK$4,435 which was based on the director's fee of HK$150,000 for a full year and was paid in proportion to Mr. Chen's actual length of services as a Non-executive Director of the Company during the period. For the financial year ending 31 December 2013, the director's fee of Mr. Chen will be HK$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chen. Such director's fees were determined with reference to Mr. Chen's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Ip Tak Chuen, Edmond, aged 60, holds a bachelor of arts degree in economics and a master of science degree in business administration. Mr. Ip was appointed a Non-executive Director of the Company in 1993. He is also a deputy managing director of Cheung Kong (Holdings) Limited, an executive director and deputy chairman of Cheung Kong Infrastructure Holdings Limited, the senior vice president and chief investment officer of CK Life Sciences Int'l., (Holdings) Inc. and a non-executive director of each of TOM Group Limited, ARA Asset Management Limited, AVIC International Holding (HK) Limited and Real Nutriceutical Group Limited. All the companies mentioned above are listed companies in Hong Kong or overseas. Mr. Ip is also a non-executive director of ARA Asset Management (Fortune) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on The Stock Exchange of Hong Kong Limited ("SEHK") and the Singapore Exchange Securities Trading Limited ("SGX-ST"). Mr. Ip is also a director of ARA Trust Management (Suntec) Limited, which manages Suntec Real Estate Investment Trust, a real estate investment trust listed on SGX-ST. Mr. Ip is also a non-executive director of Hui Xian Asset Management Limited, which manages Hui Xian Real Estate Investment Trust, a real estate investment trust listed on SEHK. He is also a director of a substantial shareholder of the Company within the meaning of Part XV of the SFO. He also holds directorships in certain companies controlled by a substantial shareholder of the Company.

An engagement letter was entered into with Mr. Ip for a term of three years commencing on 1 January 2011. Under the engagement letter, Mr. Ip is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the shareholders of the Company. For the financial year ended 31 December 2012, the director's fee of Mr. Ip is HK$150,000. For the financial year ending 31 December 2013, the director's fee of Mr. Ip will be HK$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Ip. Such director's fees were determined with reference to Mr. Ip's experience and duties as well as the then prevailing market conditions.

Mr. Leung Shun Sang, Tony, aged 70, holds a bachelor degree of commerce from the Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in November 1992 and is a member of each of the Remuneration Committee and the Nomination Committee of the Company. He is also a non-executive director of each of Shougang Resources, Shougang Century, Shougang Technology, Shougang Grand and GDC. Mr. Leung had worked in Citibank N. A. and W. I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2011. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Leung is HK$230,000. For the financial year ending 31 December 2013, the director's fee of Mr. Leung will be HK$230,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Ms. Kan Lai Kuen, Alice, aged 58, is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of The Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Hong Kong Institute of Directors. Ms. Kan was appointed an Independent Non-executive Director of the Company in September 2004 and is the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. She was also an independent non-executive director of Shougang Technology from September 2004 to June 2010. Ms. Kan held various senior positions in international and local banks and financial institutions and is currently a controlling shareholder and the managing director of each of Asia Investment Management Limited and Asia Investment Research Limited, both companies are licensed corporations under the SFO. Ms. Kan is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. She is also an independent non-executive director of each of Regal Hotels International Holdings Limited, Shimao Property Holdings Limited and China Energine International (Holdings) Limited, all of which are listed companies in Hong Kong. Ms. Kan is an independent director of AVIC International Investments Limited, a company listed on the SGX-ST. She was an independent non-executive director of G-Vision International (Holdings) Limited from September 2004 to August 2011, an independent non-executive director of Sunac China Holdings Limited from August 2009 to June 2011 and an independent non-executive director of Sunway International Holdings Limited from March 2006 to February 2013. Ms. Kan has over 15 years of experience in corporate finance and is well experienced in both the equity and debt markets.

An engagement letter was entered into with Ms. Kan for a term of three years commencing on 1 January 2011. Under the engagement letter, Ms. Kan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Ms. Kan is HK$330,000. For the financial year ending 31 December 2013, the director's fee of Ms. Kan will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Ms. Kan. Such director's fees were determined with reference to Ms. Kan's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Wong Kun Kim, aged 68, holds a bachelor degree in economics, a master degree in business administration and a doctorate of philosophy. He is a member of the Chartered Institute of Marketing and Chartered Management Institute. Mr. Wong was appointed an Independent Non-executive Director of the Company in September 2004 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Wong is licensed as a responsible officer of each of Asia Investment Management Limited and Asia Investment Research Limited under the SFO. He has over 35 years of experience working as senior executives for various multinational corporations engaged in trading, manufacturing, finance and real estates. Mr. Wong had served as consultants and directors for different listed companies in Mainland China, Hong Kong, Taiwan and United States of America and was an independent non-executive director of Sunway International Holdings Limited from September 2002 to February 2013.

An engagement letter was entered into with Mr. Wong for a term of three years commencing on 1 January 2011. Under the engagement letter, Mr. Wong is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Wong is HK$330,000. For the financial year ending 31 December 2013, the director's fee of Mr. Wong will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wong. Such director's fees were determined with reference to Mr. Wong's experience and duties as well as the then prevailing market conditions.

Mr. Leung Kai Cheung, aged 67, graduated from the Chinese University of Hong Kong with a bachelor degree in business. Mr. Leung was appointed an Independent Non-executive Director of the Company in June 2006 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Leung had been a senior executive of Citibank, N.A. and the general manager of Barclays Bank PLC in charge of Kowloon and New Territories districts. He is currently the chairman of Star International Enterprises Limited. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2011. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Leung is HK$330,000. For the financial year ending 31 December 2013, the director's fee of Mr. Leung will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE

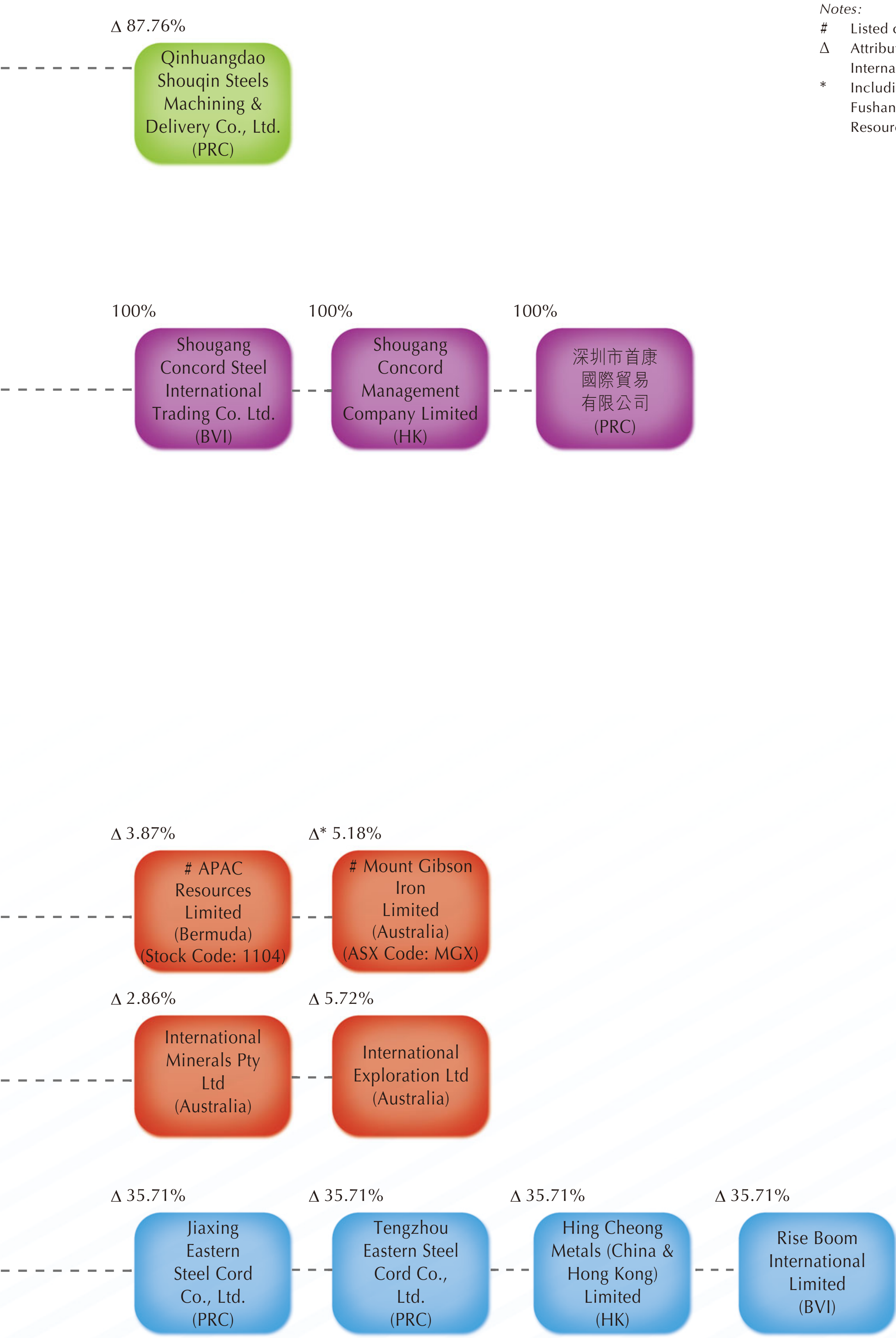
As at 31 December 2012

MAIN OPERATIONAL STRUCTURE

As at 31 December 2012

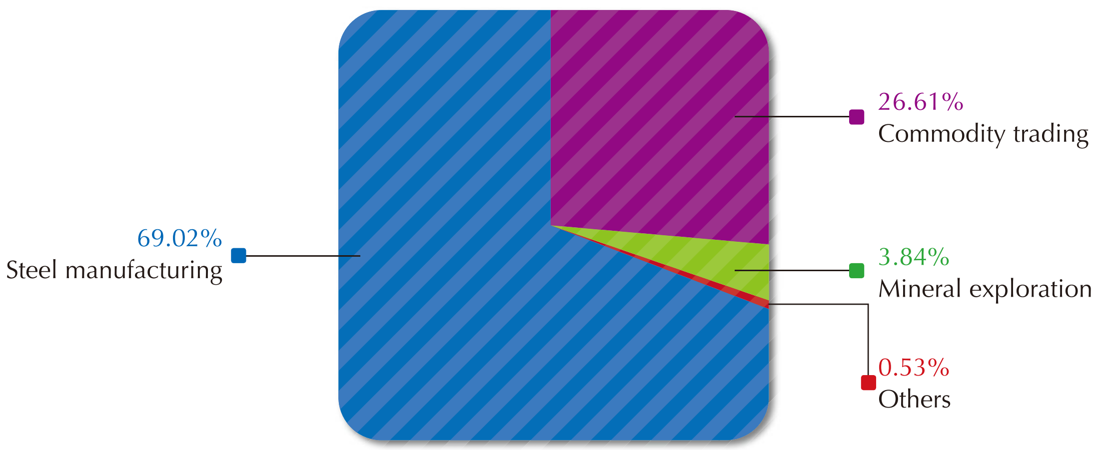
Notes:

#	Listed company
Δ	Attributable interest held by Shougang Concord International Enterprises Company Limited
*	Including the interests held through Shougang Fushan Resources Group Limited and APAC Resources Limited

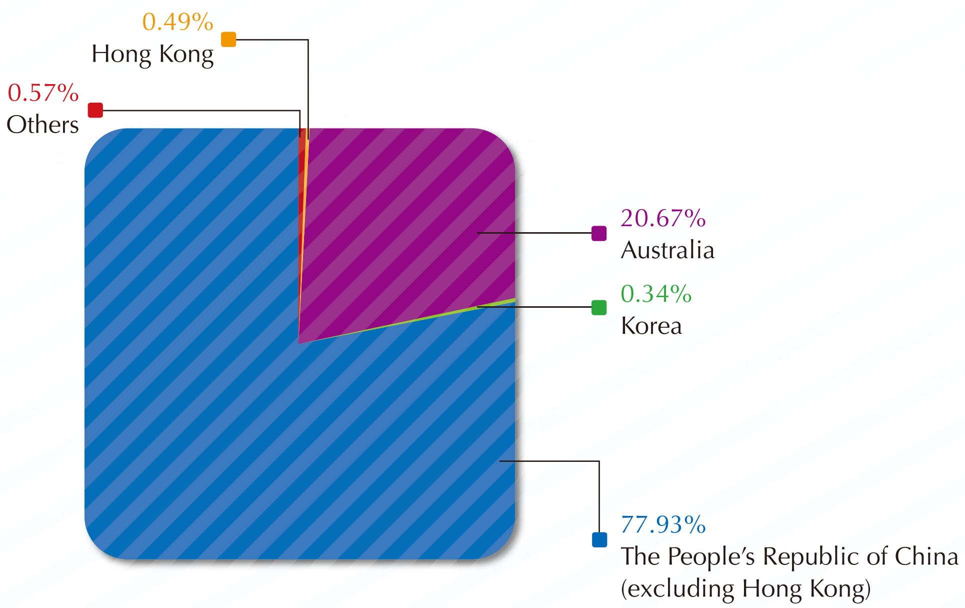


FINANCIAL HIGHLIGHTS

TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2012



TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2012

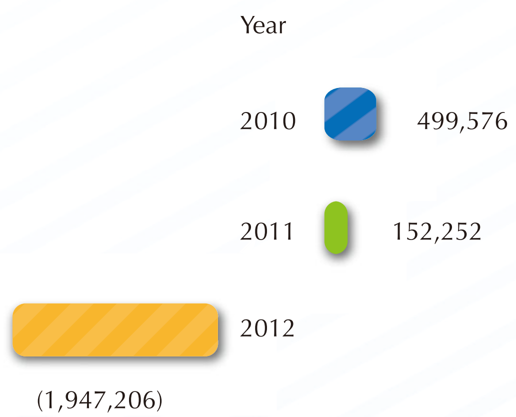


FINANCIAL HIGHLIGHTS

TURNOVER (in HK$'000)

TOTAL ASSETS (in HK$'000)

PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY (in HK$'000)



CHAIRMAN'S STATEMENT

2012 was an extremely difficult year for the steel industry which was overshadowed by unstable world economy, European debt crisis and weak U.S. economy; at the same time, the slowing down in economic growth of China, excess production capacity of the steel industry, lack of demand, the cost of raw materials and production escalated but the steel price dropped significantly; as a result, the whole industry was generally in a state of heavy deficit.

In the past few years, we endeavoured to explore and expand the upstream business and invested heavily in coking coal and iron ore which formed an important part of the long term strategy of the Company. Shougang Fushan (a hard coking coal producer) continued to contribute substantially to the Group. The Company's vertical integration strategy embracing upstream, midstream and downstream; linking and integrating the complete value chain; thus endowed the Company with a dominating competitive edge over its competitors.

The Government included the steel industry as one of the core industries that needed to accelerate corporate merging and restructuring; this was beneficial to the consolidation of the industry, enhancing its core competitiveness and was therefore advantageous to the future development of the Group's business. The steel industry is a cyclical business; with the improvement in economic situation, industry consolidation, and the colossal support from Shougang Corporation, we are very optimistic of the future of the Company.

For the year ended 31 December 2012, the consolidated turnover was HK$16.2 billion, while the loss attributable to shareholders was HK$1,947 million, the board does not recommend payment of a final dividend.

Xu Ning
Chairman

27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

We are a flagship listed vehicle of Shougang Corporation in Hong Kong. After the expiry of the lease contracts of two vessels, our operations are now mainly segregated into three segments, namely, steel manufacturing, mineral exploration and commodity trading. Our principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei, PRC. We hold approximately 27.6% (31 December 2011: 27.2%) equity stake of Shougang Fushan Resources Group Limited ("Fushan"), a Hong Kong-listed hard coking coal producer in China. We have long-term iron ore offtake agreements with Australia-listed iron ore producer Mount Gibson Iron Limited ("Mt. Gibson") to enhance our investment in upstream supply chain. In addition, we own a deep processing centre on steel products to extend our operation to the downstream value chain. Such vertical integration strategy is advantageous in enhancing the heavy plate manufacturing operation of the Group.

PERFORMANCE REVIEW

The Group's core business in steel manufacturing was significantly affected by the weak selling price and high raw material and production cost in 2012. In addition, the excessive production and imbalance between supply and demand further led to the weak situation. These factors are prevalent and common to the steel industry right now. Iron ore comprise our most significant production cost. The fluctuation of Iron ore price also had a great impact on our operating results. Profit from Fushan, an associate in coking coal mining showed a decline as well.

For the year of 2012, net loss attributable to shareholders of the group amounted to HK$1,947 million[1], comparing to attributable profit of HK$152 million[1] in last year, including share of loss in steel manufacturing segment at HK$1,648 million, comparing to loss of HK$617 million in last year. The Group recorded a consolidated turnover of HK$16,292 million[1] in this year, representing a drop of 24% comparing to that of last year. Basic loss per share was HK21.8 cents.

FINANCIAL REVIEW

Year ended 31 December 2012 compared to the year ended 31 December 2011

Turnover and Cost of Sales

The Group recorded consolidated turnover of HK$16,292 million[1] for the year, lower by about 24% when comparing to that of last year. Lower turnover mainly comes from drop in average selling price and sales volume in the steel manufacturing segment.

Cost of sales for the year was HK$17,632 million[1], comparing to HK$21,225 million[1] in last year, a drop of 17%.

Note 1: These amounts included turnover, cost of sale and loss attributable to shareholders contributed by discontinued operations.

FINANCIAL REVIEW (continued)

EBITDA and Core Operating Loss

For the year under review, loss before interest, tax, depreciation and amortization of the Group reached HK$323 million, comparing to earnings before interest, tax, depreciation and amortization ("EBITDA") HK$1,599 million in last year.

Loss after tax included significant non-cash and/or non-recurring charges and are reconciled below:

In HK$ million	For the year ended 31 December **2012**	2011
(Loss)/profit attributable to shareholders of the Group	**(1,947)**	152
Adjusted by:		
Fair value loss/(gain) on iron ore offtake contract with Mt. Gibson, net	**60**	(324)
Impairment in fixed assets	**184**	–
Impairment in mining assets	**57**	–
Fair value gain on acquisition of Fushan	**–**	(108)
Gain on deemed increase in interest of Fushan	**(18)**	–
Impairment in available for sale investment	**–**	53
Goodwill impairment	**146**	22
Employee share option expenses	**3**	19
Core operating loss	**(1,515)**	(186)

Finance costs

For the year under review, finance costs amounted to HK$794 million, 40% higher than that of last year. The Group maintains a higher leverage currently to take advantage of the low interest environment.

Share of results of associates

In the year under review, we have recognized profit of HK$469 million from Fushan and loss of HK$107 million from Shougang Concord Century Holdings Limited ("Shougang Century").

Taxation

In the year under review, it was HK$2 million in net tax credit, comparing to HK$48 million in expenses in last year.

REVIEW OF OPERATIONS

Summary net profit/(loss) contribution to the group by operation/entity:

HK$'000 Operation/Entity	**Attributable interest**	**For the year ended 31 December 2012**	2011
1. Steel manufacturing			
Shouqin	76%	**(1,489,758)**	(560,172)
Qinhuangdao Plate Mill	100%	**(157,873)**	(56,645)
Sub-total		**(1,647,631)**	(616,817)
2. Mineral exploration			
Fushan	27.6%	**468,924**	553,679
Gain on deemed increase in interests of Fushan	–	**17,564**	–
Fair value adjustment on acquisition of additional interest of Fushan	–	**–**	108,142
Shouqin Longhui	67.8%	**(312,311)**	(32,134)
Sub-total		**174,177**	629,687
3. Commodity trading			
Trading Group	100%	**(41,118)**	79,555
4. Others			
Shougang Century	35.7%	**(106,515)**	1,161
Fair value (loss)/gain on Mt. Gibson offtake contract, net	100%	**(59,724)**	323,703
Impairment on available for sale investment	–	**–**	(53,425)
Goodwill impairment	–	**(146,015)**	(22,000)
Corporate and others	100%	**(90,801)**	(93,172)
Sub-total		**(403,055)**	156,267
Total – continuing operations business		**(1,917,627)**	248,692
Discontinued operations business – Shipping operations			
Shougang Shipping Group	100%	**(29,579)**	(96,440)
Total		**(1,947,206)**	152,252

REVIEW OF OPERATIONS (continued)

Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") and Qinhuangdao Shougang Plate Mill Co., Ltd ("Qinhuangdao Plate Mill'). The steel industry currently faces a dire operating environment which is a transitional conundrum. This core segment recorded net loss of HK$1,648 million during the year, while that of last year was net loss HK$617 million. Summary of production and sales quantities of the two manufacturing plants in the current and last year under this segment is as follows:

In '000 mt.

For the year ended 31 December	**Slabs**		**Heavy Plates**	
	2012	2011	**2012**	2011
(i) **Production**				
Shouqin	**2,473**	2,553	**1,623**	1,759
Qinhuangdao Plate Mill	**–**	–	**585**	609
Total	**2,473**	2,553	**2,208**	2,368
Change		-3%		-7%
(ii) **Sales**				
Shouqin#	**701**	571	**1,619**	1,753
Qinhuangdao Plate Mill	**–**	–	**547**	566
Total	**701**	571	**2,166**	2,319
Change		+23%		-7%

Difference between production and sales of slabs is mainly represented by those consumed by Shouqin internally to produce heavy plates; slab sales are mainly made towards Qinhuangdao Plate Mill and are eliminated on consolidation

REVIEW OF OPERATIONS (continued)

Steel Manufacturing (continued)

Shouqin

The Group holds an effective interest of 76% in Shouqin (52% held by the Group directly and 24% through Qinhuangdao Plate Mill), the remaining 20% and 4% were held by Hyundai Heavy Industries Limited and Shougang Corporation respectively.

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production, it has formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, electrical and ultra-thick plates are among the most advanced in the PRC, its annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current year, Shouqin reported a turnover of HK$10,599 million before elimination, recording a 16% drop on the comparative year. Reasons for such change are two-fold:

(i) Average selling price (net of VAT) of heavy plates was HK$5,016 (RMB4,078) per tonne, about 17% lower than that of the last year and sales volume of heavy plates decreased;

(ii) Average selling price (net of VAT) of slab was HK$3,672 (RMB2,985) per tonne, about 23% lower than that of the last year.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. This entity recorded HK$291 million in turnover, 58% lower than that of last year, and resulted in attributable loss of HK$52 million in this year.

For the year ended 31 December 2012, Shouqin recorded a gross loss of HK$1,003 million, comparing to gross loss of HK$18 million in last year, and thus contributed a net loss of HK$1,490 million to the Group.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK$2,898 million before elimination for the year ended 31 December 2012, a drop of 24% comparing with that of last year. Lower sales volume and selling price from the weak market, average selling price (net of VAT) was HK$4,397 (RMB3,575) per tonne, about 22% lower than that of last year. As a result, the Group's share of loss of Qinhuangdao Plate Mill was HK$158 million, comparing to loss of HK$57 million last year.

REVIEW OF OPERATIONS (continued)

Mineral exploration

Production and sale of coking coal

Fushan is a 27.6% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover for the current year was HK$5,651 million; net profit attributable to shareholders was HK$1,800 million, a drop of 21% and 20% respectively over that of last year. Profit attributable to the Group was HK$469 million in this year.

Market demand towards quality coking coal remains strong, with continuing supply and demand gap. New and sizeable blast furnaces of steel mills have higher stringent requirements for coking coal quality. We are confident towards its future operations, expecting this upstream business to provide a sustainable profit base for the Group.

Production of iron ore products

The Group holds an effective 68% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd ("Shouqin Longhui") which is situated in Qinglong County, Qinhuangdao City, Hebei, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities.

During the year under review, Shouqin Longhui's production was lower by improvement initiatives towards environmental requirements, thereby affecting its output. It sold approximately 1,100,000 tonnes pellets, down by 32% comparing with that of last year, while average selling price has decreased by 18% to HK$1,325 (RMB 1,077) per tonne. It recorded a turnover HK$1,543 million for the year. During the year, the Group has made impairment for the mining assets and fixed assets of mineral exploration segment in the amount of HK$57 million and HK$180 million respectively. Together with the operating loss, the loss of Shouqin Longhui attributable to the group was about HK$312 million, comparing to an attributable loss of HK$32 million in last year.

REVIEW OF OPERATIONS (continued)

Commodity trading ("Trading")

Our Trading operations are jointly conducted by SCIT Trading Limited and Shougang Concord Steel Holdings Limited and its subsidiaries ("The Trading group"), both of which are wholly owned by the Group. The Trading Group reported a turnover of HK$4,336 million in the year ended 31 December 2012, lower by 21% comparing to last year. It sold approximately 3.40 million tonnes of iron ore, which was higher than the 2.90 million sold in last year, through long term offtake arrangements with Mt Gibson starting from mid of 2009. Selling price was lower by 24% and profit was hit by offering concessions due to a deteriorated market. The resulting net loss was HK$41 million in the current year, comparing to a gain of HK$80 million in last year. The Trading Group has since this year strengthened its business development in the Mainland; results from this operation are expected to be more favorable in the foreseeable future.

Other business

Manufacture of steel cord for radial tyres; processing and trading of copper and brass products

Shougang Century, a 35.7% associate of the Group. The Group's share of its net loss was HK$107 million, comparing to share of profit of HK$1 million in last year.

The severe competition has driven lower profitability, resulting in a transitional conundrum of steel cord industry.

Discontinued operation business – Shipping

This operating segment was discontinued following the expiry of the lease contracts of two vessels. This segment loss was HK$30 million and HK$96 million in 2012 and 2011 respectively.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

We aim to diversify our funding sources through utilization of both banking and capital markets. To the extent possible, financing is arranged to match business characteristics and cash flows.

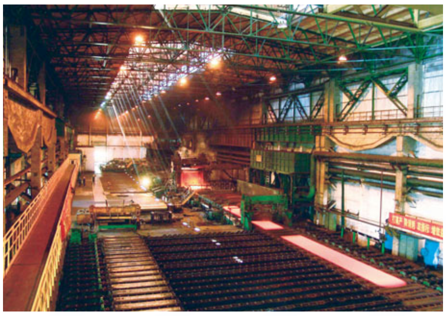
1. Leverage

The financial leverage of the Group as at 31 December 2012 as compared to 31 December 2011 is summarized below:

HK$ million	**31 December 2012**	31 December 2011
Total Debt		
– from banks	**10,743**	12,350
– from parent company	**869**	1,010
Sub-total	**11,612**	13,360
Cash and bank deposits	**2,435**	2,940
Net debt	**9,177**	10,420
Total capital (Equity and debt)	**19,705**	23,508
Financial leverage		
– Net debt to total capital	**46.6%**	44.3%
– Net debt to total assets	**31.2%**	31.0%

2. Currency and Interest Rate Risk

The Company manages its financial risks in accordance with guidelines laid down by its Board of Directors. The treasury policy aims to manage the Group currency, interest rate and counterparty risks. Derivatives are only used primarily for managing such risks but not for speculative purposes. We also target to ensure that adequate financial resources are available for business growth.



The Group conducts its businesses mainly in Hong Kong and Mainland China, it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non-Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the year ended 31 December 2012, approximately 78% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements. The Group also enters into certain interest rate swaps to mitigate interest rate risks. Notional amounts of such derivative instruments amounted to HK$195 million.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)

3. Financing activities

The Company has concluded two new bank financings during the year, totaling HK$538 million (US$69 million), of tenors between 30 to 36 months.

There are various financial covenants under the existing bank loan agreements entered into by the Company. The Company has been from time to time monitoring the compliance with such financial covenants. In the event the Company foresees the possibility that the Company may not be able to attain any required financial indicators for any relevant period, the Company will take pre-caution measures to obtain consents from the relevant banks either to waive compliance with relevant financial covenants for the relevant period or to revise the relevant financial covenants, as the case may be.

MATERIAL ACQUISITIONS & DISPOSALS

There were no material acquisitions and disposals during the year.

CAPITAL STRUCTURE

The Company did not issue any new shares during the year.

The issued share capital of the Company was HK$1,791 million (represented by 8,953 million ordinary shares).

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,600 employees as at 31 December 2012.

The remuneration policies of the Group are to ensure fairness and competitiveness of total remuneration in order to motivate and retain current employees as well as to attract potential ones. Remuneration packages are carefully structured to take into account local practices under various geographical locations in which the Group operates.

The remuneration packages of employees in Hong Kong include salary, discretionary bonuses, medical subsidies and a hospitalization scheme. All of the subsidiaries of the Group in Hong Kong provide pension schemes to the employees. The remuneration packages of employees in the PRC include salary, discretionary bonuses, medical subsidies and a welfare fund contribution as part of their staff benefits.

PROSPECTS

The steel industry had gone through an extremely difficult year in 2012 and experienced the toughest challenge due to severe market environment. Excessive production capacity as well as supply greater than demand remained the key problems of the industry. In addition, amid keen competition of the steel industry, and the escalating cost of raw material and production, steel prices continued to drop; as a result, the industry was generally in a state of deficit.

We will continue to strengthen cost control; our goal is to achieve economic steelmaking, and to optimize our product mix in order to improve our competitiveness in the market. We have tried to enhance the extent of efficiency, aggressively promote the policy of "structure optimization, lower cost, expenses control, focus on management and increase in efficiency". The long term strategy of the Company is to become a fully vertical integrated steel enterprise with different upstream, mid-stream and downstream activities so as to ensure sufficient and stable supply in the upstream in order to help sale to the customers in the downstream. For the past few years, we have invested heavily in the upstream companies, including the hard coking coal and iron ore. Through these investments, part of the pressure on raw material costs has been released. The Company will continue to seek opportunity to expand further our fully vertical integrated model.

Looking into 2013, the world economy is still full of uncertainties. However, the steel industry is one of the important industries in PRC; although the industry is now experiencing the phrasal difficulties, however, as long as the economic environment improves and our strategies are also in line with PRC's urbanization and stabilization of growth policy, more infrastructure projects are expected and the demand for steel will increase. With the support of the parent company, Shougang Corporation, we are still full of confident with the steel industry.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "Former Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") was revised to, and renamed as, Corporate Governance Code (the "Revised Code") from 1 April 2012 (collectively, the "CG Code"). The Company has complied with the code provisions of the Former Code during the period from 1 January 2012 to 31 March 2012 and the Revised Code during the period from 1 April 2012 to 31 December 2012, except for the following deviations:

– Under the code provision A.2.7 of the Revised Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

  During the year, the Non-executive Directors and the Independent Non-executive Directors may communicate with the Chairman directly at any time to voice their opinion and share their views on the Company's affairs despite that the Chairman has not held a meeting with the Non-executive Directors and the Independent Non-executive Directors without the Executive Directors present on the grounds of his absence from Hong Kong. The Company considers that there are sufficient channels for discussion of the Company's affairs between the Chairman and the Non-executive Directors (including the Independent Non-executive Directors) in the absence of management.

– Under the second part of code provision A.6.7 of the Revised Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

  Three Non-executive Directors of the Company did not attend the annual general meeting of the Company held on 25 May 2012 (the "2012 AGM") due to their other business engagements. The Company considers that the Non-executive Director and the Independent Non-executive Directors in attendance at the 2012 AGM were already of sufficient number and calibre of forming a balanced understanding of the views of the shareholders of the Company. Details of the Directors' attendances at the 2012 AGM are set out on page 40 of this report.

CORPORATE GOVERNANCE PRACTICES (continued)

– Under the first part of code provision E.1.2 of the Revised Code, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

  The Chairman of the Board, who was also the chairman of the Nomination Committee of the Company, did not attend the 2012 AGM as he had another business engagement. The Managing Director of the Company, who took the chair of the 2012 AGM, and other members of the Board together with the chairmen of the Audit and Remuneration Committees and all other members of each of the Audit, Remuneration and Nomination Committees attended the 2012 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2012 AGM were already of sufficient calibre and number for answering questions at the 2012 AGM.

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of nine Directors, being two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

Following the resignation of a Non-executive Director of the Company on 21 December 2012, the Company can comply with the new requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the board.

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' Biographies" of this annual report.

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

The Board members have no financial, business, family or other material/relevant relationships with each other.

BOARD OF DIRECTORS (continued)

Composition (continued)

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of 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.

BOARD OF DIRECTORS (continued)

Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14-day 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 a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon request, provide separate independent professional advice to Directors to assist them perform their duties to the Company.

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

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, the matter will be dealt with by a physical Board meeting, rather than a written resolution.

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration must abstain from voting on the relevant resolution and such Director shall not be counted for quorum.

BOARD OF DIRECTORS (continued)

Attendance records

During the financial year ended 31 December 2012, the Directors have made active contribution to the affairs of the Group and four physical Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of the Directors' attendances in 2012 are as follows:

	Number of meeting(s) attended/eligible to attend
Executive Directors	
Li Shaofeng	4/4
Zhang Wenhui	4/4
Non-executive Directors	
Xu Ning *(Chairman) (appointed on 21 December 2012)*	0/0
Chen Zhouping *(re-designated from an Executive Director to a Non-executive Director on 21 December 2012)*	4/4
Ip Tak Chuen, Edmond	3/4
Leung Shun Sang, Tony	4/4
Wang Qinghai *(resigned on 21 December 2012)*	0/4
Cao Zhong *(resigned on 21 December 2012)*	4/4
Independent Non-executive Directors	
Kan Lai Kuen, Alice	4/4
Wong Kun Kim	4/4
Leung Kai Cheung	4/4

Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. 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.

BOARD OF DIRECTORS (continued)

Appointment and re-election of Directors

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, nomination and retirement of Directors.

According to the Articles, 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 general meeting. Every Director is subject to retirement by rotation at least once every three years.

All Directors (including all Non-executive Directors) have entered into service contracts or letters of engagement with the Company for a term of not more than three years.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents one-third of the Board.

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.

Any re-election of an independent non-executive director who has served the board for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

Directors' and officers' liability

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.

BOARD OF DIRECTORS (continued)

Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors.

In December 2012, the Company organized, at the cost of the Company, an in-house training session for the Directors on the following topics:

- disclosure obligations of listed corporations regarding insider information; and

- update on directors' roles and responsibilities in relation to the Revised Code and the Listing Rules.

All Directors have provided to the Company their records of training received during the period from 1 April 2012 (being the date of the Revised Code became effective) to 31 December 2012, a summary of which is as follows:

	Continuous professional development	
Directors	**Type** (Note I)	**Subject** (Note II)
Xu Ning	B	1
Li Shaofeng	A, B	1
Zhang Wenhui	A, B	1
Chen Zhouping	A, B	1
Ip Tak Chuen, Edmond	A, B	1
Leung Shun Sang, Tony	A, B	1
Kan Lai Kuen, Alice	A, B	1
Wong Kun Kim	A	1, 2, 3
	B	1
Leung Kai Cheung	A, B	1
Wang Qinghai	B	1
Cao Zhong	A, B	1

Note I:
A: Attending seminars, conferences, forums, in-house briefings or in-house training
B: Reading newspapers, journals and updates

Note II:
1: Laws, rules and regulations
2: Finance, Accounting or Taxation
3: Businesses relating to the Company

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Xu Ning is the Chairman and Mr. Li Shaofeng serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibility. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

In performing the role of Chairman, Mr. Xu Ning's responsibilities include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;

- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;

- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;

- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and

- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

BOARD COMMITTEES

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

An Executive Committee of the Board was established in February 2005 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- to review and monitor the training and continuous professional development of Directors and senior management;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;

- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

Executive Committee (continued)

During the year, thirty four physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties. The attendances of the members of the Executive Committee at that meeting are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Li Shaofeng *(chairman of the committee)*	1/1
Zhang Wenhui	1/1
Chen Zhouping *(ceased to act as a member from 21 December 2012)*	1/1

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included, amongst other things, the following:

- reviewing the Company's policies and practices on corporate governance and making recommendations to the Board to adopt the procedures for directors to seek independent professional advice; and
- reviewing the Company's compliance with the CG Code.

Audit Committee

An Audit Committee of the Board was established in December 1998 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system and internal control procedures; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

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, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

BOARD COMMITTEES (continued)

Audit Committee (continued)

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprised all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, two physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Kan Lai Kuen, Alice *(chairman of the committee)* *(appointed as the chairman of the committee on 1 April 2012)*	2/2
Wong Kun Kim *(ceased to act as the chairman of the committee from 1 April 2012)*	2/2
Leung Kai Cheung	2/2

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the financial year ended 31 December 2011; and
- reviewing the interim results of the Group for the six months ended 30 June 2012.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Nomination Committee

A Nomination Committee of the Board was established in February 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;

BOARD COMMITTEES (continued)

Nomination Committee (continued)

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and

- assessing the independence of Independent Non-executive Directors.

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.

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, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, one physical meeting of the Nomination Committee was held and the attendances of the members of the Nomination Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Xu Ning *(chairman of the committee)*	0/0
(appointed as a member and the chairman of the committee on 21 December 2012)	
Leung Shun Sang, Tony	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung	1/1
Wang Qinghai	0/1
(appointed as a member and the chairman of the committee on 1 April 2012 and ceased to act as a member and the chairman of the committee from 21 December 2012)	
Li Shaofeng – as alternate of Mr. Wang Qinghai	1/1
– as member *(ceased to act as a member and the chairman of the committee from 1 April 2012)*	0/0

BOARD COMMITTEES (continued)

Nomination Committee (continued)

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- considering and making recommendations to the Board for the appointment of Mr. Xu Ning as a Non-executive Director of the Company and the Chairman of the Board and the re-designation of Mr. Chen Zhouping from an Executive Director to a Non-executive Director of the Company; and

- reviewing the structure of the Board.

Remuneration Committee

A Remuneration Committee of the Board was established in February 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;

- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;

- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman about their remuneration proposals for 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, at the Company's expense, to perform its responsibilities if it considers necessary.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

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.

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, one physical meeting of the Remuneration Committee was held and the attendances of the members of the Remuneration Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Wong Kun Kim *(chairman of the committee)*	1/1
(appointed as the chairman of the committee on 1 April 2012)	
Li Shaofeng	1/1
Leung Shun Sang, Tony *(ceased to act as the chairman of the committee from 1 April 2012)*	1/1
Kan Lai Kuen, Alice	1/1
Leung Kai Cheung	1/1

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- making recommendations to the Board on the terms of the engagement letter and director's fee of each of Mr. Xu Ning and Mr. Chen Zhouping;

- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2013;

- considering the bonuses of the Executive Directors of the Company for the year 2012; and

- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2013.

Details of remuneration paid to Directors and senior management for the year are set out in note 13 to the consolidated financial statements.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the Company Secretary is subject to the Board approval.

The Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or lessen such risks.

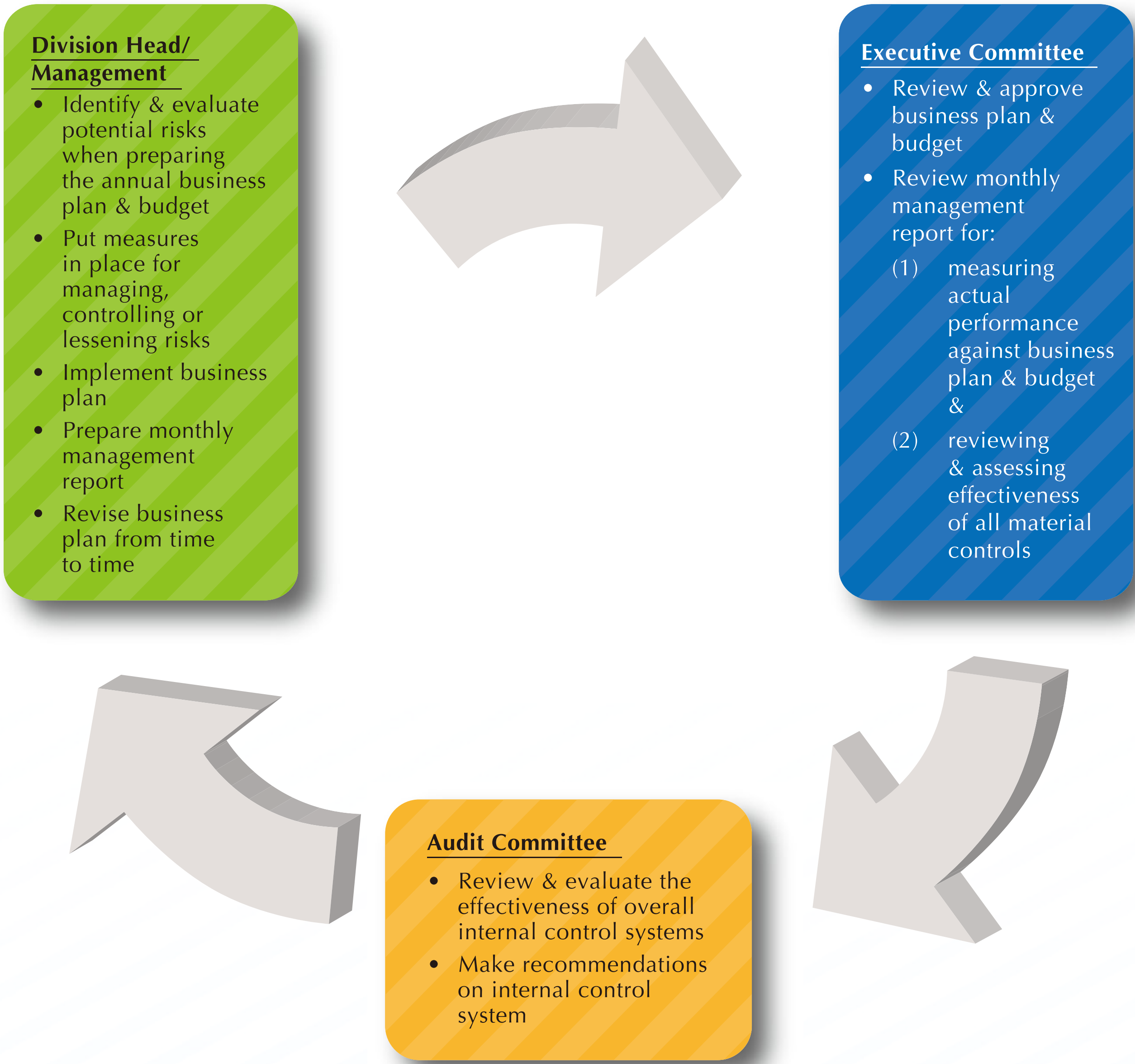
The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Executive Committee holds periodical meetings with the senior management of each principal business unit to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

INTERNAL CONTROL (continued)

Internal Control System



The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee, continuously reviewing the effectiveness of the Group's internal control systems.

MODEL CODE FOR SECURITIES TRANSACTIONS

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.

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 2012.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

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

Services rendered	*HK$'000*
Audit services	2,130
Non-audit services:	
Interim review	590
Professional services rendered for connected transactions	100
Review preliminary results announcement	30
	2,850

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 Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosures 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 auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 57 to 58 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

On 22 March 2012, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-intl.com.hk.

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 auditor is 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.

The auditor of the Company, Deloitte Touche Tohmatsu, attended the 2012 AGM held during the year. Details of the Directors' attendances at the 2012 AGM are as follows:

Directors (as at the date of 2012 AGM)	**Attendance**
Executive Directors	
Li Shaofeng	✓
Zhang Wenhui	✓
Chen Zhouping	✓
Non-executive Directors	
Wang Qinghai	X
Cao Zhong	X
Ip Tak Chuen, Edmond	X
Leung Shun Sang, Tony	✓
Independent Non-executive Directors	
Kan Lai Kuen, Alice	✓
Wong Kun Kim	✓
Leung Kai Cheung	✓

COMMUNICATION WITH SHAREHOLDERS (continued)

During the year, all notices of general meetings despatched by the Company to its shareholders for meetings held were sent for annual general meeting at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of a general meeting were taken by way of a poll. At the commencement of a general meeting, the chairman of the meeting explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

SHAREHOLDERS' RIGHTS

Shareholder(s) holding not less than one-twentieth (5%) of the paid up capital of the Company can make a requisition to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The requisition must state the objects of the meeting, and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company for the attention of the Company Secretary.

Shareholder(s) representing not less than one-fortieth (2.5%) of the total voting rights of all shareholders of the Company having the right to vote at the meeting or of not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder may by requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meeting of the Company pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A written notice to that effect signed by the shareholder(s) concerned together with a sum reasonably sufficient to meet the expenses in giving effect thereto must be deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting. The notice shall contain, inter alia, a description of the proposed resolution desired to be put forward at the general meeting, the reasons for such proposal and any material interest(s) of the proposing shareholder(s) in such proposal.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered office or by email to our Company. In addition, shareholders can contact Tricor Tengis Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

CONSTITUTIONAL DOCUMENTS

By an ordinary resolution passed by the shareholders of the Company at the 2012 AGM, the authorised share capital of the Company has been increased to HK$4,000,000,000 divided into 20,000,000,000 shares of HK$0.20 each. The memorandum of association of the Company has been updated accordingly. Save as aforesaid, there is no change in the Company's constitutional documents during the year.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 50 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the financial statements on pages 59 to 198 of this annual report.

The Board of Directors of the Company does not recommend the payment of any dividend in respect of the year (2011: Nil).

FIVE–YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 199 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the consolidated financial statements.

Particulars of the major investment properties of the Group as at 31 December 2012 are set out on page 200 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 37 to the consolidated 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 64 to 65 of this annual report and in note 39 to the consolidated financial statements, respectively.

DONATIONS

No charitable donation was made by the Group during the year (2011: Nil).

DIRECTORS

The Directors of the Company during the year were as follows:

Xu Ning	*(appointed on 21 December 2012)*
Li Shaofeng	
Zhang Wenhui	
Chen Zhouping	
Ip Tak Chuen, Edmond	
Leung Shun Sang, Tony	
Kan Lai Kuen, Alice*	
Wong Kun Kim*	
Leung Kai Cheung*	
Wang Qinghai	*(resigned on 21 December 2012)*
Cao Zhong	*(resigned on 21 December 2012)*

* *Independent Non-executive Directors*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Xu Ning, Li Shaofeng, Chen Zhouping and Leung Kai Cheung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 31 December 2012 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2012 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(a) Long positions in the shares and underlying shares of the Company

		Number of shares/underlying shares in the Company			
Name of Director	Capacity in which interests were held	Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of the Company as at 31.12.2012
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.39%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.50%
Ip Tak Chuen, Edmond	Beneficial owner	–	4,590,000	4,590,000	0.05%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.01%

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "2002 Scheme"). Upon exercise of the share options in accordance with the 2002 Scheme, ordinary shares of HK$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Long positions in the shares and underlying shares of Shougang Concord Century Holdings Limited ("Shougang Century"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Century			Total interests as to % of the issued share capital of Shougang Century as at 31.12.2012
		Interests in shares	Interests in underlying shares*	Total interests	
Li Shaofeng	Beneficial owner	7,652,000	44,414,000	52,066,000	2.70%
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	16,592,000	24,244,000	1.26%

* *The relevant interests are unlisted physically settled options granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Upon exercise of the share options in accordance with the share option scheme of Shougang Century, ordinary shares of HK$0.10 each in the share capital of Shougang Century are issuable. The share options are personal to the respective Directors.*

(c) Long positions in the shares and underlying shares of Shougang Fushan Resources Group Limited ("Shougang Resources"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources			Total interests as to % of the issued share capital of Shougang Resources as at 31.12.2012
		Interests in shares	Interests in underlying shares*	Total interests	
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%

* *The relevant interests are unlisted physically settled options granted pursuant to the share option scheme of Shougang Resources adopted on 20 June 2003. Upon exercise of the share options in accordance with the share option scheme of Shougang Resources, ordinary shares of HK$0.10 each in the share capital of Shougang Resources are issuable. The share options are personal to the respective Directors.*

Save as disclosed above, as at 31 December 2012, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, 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 spouses 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Wang Qinghai*	Shougang Corporation#	Steel manufacturing, trading of iron ore and steel products, and mineral exploration	Director
Xu Ning^	Shougang Corporation#	Steel manufacturing, trading of iron ore and steel products, and mineral exploration	Director
Li Shaofeng	Shougang Holding (Hong Kong) Limited ("Shougang Holding")#	Steel manufacturing, and trading of iron ore and steel products	Director
Zhang Wenhui	Shougang Holding#	Steel manufacturing, and trading of iron ore and steel products	Director
Chen Zhouping	Shougang Holding#	Steel manufacturing, and trading of iron ore and steel products	Director

* *Mr. Wang Qinghai resigned as a Director of the Company on 21 December 2012.*

^ *Mr. Xu Ning was appointed as a Director of the Company on 21 December 2012.*

\# *Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

The Board of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2012, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2012	*Note(s)*
Shougang Holding	Beneficial owner, interests of controlled corporations	4,214,625,699	47.07%	*1*
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.80%	*1*
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.58%	*1*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	*2*
Li Ka-shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	*2*
Li Ka-shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*
Li Ka-shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Notes:

1. Shougang Holding indicated in its disclosure form dated 7 September 2011 (being the latest disclosure form filed up to 31 December 2012) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.

2. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor were respectively interested in one-third and two-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

   In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

   By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, as at 31 December 2012, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEMES

On 25 May 2012, the shareholders of the Company approved the termination of the 2002 Scheme (to the effect that no further share option shall be granted under the 2002 Scheme) and the adoption of a new share option scheme (the "2012 Scheme"), which became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme.

SHARE OPTION SCHEMES (continued)

A summary of the principal terms of each of the 2002 Scheme and the 2012 Scheme is set out below:

(a) The 2002 Scheme

The purpose of the 2002 Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The 2002 Scheme was adopted on 7 June 2002 and terminated on 29 May 2012.

Under the 2002 Scheme, the Directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders, of the Company or any of its subsidiaries or any of its associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company.

As at 29 May 2012, being the termination date of the 2002 Scheme, options to subscribe for a total of 245,140,000 shares of the Company have been granted. Accordingly, the total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme is 245,140,000 which represents approximately 2.74% of the issued share capital of the Company as at the date of this annual report. Since the 2002 Scheme was terminated on 29 May 2012, no further options can be granted under the 2002 Scheme. However, the share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

Each of the grantees was required to pay HK$1.00 as a consideration for the grant of share options in accordance with the 2002 Scheme. The offer of share options must be accepted within 60 days from the date of the offer.

Save as disclosed above, there is no material difference in the terms, which shall be disclosed pursuant to Rule 17.09 of the Listing Rules, between the 2002 Scheme and the 2012 Scheme.

SHARE OPTION SCHEMES (continued)

(a) The 2002 Scheme (continued)

No share option was granted, exercised or cancelled in accordance with the terms of the 2002 Scheme during the year. Details of movements in the share options under the 2002 Scheme during the year are as follows:

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company								
Cao Zhong[1]	65,000,000[2]	(65,000,000)[1&2]	–	–	–	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Li Shaofeng	20,000,000[2]	–	–	–	20,000,000[2]	14.12.2010	14.12.2010 – 13.12.2017	HK$1.180
Zhang Wenhui	35,000,000[2]	–	–	–	35,000,000[2]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Chen Zhouping[3]	45,000,000[2&3]	–	–	–	45,000,000[2&3]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Ip Tak Chuen, Edmond	8,000,000	–	–	(8,000,000)	–	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	4,590,000	–	–	–	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK$0.280
	12,590,000	–	–	(8,000,000)	4,590,000			
Kan Lai Kuen, Alice	1,500,000	–	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Wong Kun Kim	1,500,000	–	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Leung Kai Cheung	1,500,000	–	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	182,090,000	(65,000,000)	–	(8,000,000)	109,090,000			
Employees of the Group	13,000,000[2]	–	–	–	13,000,000[2]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	13,000,000	–	–	–	13,000,000			
Other participants	50,000	–	–	(50,000)	–	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	50,000,000[2]	–	65,000,000[1&2]	–	115,000,000[2]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	50,050,000	–	65,000,000	(50,000)	115,000,000			
	245,140,000	(65,000,000)	65,000,000	(8,050,000)	237,090,000			

SHARE OPTION SCHEMES (continued)

(a) The 2002 Scheme (continued)

Notes:

1. Mr. Cao Zhong resigned as a Director of the Company on 21 December 2012. The Board approved the extension of the exercise period for the share options held by Mr. Cao up to 19 December 2014 and such share options were re–classified from the category of "Directors of the Company" to "Other participants" during the year.

2. Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.

3. Mr. Chen Zhouping was redesignated from an Executive Director and the Deputy Managing Director of the Company to a Non-executive Director of the Company on 21 December 2012. The Board approved the extension of the exercise period for the share options held by Mr. Chen up to 19 December 2014.

(b) The 2012 Scheme

The purpose of the 2012 Scheme is to replace the 2002 Scheme and to continue to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest (the "Invested Entities"). The 2012 Scheme shall be valid and effective for the period of ten years commencing on 25 May 2012, being the date on which the 2012 Scheme was conditionally adopted by the shareholders of the Company, and ending on 25 May 2022 (both dates inclusive).

Under the 2012 Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

No share option has been granted under the 2012 Scheme since its adoption. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 895,330,622, representing approximately 10% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent

SHARE OPTION SCHEMES (continued)

(b) The 2012 Scheme (continued)

Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which all connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the 2012 Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the 2012 Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 31 December 2012, there was no share option outstanding under the 2012 Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$179,000,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 17.2% of the total sales for the year and sales to the largest customer included therein amounted to approximately 4.2%. Purchases from the Group's five largest suppliers accounted for approximately 66.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26%. The holding company of the controlling shareholder of the Company had interests in 2 of the Group's five largest customers and 2 of the Group's five largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

As stated in the announcement of the Company dated 11 November 2010 and in the circular of the Company dated 1 December 2010, a master agreement dated 11 November 2010 (the "Master Agreement") was entered into between the Company and Shougang Corporation, a connected person of the Company by virtue of its being the holding company of Shougang Holding, the controlling shareholder of the Company, in relation to (i) provision of raw materials, materials, fuel, energy, equipments, spare parts, steel products and services and other related products and/or services to the Group by Shougang Corporation and/or its associates (the "Purchases"); and (ii) supply of raw materials, scrap materials, steel products and services and other related products and/or services to Shougang Corporation and/or its associates by the Group (the "Sales") during the three financial years ending 31 December 2013.

CONTINUING CONNECTED TRANSACTIONS (continued)

Pursuant to the Master Agreement, the cap amounts of the Purchases and the Sales for each of the three financial years ending 31 December 2013 are as follows:

	Financial year ended/ending 31 December		
	2011	**2012**	**2013**
	HK$' million	*HK$' million*	*HK$' million*
Cap amounts for the Purchases	24,100	25,400	27,900
Cap amounts for the Sales	23,200	30,100	33,400

The basis of determining the prices for the continuing connected transactions contemplated under the Master Agreement will be in accordance with: (1) comparable market price; or (2) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties. The price should be no less favourable to/from third parties.

As Shougang Corporation was one of the largest steel producers in the People's Republic of China (the "PRC"), the continuing connected transactions with Shougang Corporation and/or its associates would guarantee a stable source of supply of raw materials, materials and related products and regular sales of materials and steel products to one of the largest steel companies in the PRC.

The continuing connected transactions carried out under the Master Agreement during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

(1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

(2) the transactions were conducted on normal commercial terms, or if there was no available comparison, on terms that were no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTIONS (continued)

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

The transactions took place during the year as set out in notes 49(I)(a), (b), (e), (i) and (k) to the consolidated financial statements under the heading of "Related Party Disclosures" were continuing connected transactions which had been approved by the independent shareholders of the Company. The transactions as set out in notes 49(I)(c), (d), (f), (g) and (h) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As regards the transactions took place during the year as set out in note 49(II) to the consolidated financial statements under the heading of "Related Party Disclosures", for those transactions with Shougang Corporation and/or its associates mentioned in notes 25, 28 and 29 to the consolidated financial statements, they were incidental to the continuing connected transactions which had been approved by the independent shareholders of the Company. The transactions as set out in note 35 to the consolidated financial statements and the provision of corporate guarantees by Shougang Corporation for bank loans to the Group were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions set out in note 49(V) to the consolidated financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

The remaining transactions which took place during the year as set out under the heading of "Related Party Disclosures" did not constitute connected transactions under the Listing Rules.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

(a) Under the facility letter entered into by the Company on 24 June 2011 with Bank of China (Hong Kong) Limited relating to the banking facilities (the "Facilities") of (i) forward foreign exchange and currency option transaction facilities of USD80,000,000 (the "Facility I"); and (ii) term loan of up to USD70,000,000 (the "Facility II"), the Company shall procure that (i) Shougang Holding owns not less than 40% interest in the Company and Shougang Holding in turn shall be wholly–owned by Shougang Corporation throughout the life of the Facilities; (ii) Shougang Corporation should maintain management control in Shougang Holding; and (iii) Shougang Holding, either directly or through its subsidiaries indirectly, remains the single largest beneficial shareholder of the Company. Breach of any of the above will constitute an event of default upon which the Facilities will, among others, become immediately due and payable. There is no specific term regarding the life of the Facility I while the Facility II shall be repaid by the Company by instalments with the last instalment due on the date falling 42 months after the date of first drawdown of the Facility II.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

(b) Under the loan agreement dated 16 December 2011 entered into between Nanyang Commercial Bank (China) Limited, Qingdao Branch and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin", a 76% indirectly owned subsidiary of the Company) in relation to a loan in an amount of RMB280,000,000 (the "Loan"), breach of any of the following undertakings by Shougang Corporation during the term of the Loan will constitute an event of default upon which the Loan will become immediately due and payable: (i) Shougang Corporation will hold not less than 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own not less than 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The Loan shall be repaid by Shouqin on the final maturity day being the date which is falling 1 year after the date of first drawdown of the Loan. The Loan was fully repaid on 19 December 2012.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 23 to 41 of this annual report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re–appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board
Li Shaofeng
Managing Director

Hong Kong, 27 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
首長國際企業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 198, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	6	**16,215,940**	21,248,664
Cost of sales		**(17,534,972)**	(21,088,118)
Gross (loss) profit		**(1,319,032)**	160,546
Other income	7	**61,542**	63,322
Other gains and losses	8	**(386,380)**	48,429
Change in fair value of derivative financial instruments		**158,437**	498,024
Distribution and selling expenses		**(100,798)**	(153,594)
Administrative expenses		**(508,378)**	(515,227)
Finance costs	9	**(794,135)**	(568,223)
Share of results of associates		**370,380**	563,938
(Loss) profit before taxation		**(2,518,364)**	97,215
Income tax credit (expense)	10	**2,175**	(48,288)
(Loss) profit for the year from continuing operations	12	**(2,516,189)**	48,927
Discontinued operations			
Loss for the period/year from discontinued operations	11	**(29,579)**	(96,440)
Loss for the year	12	**(2,545,768)**	(47,513)
Other comprehensive (expense) income			
Exchange differences arising on translation		**(670)**	170,220
Fair value gain on investments in equity instruments designated as at fair value through other comprehensive income		**3,277**	–
Available-for-sale financial assets			
Fair value losses arising during the year		**–**	(80,024)
Reclassification adjustment upon impairment		**–**	53,425
Release on deemed disposal of partial interest in associates		**–**	(20)
Share of other comprehensive income (expense) of associates			
Exchange differences arising on translation		**23,805**	163,334
Fair value losses on investment in equity instruments designated as at fair value through other comprehensive income		**(130,131)**	–
Fair value losses on available-for-sale financial assets		**–**	(328,085)
Other comprehensive expense for the year (net of tax)		**(103,719)**	(21,150)
Total comprehensive expense for the year		**(2,649,487)**	(68,663)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTE	**2012 HK$'000**	2011 HK$'000 (Restated)
(Loss) profit for the year attributable to owners of the Company			
– from continuing operations		**(1,917,627)**	248,692
– from discontinued operations		**(29,579)**	(96,440)
(Loss) profit for the year attributable to owners of the Company		**(1,947,206)**	152,252
Loss for the year attributable to non-controlling interests			
– from continuing operations		**(598,562)**	(199,765)
		(2,545,768)	(47,513)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(2,057,974)**	91,479
Non-controlling interests		**(591,513)**	(160,142)
		(2,649,487)	(68,663)
(Loss) earnings per share	15		
From continuing and discontinued operations			
– Basic		**(21.75) HK cents**	1.78 HK cents
– Diluted		**(21.75) HK cents**	1.78 HK cents
From continuing operations			
– Basic		**(21.42) HK cents**	2.92 HK cents
– Diluted		**(21.42) HK cents**	2.91 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	**38,687**	41,835
Property, plant and equipment	17	**11,651,210**	12,179,608
Prepaid lease rentals	18	**361,815**	359,937
Intangible asset	20	**–**	–
Mining assets	19	**129,004**	184,825
Goodwill	20	**–**	146,015
Interests in associates	23	**7,584,652**	7,573,677
Equity investments	24	**192,253**	–
Available-for-sale investments	24	**–**	187,836
Deferred tax assets	36	**46,482**	45,822
Other financial assets	30	**594,603**	585,738
Deposits for acquisition of property, plant and equipment	25	**25,071**	84,268
Pledged bank deposits	31	**92,403**	467,547
		20,716,180	21,857,108
CURRENT ASSETS			
Inventories	26	**3,258,761**	4,068,485
Trade and bills receivables	27	**1,982,962**	2,896,781
Trade receivables from related companies	28	**163,854**	966,230
Prepayments, deposits and other receivables	27	**637,760**	908,807
Prepaid lease rentals	18	**8,833**	7,912
Tax recoverable		**202**	–
Amounts due from related companies	28	**23,878**	55,476
Amount due from an associate	28	**2,911**	10,750
Amount due from a non-controlling shareholder of a subsidiary	28	**3,700**	3,702
Amount due from ultimate holding company of a shareholder	29	**5,220**	4,610
Other financial assets	30	**239,513**	308,102
Restricted bank deposits	31	**617,329**	502,600
Pledged bank deposits	31	**161,672**	123,396
Bank balances and cash	32	**1,563,345**	1,846,927
		8,669,940	11,703,778
CURRENT LIABILITIES			
Trade and bills payables	33	**3,540,071**	3,684,954
Trade payables to related companies	28	**354,459**	296,968
Trade payables to ultimate holding company of a shareholder	29	**3,282,689**	2,849,955
Other payables, provision and accrued liabilities	33	**1,133,790**	1,522,858
Tax payable		**206,152**	208,484
Amounts due to related companies	28	**363,801**	380,685
Amount due to ultimate holding company of a shareholder	29	**396,870**	103,069
Bank borrowings – due within one year	34	**10,287,475**	9,986,483
Other financial liabilities	30	**3,936**	5,173
Loans from ultimate holding company of a shareholder	35	**868,673**	1,009,995
		20,437,916	20,048,624
NET CURRENT LIABILITIES		**(11,767,976)**	(8,344,846)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,948,204**	13,512,262

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	34	**455,167**	2,363,941
Deferred tax liabilities	36	**30,233**	33,034
		485,400	2,396,975
		8,462,804	11,115,287
CAPITAL AND RESERVES			
Share capital	37	**1,790,661**	1,790,661
Share premium and reserves		**6,302,559**	8,357,720
Equity attributable to owners of the Company		**8,093,220**	10,148,381
Non-controlling interests		**369,584**	966,906
		8,462,804	11,115,287

The consolidated financial statements on pages 59 to 198 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

Li Shaofeng
DIRECTOR

Zhang Wenhui
DIRECTOR

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	22	**3,955,166**	3,631,419
Investment in an associate	23	**4,876**	4,876
Amounts due from subsidiaries	22	**4,460,847**	4,869,738
Pledged bank deposits	31	**92,403**	375,000
Other financial assets	30	**594,603**	585,738
		9,107,895	9,466,771
CURRENT ASSETS			
Prepayments, deposits and other receivables	27	**924**	1,323
Amounts due from related companies	28	**–**	200
Amount due from a subsidiary	22	**–**	80,000
Other financial assets	30	**239,513**	308,102
Bank balances and cash	32	**436,681**	598,587
		677,118	988,212
CURRENT LIABILITIES			
Other payables and accrued liabilities	33	**8,471**	7,606
Amounts due to subsidiaries	22	**412,365**	266,201
Bank borrowings – due within one year	34	**2,031,757**	1,441,754
Other financial liabilities	30	**138,336**	147,050
		2,590,929	1,862,611
NET CURRENT LIABILITIES		**(1,913,811)**	(874,399)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,194,084**	8,592,372
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	34	**–**	1,455,130
		7,194,084	7,137,242
CAPITAL AND RESERVES			
Share capital	37	**1,790,661**	1,790,661
Share premium and reserves	39	**5,403,423**	5,346,581
		7,194,084	7,137,242

Li Shaofeng
DIRECTOR

Zhang Wenhui
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note a)	Exchange reserve HK$'000	Share option reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	1,635,076	3,133,915	22,611	33,325	833,650	265,357	729,686	190,446	51,979	2,671,049	9,567,094	1,130,167	10,697,261
Loss for the year	–	–	–	–	–	–	–	–	–	152,252	152,252	(199,765)	(47,513)
Exchange differences arising on translation	–	–	–	–	130,597	–	–	–	–	–	130,597	39,623	170,220
Fair value losses on available-for-sale investments	–	–	–	–	–	–	–	(80,024)	–	–	(80,024)	–	(80,024)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	–	53,425	–	–	53,425	–	53,425
Release on deemed disposal of partial interest in associates	–	–	–	–	(20)	–	–	–	–	–	(20)	–	(20)
Share of other comprehensive income of associates	–	–	–	–	163,334	–	–	(328,085)	–	–	(164,751)	–	(164,751)
Total comprehensive income (expense) for the year	–	–	–	–	293,911	–	–	(354,684)	–	152,252	91,479	(160,142)	(68,663)
Release on deemed disposal of partial interest in associates	–	–	–	–	–	–	(3)	–	–	3	–	–	–
Reversal of enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	(3,311)	–	–	3,311	–	–	–
Shares issue at premium	155,585	396,741	–	–	–	–	–	–	–	–	552,326	–	552,326
Shares issue expenses	–	(30)	–	–	–	–	–	–	–	–	(30)	–	(30)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	(81,754)	(81,754)	–	(81,754)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(3,119)	(3,119)
Recognition of equity-settled share based payments	–	–	–	–	–	19,266	–	–	–	–	19,266	–	19,266
At 31 December 2011 as originally stated	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(164,238)	51,979	2,744,861	10,148,381	966,906	11,115,287
Effect of change in accounting policy (note 3)	–	–	–	–	–	–	–	(144,568)	–	144,568	–	–	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note a)	Exchange reserve HK$'000	Share option reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2011 as restated	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(308,806)	51,979	2,889,429	10,148,381	966,906	11,115,287
Loss for the year	–	–	–	–	–	–	–	–	–	(1,947,206)	(1,947,206)	(598,562)	(2,545,768)
Exchange differences arising on translation	–	–	–	–	(585)	–	–	–	–	–	(585)	(85)	(670)
Fair value gain on investments in equity instruments designated as at fair value through other comprehensive income	–	–	–	–	–	–	–	(3,857)	–	–	(3,857)	7,134	3,277
Share of other comprehensive income of associates	–	–	–	–	23,805	–	–	(130,131)	–	–	(106,326)	–	(106,326)
Total comprehensive income (expense) for the year	–	–	–	–	23,220	–	–	(133,988)	–	(1,947,206)	(2,057,974)	(591,513)	(2,649,487)
Release on disposal of a subsidiary (note 42)	–	–	–	(4,987)	–	–	–	–	–	4,987	–	–	–
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	2,698	–	–	(2,698)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(5,809)	(5,809)
Recognition of equity-settled share based payments	–	–	–	–	–	2,813	–	–	–	–	2,813	–	2,813
Transfer upon deregistration of a subsidiary of an associate	–	–	–	–	(309)	–	–	–	–	309	–	–	–
At 31 December 2012	**1,790,661**	**3,530,626**	**22,611**	**28,338**	**1,150,472**	**287,436**	**729,070**	**(442,794)**	**51,979**	**944,821**	**8,093,220**	**369,584**	**8,462,804**

Notes:

(a) Revaluation reserve represented (i) the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005; and (ii) the difference between the carrying value and the fair value of the prepaid lease rentals of Shougang Concord Godown Limited ("Godown"), a former wholly owned subsidiary disposed of during the current year, arisen from the transfer of prepaid lease rentals to investment properties as its use had changed as evidenced by end of owner-occupation in previous years. The relevant revaluation reserve is transferred to accumulated profits upon disposal of Godown during the year ended 31 December 2012.

(b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after taxation of the Company's subsidiaries under the applicable laws and regulations in the People's Republic of China (other than Hong Kong).

(c) Non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation from continuing and discontinued operations	**(2,547,943)**	775
Adjustments for:		
Interest income	**(47,592)**	(33,664)
Interest expenses	**794,135**	568,223
Share of results of associates	**(370,380)**	(563,938)
Share-based payments	**2,813**	19,266
Gain on deemed acquisition of interests in an associate	**(17,564)**	–
Loss on deemed acquisition/dilution of interests in associates	**–**	420
Gain from changes in fair value of investment properties	**(6,617)**	(6,576)
Gain arising from fair value adjustment on acquisition of additional interest in an associate	**–**	(108,142)
Loss on disposal of property, plant and equipment	**43**	1,355
Depreciation of property, plant and equipment	**831,838**	828,336
Amortisation of mining assets	**–**	2,339
Gain on disposal of a subsidiary	**(15,559)**	–
Amortisation of prepaid lease rentals	**8,439**	8,364
Change in fair value of derivative financial instruments	**(158,437)**	(498,024)
Impairment loss on mining assets	**56,642**	–
Impairment loss recognised in respect of property, plant and equipment	**184,094**	–
Impairment loss on goodwill	**146,015**	22,000
Impairment loss recognised in respect of available-for-sale investments	**–**	53,425
(Release of) provision for onerous contracts	**(47,200)**	47,200
Allowance for inventories	**130,571**	66,659
Allowance (reversal) of trade and other receivables and trade receivables from related companies, net	**34,130**	(100)
Operating cash flows before movements in working capital	**(1,022,572)**	407,918
Decrease (increase) in inventories	**926,929**	(451,135)
Decrease (increase) in trade and bills receivables	**168,440**	(936,531)
Decrease in prepayments, deposits and other receivables	**190,637**	188,579
Decrease (increase) in trade receivables and amounts due from related companies	**834,405**	(166,452)
Increase in amount due from ultimate holding company of a shareholder	**(574)**	(2,643)
Decrease (increase) in amount due from an associate	**3,445**	(5,424)
Increase in trade and bills payables	**203,820**	314,186
Decrease in other payables, provision and accrued liabilities	**(274,702)**	(418,067)
Increase in trade payables to ultimate holding company of a shareholder	**409,598**	1,770,773
Increase (decrease) in trade payables to related companies	**52,186**	(490,413)
Cash generated from operations	**1,491,612**	210,791
Interest paid	**(815,661)**	(631,239)
Income taxes paid	**(6,150)**	(39,189)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**669,801**	(459,637)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Increase in restricted bank deposits		**(110,791)**	(209,166)
Withdrawal of pledged bank deposits		**444,352**	84,276
Placement of pledged bank deposits		**(105,792)**	(675,219)
Purchase of property, plant and equipment		**(388,559)**	(170,062)
Repayment (advance) of entrusted loan receivables		**86,144**	(86,144)
Deposits paid for acquisition of property, plant and equipment		**(25,731)**	(84,268)
Dividends received from associates		**270,975**	229,625
Interest received		**47,592**	33,664
Repayment from an associate		**4,477**	13,184
Proceeds from disposal of property, plant and equipment		**234**	136
Purchase of investment properties		**(436)**	–
Proceeds from disposal of a subsidiary	42	**27,502**	–
Payment for prepaid lease rentals		**(9,949)**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**240,018**	(863,974)
FINANCING ACTIVITIES			
New borrowings raised		**12,925,154**	10,841,309
Advance on discounted bills		**443,453**	345,409
Loan from related companies		**161,768**	85,448
Repayment to related companies		**(178,652)**	(903)
Advance from ultimate holding company of a shareholder		**293,801**	4,196
Repayment of bank borrowings		**(14,688,713)**	(9,742,065)
Payment of dividends		**–**	(81,754)
Dividends paid to non-controlling shareholders of a subsidiary		**(5,809)**	(3,119)
Expenses on issue of shares		**–**	(30)
Settlement of loans from ultimate holding company of a shareholder		**(149,235)**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(1,198,233)**	1,448,491
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(288,414)**	124,880
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,846,927**	1,702,696
Effect of foreign exchange rate changes		**4,832**	19,351
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,563,345**	1,846,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company is incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's major shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), which together with its subsidiaries, held approximately 48% equity interest of the Company as at 31 December 2012, and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). Shougang Corporation, together with its associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange) other than the Company and its subsidiaries (collectively referred to as the "Group"), will hereinafter be referred to as the "Shougang Group". The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information of the annual report.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in note 50.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate. As the Company was incorporated in Hong Kong, the financial statements are presented in Hong Kong dollars.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group had net current liabilities of approximately HK$11,767,976,000 as at 31 December 2012 of which current liabilities of approximately HK$10,287,475,000 were attributable to bank borrowings due within one year. The Company had net current liabilities of approximately HK$1,913,811,000 as at 31 December 2012 of which current liabilities of approximately HK$2,031,757,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group and the Company, including the Group's and the Company's unutilised banking facilities, the Group's and the Company's ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the Directors are of the opinion that the Group and the Company has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

In addition, the Group has applied HKFRS 9 *Financial Instruments* (as issued in November 2009 revised in October 2010 and further revised in December 2011) ("HKFRS 9") and the related consequential amendments in advance of their effective date of 1 January 2015 in the current year.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios which are located in the PRC and Hong Kong. The Directors concluded that the Group's investment properties which are located in the PRC are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the Directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted.

For the investment properties located in Hong Kong, the Directors concluded that they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets (continued)

As a result of the application of the amendments to HKAS 12, the Group continues to recognise deferred taxes on changes in fair value of investment properties which are located in the PRC on the basis that reflects the tax consequences that would follow for the manner in which the Group expects to recover the carrying amount. For the investment properties located in Hong Kong, upon application of the amendments to HKAS 12, no deferred tax should be provided on changes in fair value of these investment properties as the Group is not subject to any income taxes on disposal of these investment properties. The previously recognised deferred tax liabilities on changes in fair value of the investment properties located in Hong Kong of approximately HK$314,000 as at 31 December 2011 is not adjusted retrospectively and continued to be recorded in the consolidated financial statements, as the amount is not significant. In the current year, no further deferred taxes have been provided for changes in fair value of the Group's investment properties located in Hong Kong. The Directors considered that the application of the amendments to HKAS 12 have had no material effect on the Group's result and financial position for the current and prior years.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings (see note 34).

In addition, the Group endorsed certain bills receivables to suppliers to exchange for goods from those suppliers which transferred the contractual rights to receive cash flows from those bills receivables to the respective suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables, and the associated trade payables.

The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7 (see note 27a) as at 31 December 2012. In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments

In the current year, the Group and the Company has applied HKFRS 9 and the related consequential amendments in advance of their effective dates of 1 January 2015. The Group and the Company has chosen 1 January 2012 as its date of initial application (i.e. the date on which the Group and the Company has reassessed the classification of its financial assets and financial liabilities in accordance with requirements of HKFRS 9). The classification is based on the facts and circumstances as at 1 January 2012. In accordance with transition provisions set out in HKFRS 9, the Group and the Company has chosen not to restate comparative information and has provided additional disclosures in accordance with HKFRS 7 *Financial Instruments – Disclosures* in these consolidated financial statements for the year ended 31 December 2012, and any difference between the measurement under HKAS 39 *"Financial Instruments: Recognition and Measurement"* and HKFRS 9 as at 1 January 2012 is recognised in the opening accumulated profits and security investment reserve at the date of initial application. HKFRS 9 does not apply to financial assets and financial liabilities that have already been derecognised at date of initial application. Other than the changes in classification of certain financial assets, the changes in accounting policies had no material financial impact on the amounts recognised on the consolidated statement of financial position of the Group as at 1 January 2012.

The adoption of HKFRS 9 has no financial impact on the statement of financial position of the Company as at 1 January 2012 and 31 December 2012.

Financial assets

HKFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*. Specifically, HKFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by HKFRS 9, debt instruments and hybrid contracts are subsequently measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (collectively referred to as the "amortised cost criteria"). If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss ("FVTPL").

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Debt instruments that are subsequently measured at amortised cost are subject to impairment.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

Financial assets *(continued)*

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognised in profit or loss in accordance with HKAS 18 *Revenue*.

As at 1 January 2012, the Directors have reviewed and reassessed the Group's existing financial assets based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets and concluded that the Group's financial assets, previously classified as "loans and receivables" under HKAS 39 are held within a business model whose objective is to hold these financial assets in order to collect contractual cash flows that are solely payments of principal and interest. In addition, the Directors concluded that the Group's investments in equity securities that previously classified as available-for-sale investments under HKAS 39 are not held for trading, but held for medium or long-term strategic purpose. Therefore, the investments in equity securities are designated as at FVTOCI under HKFRS 9 as the Directors believe that this provides a more meaningful presentation than reflecting changes in fair value in profit or loss.

The initial application of HKFRS 9 has affected the classification of financial assets of the Group and its associate and the Group's security investment reserve and accumulated profits as at 1 January 2012 as follows:

(i) the Group's investments in listed equity securities (not held for trading) that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI. As at 1 January 2012, at the date of initial application, the accumulated impairment loss of listed equity securities of HK$144,568,000 that had been reclassified from security investment reserve to profit or loss upon impairment in prior years under HKAS 39 is now reclassified from the opening accumulated profits to security investment reserve. Accordingly, as at 1 January 2012, the accumulated profits have been increased by HK$144,568,000 and the security investment reserve has been decreased by the same amount;

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

Financial assets *(continued)*

(ii) The Group's investment in unlisted equity securities (not held for trading) previously classified as available-for-sale investment and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2012. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs);

(iii) The investment in listed equity securities (not held for trading) of the Group's associate that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI; and

(iv) The investment in unlisted equity securities (not held for trading) of the Group's associate previously classified as available-for-sale investments and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2012. The fair value measurements of the unlisted equity securities held by the Group's associate are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

Financial assets *(continued)*

The list below illustrates the classification and measurement of the financial assets under HKAS 39 and HKFRS 9 at 1 January 2012, the date of initial application.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK$'000	New carrying amount under HKFRS 9 HK$'000
Investments in listed equity securities (Note 24)	Available-for-sale investments	Financial assets designated as at FVTOCI	42,228	42,228
Investments in unlisted equity securities (Note 24)	Available-for-sale investments	Financial assets designated as at FVTOCI	145,608	145,608
Other financial assets: Commodity forward contracts (Note 30)	Financial assets at FVTPL	Financial assets at FVTPL	893,840	893,840
Trade and bills receivables (Note 27)	Loans and receivables	Financial assets at amortised cost	2,896,781	2,896,781
Trade receivables from related companies (Note 28)	Loans and receivables	Financial assets at amortised cost	966,230	966,230
Other receivables and entrusted loan receivables (Note 27)	Loans and receivables	Financial assets at amortised cost	87,340	87,340

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

***Financial assets** (continued)*

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK$'000	New carrying amount under HKFRS 9 HK$'000
Amounts due from related companies (Note 28)	Loans and receivables	Financial assets at amortised cost	55,476	55,476
Amount due from an associate (Note 28)	Loans and receivables	Financial assets at amortised cost	10,750	10,750
Amount due from a non-controlling shareholder of a subsidiary (Note 28)	Loans and receivables	Financial assets at amortised cost	3,702	3,702
Amount due from ultimate holding company of a shareholder (Note 29)	Loans and receivables	Financial assets at amortised cost	4,610	4,610
Restricted bank deposits (Note 31)	Loans and receivables	Financial assets at amortised cost	502,600	502,600
Pledged bank deposits (Note 31)	Loans and receivables	Financial assets at amortised cost	590,943	590,943
Bank balances and cash (Note 32)	Loans and receivables	Financial assets at amortised cost	1,846,927	1,846,927

The Company's financial assets as at 1 January 2012 are classified as loans and receivables or financial assets at FVTPL under HKAS 39. Upon adoption of HKFRS 9, the loans and receivables are categorized as financial assets at amortised cost, and the financial assets at FVTPL are continued to classify as financial assets at FVTPL. No change in the carrying amounts is made.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

***Financial assets** (continued)*

The application of HKFRS 9 in the current year has affected the Group's results, other comprehensive expense, security investment reserve and accumulated profits as follows:

(i) Listed equity securities held by the Group and its associate were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI. During the current year, an impairment loss of HK$26,446,000 and HK$1,030,122,000 for the listed equity securities held by the Group and its associate, respectively, would have been recognised under HKAS 39 in relation to these investments due to further decline in fair values of the Group's investments during the current year and the decline in fair values of the associate's investments below their respective costs, which are considered as significant and prolonged. The fair value loss of these investments are recognised as other comprehensive expense and are included in security investment reserve of the Group and its associate under HKFRS 9. Accordingly, the other gains and losses has been increased by HK$26,446,000 and the share of results of associates has been increased by HK$294,369,000 with regard to the equity interest of the associate held by the Group, and the other comprehensive expense has been decreased by HK$320,815,000 for the year ended 31 December 2012. In addition, the accumulated profits as at 31 December 2012 has been increased by approximately HK$320,815,000. The loss reported for the year ended 31 December 2012 have been decreased by HK$320,815,000 and the security investment reserve as at 31 December 2012 have been decreased by HK$320,815,000 as a result of the change in accounting policy.

    As a result of the change in accounting policy, the Group's basic and diluted loss per share from continuing and discontinued operations was decreased by HK3.58 cents. This has also resulted in a decrease on the Group's basic and diluted loss per share from continuing operations by HK3.58 cents. There is no impact on the basic and diluted earnings per share for the year ended 31 December 2011.

(ii) The unlisted equity securities held by the Group and by the Group's associate previously measured at cost less impairment under HKAS 39 are now measured at fair value under HKFRS 9 and have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2012.

    During the year ended 31 December 2012, net fair value gain of HK$29,723,000 arising from the Group's unlisted equity securities have been recognised as other comprehensive income. The fair value of unlisted equity securities of the Group's associate remains unchanged as at 31 December 2012 and no fair value change has been recognised as other comprehensive income of the Group's associate. Accordingly, the other comprehensive income for the year ended 31 December 2012 has been increased by HK$29,723,000 as a result of the change in accounting policy.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

Financial liabilities

HKFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability.

In relation to the classification and remeasurement of financial liabilities, the application of HKFRS 9 has had no impact on the classification of financial liabilities of the Group and its associates and the Group's result and financial position as the Group and its associates do not have financial liabilities designated as at fair value through profit or loss under HKAS 39 that were subject to reclassification upon adoption of HKFRS 9.

The list below illustrates the classification and measurement of the financial liabilities under HKAS 39 and HKFRS 9 at 1 January 2012, the date of initial application.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK$'000	New carrying amount under HKFRS 9 HK$'000
Other financial liabilities (Note 30)	Financial liabilities designated as at FVTPL	Financial liabilities designated as at FVTPL	5,173	5,173
Trade and bills payables (Note 33)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	3,684,954	3,684,954
Trade payables to related companies (Note 28)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	296,968	296,968
Trade payables to ultimate holding company of a shareholder (Note 29)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	2,849,955	2,849,955
Other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	664,502	664,502
Amounts due to related companies (Note 28)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	380,685	380,685
Amount due to ultimate holding company of a shareholder (Note 29)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	103,069	103,069
Bank borrowings (Note 34)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	12,350,424	12,350,424
Loans from ultimate holding Company of a shareholder (Note 35)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	1,009,995	1,009,995

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impact of application of HKFRS 9 Financial Instruments (continued)

Financial liabilities *(continued)*

As at 1 January 2012, the Company's financial liabilities are classified as financial liabilities at amortised cost under HKAS 39. Upon adoption of HKFRS 9, they are continued to classify as financial liabilities at amortised cost.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 July 2012.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of HKFRS 10 and HKFRS 12 are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC) Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these HKFRSs for the first time.

The Directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013, and the application of these standards will not have significant impact on amounts reported in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the new standard is not likely to have material impact to the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 also require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for the Group's annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HK(IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with HKAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

HK(IFRIC) – Int 20 is effective for the Group for annual period beginning on 1 January 2013. Specific transitional provisions are provided to entities that apply HK(IFRIC) – Int 20 for the first time. However, HK(IFRIC) – Int 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The Directors assessed that the application of the amendments will have no material impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisition on or after 1 January 2005 but before 1 January 2010

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units that is expected to benefit from the synergies of the combination.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition on or after 1 January 2005 but before 1 January 2010 *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Interests in subsidiaries

Interests in subsidiaries are stated in the Company's statement of financial position at cost (including deemed capital contribution) less subsequent accumulated impairment losses, if any.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and event in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Acquisition of an associate achieved in stages prior to 1 January 2010

For acquisition of associates through successive share purchases and for which the investment was previously accounted for as available-for-sale investments with changes in fair value included in other comprehensive income, cumulative changes in the fair value of previously held ownership interests are reversed through other comprehensive income upon the Group has significant influence in the investee.

Any excess of the initial cost of acquisition of the investee over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee attributable to the ownership interests acquired on the date of exchange transaction is recognised as goodwill, which is included within the carrying amount of the investment in associate and is assessed for impairment as part of investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee attributable to the ownership interests acquired over the initial recognised cost of acquisition of the investee on the date of exchange transaction, after reassessment, is recognised immediately in profit or loss.

The changes in the investee's accumulated profits and other equity balances from the date the investment was initially acquired up to the date the investment becomes an associate of the Group are included in accumulated profits or the relevant reserves respectively to the extent that they relate to the previously held ownership interests.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

Acquisition of additional interest in an associate

Any excess of the cost of acquisition of additional equity interest over the Group's share of the net asset value of the identifiable assets, liabilities and contingent liabilities of the associate attributable to the additional equity interest acquired is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net asset value of the identifiable assets, liabilities and contingent liabilities attributable to the additional equity interest acquired over the cost of acquisition of additional equity interest, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Rental income from letting of properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

Freight revenue from time charter which is operating lease in nature, is recognised on a straight-line basis over the period of each charter.

Freight revenue from voyage charter is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

Hire income from floating cranes is recognised on a time proportion basis.

Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of goods or service, or for administrative purpose other than properties under construction as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the costs of items of property, plant and equipment, other than properties under construction less their residual values, over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Property in the course of construction for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining assets

Mining assets include mining rights and mining structures. Mining assets acquired separately are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is provided to write off the cost of the mining assets using the units of production method over the total proven and probable reserves of the iron mines.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

Prepaid lease rentals

Payments for obtaining land use rights are accounted for as prepaid lease rentals and are charged to profit or loss on a straight line basis over the lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entity are translated to the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For partial disposals of associates that do not result in the Group losing significant influence, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On the disposal of a group entity that is not a foreign operation, the exchange differences accumulated in equity relating to the translation of assets and liabilities of that group entity into presentation currency of the Group are transferred to accumulated profits.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefits scheme/state-managed retirement benefit schemes/ the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Intangible asset

Deferred product design fees

Deferred product design fees acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for deferred product design fees with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

(a) Classification and subsequent measurement prior to 1 January 2012

The Group's financial assets are mainly classified into one of the three categories, including (i) financial assets at FVTPL, (ii) loans and receivables and (iii) available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

(a) Classification and subsequent measurement prior to 1 January 2012 *(continued)*

(i) Financial assets at FVTPL (continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, trade receivables from related companies, other receivables, bank balances, restricted bank deposits, pledged bank deposits, amounts due from subsidiaries, amounts due from related companies, amount due from an associate, amount due from a non-controlling shareholder of a subsidiary and ultimate holding company of a shareholder) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

(a) Classification and subsequent measurement prior to 1 January 2012 *(continued)*

(iii) Available-for-sale financial assets (continued)

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of security investment reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the security investments reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

(b) Classification and subsequent measurement on and after 1 January 2012

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Financial assets at amortised cost

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortised cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

(b) Classification and subsequent measurement on and after 1 January 2012 *(continued)*

(i) Financial assets at amortised costs (continued)

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in profit or loss and is included in the other income.

(ii) Financial assets at FVTPL

Investments in equity instruments are classified as at FVTPL, unless the Group designates such investment that is not held for trading as at FVTOCI on initial recognition.

A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument.

Debt instruments that do not meet the amortised cost criteria (see (b)(i) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instrument as at FVTPL on initial application of HKFRS 9 and during the year.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

(b) Classification and subsequent measurement on and after 1 January 2012 *(continued)*

(iii) Financial assets at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the security investment reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI on initial application of HKFRS 9 and during the year.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in other income.

(c) Impairment losses of financial assets

Financial assets, other than those at FVTPL and FVTOCI, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

***(c) Impairment losses of financial assets** (continued)*

Prior to 1 January 2012, for an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place. Impairment losses for available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in security investment reserve.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or;

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of not more than 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Prior to 1 January 2012, for an available-for-equity investment carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

(c) Impairment losses of financial assets *(continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and trade receivables from related companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable, other receivable or trade receivable from related companies is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(d) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, except for a financial asset that is classified as at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity reserve is recognised in profit or loss.

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the security investment reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

(a) Classification and measurement

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

(i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

(ii) Financial liabilities

Financial liabilities (including trade and bills payables, trade payables to related companies and ultimate holding company of a shareholder, other payables, bank borrowings, amounts due to subsidiaries, amounts due to related companies, loans from ultimate holding company of a shareholder and amount due to ultimate holding company of a shareholder) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

(b) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Forward contracts to acquire an associate or additional interests in an existing associate at a future acquisition date are accounted for as derivative financial instruments. Changes in fair value of such contracts are recognised in profit or loss up to the completion of the acquisition.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments are recognised as derivative financial instruments with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provision is required for the present obligation arising under an onerous contract, a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, i.e. the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill the contract.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When allocating an impairment loss to individual assets within a cash-generating unit, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the cash-generating unit on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

Share options granted to employees and other eligible participants of the Group and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees and other eligible participants of the Group after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of original estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in the share option reserve.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties which are located in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time.

Therefore, in measuring the Group's deferred taxation on investment properties located in Hong Kong, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group does not recognise any further deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties.

For the investment properties located in the PRC, the Directors concluded that they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the Directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted and the Group continues to recognise deferred tax on changes in fair value of investment properties which are located in the PRC on the basis that reflects the tax consequences that would follow the manner in which the entity expects to recover carrying amount of the assets.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The movement in the allowance for doubtful debts recognised during the year is set out in note 27.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Allowance for inventories

As at 31 December 2012, the carrying amount of the Group's inventories is HK$3,258,761,000 (2011: HK$4,068,485,000). The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow-moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions. If the conditions of inventory of the Group become no longer suitable for use in production, an additional allowance may be required.

Impairment of mining assets and property, plant and equipment

The carrying amounts of mining assets amounting to HK$129,004,000 (2011: HK$184,825,000) and property, plant and equipment amounting to HK$11,651,210,000 (2011: HK$12,179,608,000) are reviewed for impairment in accordance with HKAS 36 whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group determines the recoverable amount which is the higher of value in use and fair value less costs to sale. If it is not possible to estimate the recoverable amount of the property, plant and equipment and mining assets individually, the management determines the recoverable amount of the cash generating unit to which such assets belong. The value in use is based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the actual future cash flows are less than or more than expected, or there are favourable or unfavourable events and changes in facts and circumstances which result in revision of future estimated cash flows, a material impairment loss may arise or reverse. Impairment loss recognised in respect of mining assets approximate to HK$56,642,000 and impairment loss recognised in respect of property, plant and equipment approximate to HK$184,094,000. Details of the recoverable amount calculation for mining assets, and property, plant and equipment are disclosed in note 21.

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$4,896 million, of which HK$447 million is subject to confirmation by Hong Kong Inland Revenue Department ("IRD") and HK$1,996 million is subject to confirmation by the State Administration of Taxation of the PRC ("SAT") (2011: HK$2,754 million, of which HK$332 million was subject to IRD's confirmation and HK$774 million is subject to SAT's confirmation) due to the unpredictability of future profit streams. In cases where probable taxable profit will be available against which the deductible temporary differences can be utilised and the amounts are confirmed by the relevant tax authorities, a deferred tax asset may be recognised.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value and classification of current and non-current portion of commodity forward contracts to purchase iron ore

The fair value and classification of current and non-current portion of commodity forward contracts stated in the statements of financial position are determined by the timing of the present value of future cash flows estimated in the valuation model and the fair value for the commodity forward contracts to purchase iron ore is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of those that developed the valuation techniques. However, it should be noted that some inputs, such as forecasted Platts Iron Ore Index, the forecasted annual production of the mines, the lives of the mines, the spread between Australia – capesize vessel freight rate and Australia – China panamax vessel freight rate and a discount rate of 17% (2011: 17%), require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the fair value of the commodity forward contracts. The carrying amount of the commodity forward contracts is HK$834,116,000 (2011: HK$893,840,000). Details of the commodity forward contracts are disclosed in note 30.

Depreciation

The carrying value of the Group's property, plant and equipment as at 31 December 2012 was approximately HK$11,651,210,000 (2011: HK$12,179,608,000). The Group depreciates the property, plant and equipment on a straight line basis over their estimated useful lives of 3 to 50 years, after taking into account their estimated residual value, commencing from the date the property, plant and equipment is available for use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the usage of the Group's property, plant and equipment. If the estimated useful life of property, plant and equipment did not reflect its actual useful life, additional depreciation may be required.

6. REVENUE AND SEGMENT INFORMATION

Revenue arising from sales of steel products, leasing and charter hire income, sales of iron ore, sales of coal and coke and management services income during the year from continuing and discontinued operations is as follows:

	2012	2011
	HK$'000	HK$'000
Continuing operations		
Sale of steel products	**11,765,840**	14,761,402
Sale of iron ore	**4,203,179**	5,430,330
Sale of coal and coke	**237,528**	1,040,300
Floating cranes leasing income	**5,901**	11,895
Management services income	**3,492**	4,737
	16,215,940	21,248,664
Discontinued operations		
Vessel chartering income	**76,312**	93,979
	16,292,252	21,342,643

Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

Steel manufacturing	–	manufacture and sale of steel products;
Shipping operations	–	vessel chartering and the leasing of floating cranes;
Commodity trading	–	trading of steel products, iron ore, coal and coke;
Mineral exploration	–	mining, processing and sale of iron ore; and
Others	–	management services business.

The vessel chartering under the shipping operations was discontinued in the current year. The segment information reported below included the amounts in relation to discontinued operations, which are described in more detail in note 11.

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 31 December 2012

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	11,244,937	82,213	4,336,441	625,169	3,492	16,292,252
Inter-segment sales	928	–	–	917,855	–	918,783
Segment revenue	11,245,865	82,213	4,336,441	1,543,024	3,492	17,211,035
Eliminations						(918,783)
Group revenue						16,292,252

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Segment (loss) profit	(1,628,121)	(30,689)	(118,913)	(390,784)	6,991	(2,161,516)
Interest income						47,592
Central administration costs						(44,624)
Finance costs						(794,135)
Gain from change in fair value of derivative financial instruments						1,237
Gain on disposal of a subsidiary						15,559
Gain on deemed acquisition of interests in an associate						17,564
Share of results of associates						370,380
Loss before taxation from discontinued operations						29,579
Loss before taxation from continuing operations						(2,518,364)

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2011

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	14,281,937	105,874	5,461,776	1,488,319	4,737	21,342,643
Inter-segment sales	7,476	–	–	1,061,584	–	1,069,060
Segment revenue	14,289,413	105,874	5,461,776	2,549,903	4,737	22,411,703
Eliminations						(1,069,060)
Group revenue						21,342,643

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Segment (loss) profit	(338,197)	(59,424)	377,399	19,447	4,980	4,205
Interest income						33,664
Central administration costs						(81,933)
Finance costs						(568,223)
Loss from change in fair value of derivative financial instruments						(5,173)
Impairment loss on available-for-sale investments						(53,425)
Loss on deemed acquisition/ dilution of interests in associates						(420)
Gain arising from fair value adjustment on acquisition of additional interest in an associate						108,142
Share of results of associates						563,938
Loss before taxation from discontinued operations						96,440
Profit before taxation from continuing operations						97,215

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, central administration costs, finance costs, gain or loss from change in fair value of foreign currency forward contracts, interest rate swap contracts, gain on disposal of a subsidiary, impairment loss on available-for-sale investments, gain on deemed acquisition of interest in an associate, loss on deemed acquisition/dilution of interests in associates, gain arising from fair value adjustment on acquisition of additional interest in an associate and share of results of associates. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2012 **HK$'000**	2011 HK$'000
Segment assets		
Steel manufacturing	**15,769,990**	18,105,510
Shipping operations	**10,431**	46,557
Commodity trading	**1,414,711**	1,841,738
Mineral exploration	**1,927,585**	2,809,133
Others	**5,065**	5,571
Total segment assets	**19,127,782**	22,808,509
Interests in associates	**7,584,652**	7,573,677
Available-for-sale investments	**–**	187,836
Equity investments	**192,253**	–
Deferred tax assets	**46,482**	45,822
Tax recoverable	**202**	–
Amount due from an associate – non-trade	**–**	4,572
Restricted bank deposits	**617,329**	502,600
Pledged bank deposits	**254,075**	590,943
Bank balances and cash	**1,563,345**	1,846,927
Consolidated assets	**29,386,120**	33,560,886

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

	2012 HK$'000	2011 HK$'000
Segment liabilities		
Steel manufacturing	**6,950,650**	6,419,791
Shipping operations	**38,765**	79,798
Commodity trading	**430,119**	431,180
Mineral exploration	**882,443**	1,413,113
Others	**9,032**	10,853
Total segment liabilities	**8,311,009**	8,354,735
Amounts due to related companies – non-trade	**363,801**	380,685
Amount due to ultimate holding company of a shareholder – non-trade	**396,870**	103,069
Bank borrowings	**10,742,642**	12,350,424
Tax payable	**206,152**	208,484
Deferred tax liabilities	**30,233**	33,034
Other financial liabilities	**3,936**	5,173
Loans from ultimate holding company of a shareholder	**868,673**	1,009,995
Consolidated liabilities	**20,923,316**	22,445,599

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than the items disclosed above.
- all liabilities are allocated to operating segments other than the items disclosed above.

6. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information

2012

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets (Note)	247,633	11	12	107,469	18	355,143
Depreciation of property, plant and equipment	772,477	1,978	142	56,961	280	831,838
Amortisation of mining assets	–	–	–	–	–	–
Amortisation of prepaid lease rentals	8,150	–	21	268	–	8,439
Loss on disposal of property, plant and equipment	43	–	–	–	–	43
Impairment losses on property, plant and equipment	4,500	–	–	179,594	–	184,094
Impairment loss on goodwill	146,015	–	–	–	–	146,015
Impairment loss on mining assets	–	–	–	56,642	–	56,642
(Reversal of) allowance for doubtful debts	845	3,958	(7,734)	37,061	–	34,130
Allowance for inventories	127,811	–	2,760	–	–	130,571
Fair value of commodity forward contracts upon delivery	–	–	216,924	–	–	216,924
Change in fair value of commodity forward contracts	–	–	(157,200)	–	–	(157,200)

Note: Non-current assets excluded other financial assets, equity investments/available-for-sale investments, pledged bank deposits and deferred tax assets.

6. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information (continued)

2011

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets (Note)	296,337	933	–	26,801	270	324,341
Depreciation of property, plant and equipment	771,741	1,848	170	54,220	357	828,336
Amortisation of mining assets	–	–	–	2,339	–	2,339
Amortisation of prepaid lease rentals	8,036	–	90	238	–	8,364
Loss on disposal of property, plant and equipment	1,291	44	–	–	20	1,355
Impairment loss on goodwill	22,000	–	–	–	–	22,000
Reversal of allowance for doubtful debts	(61)	–	(39)	–	–	(100)
Allowance for inventories	43,742	–	22,917	–	–	66,659
Fair value of commodity forward contracts upon delivery	–	–	179,494	–	–	179,494
Change in fair value of commodity forward contracts	–	–	(503,197)	–	–	(503,197)

Note: Non-current assets excluded other financial assets, equity investments/available-for-sale investments, pledged bank deposits and deferred tax assets.

6. REVENUE AND SEGMENT INFORMATION (continued)

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2012 HK$'000	2011 HK$'000
Continuing operations		
Steel plates	**11,527,723**	14,654,581
Iron ore	**4,203,179**	5,430,330
Coal and coke	**237,528**	1,040,300
Steel slabs	**238,117**	106,821
Floating cranes leasing	**5,901**	11,895
Management services	**3,492**	4,737
	16,215,940	21,248,664
Discontinued operations		
Vessel chartering	**76,312**	93,979
	16,292,252	21,342,643

Geographical information

The Group operates in three principal geographical areas – the PRC, excluding Hong Kong (country of domicile), Australia and Hong Kong.

The Group's revenue from external customers by geographical location at which the goods were delivered and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets (Note)	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
PRC, excluding Hong Kong (country of domicile)	**12,696,947**	17,115,584	**12,229,260**	13,007,636
Hong Kong	**80,229**	95,224	**7,561,179**	7,562,529
Australia	**3,367,772**	3,683,649	**–**	–
Korea	**55,969**	182,600	**–**	–
Others	**91,335**	265,586	**–**	–
	16,292,252	21,342,643	**19,790,439**	20,570,165

Note: Non-current assets excluded other financial assets, equity investments/available-for-sale investments, pledged bank deposits and deferred tax assets.

6. REVENUE AND SEGMENT INFORMATION (continued)

Information about major customers

During the years ended 31 December 2012 and 2011, the customer which accounted for 10% or more of the Group's revenue is Shougang Group. Sales to Shougang Group under the segments of steel manufacturing, commodity trading and mineral exploration contributed HK$3,457,677,000 (2011: HK$4,997,146,000) to the Group's revenue.

7. OTHER INCOME

	2012 **HK$'000**	2011 HK$'000 (Restated)
Continuing operations		
Interest income on bank deposits	**47,592**	33,273
Scrap sales income	**5,105**	4,476
Refund of value added tax	**–**	4,141
Recovery of trade receivables previously written off	**–**	2,103
Compensation income	**272**	439
Sundry income	**8,573**	18,890
	61,542	63,322

8. OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations		
Impairment loss on property, plant and equipment (note 17)	**(184,094)**	–
Impairment loss on mining assets (note 19)	**(56,642)**	–
Impairment loss on available-for-sale investments	**–**	(53,425)
Impairment loss on goodwill	**(146,015)**	(22,000)
Loss on disposal of property, plant and equipment	**(43)**	(1,355)
Gain on deemed acquisition of interests in an associate (note 23)	**17,564**	–
Loss on deemed acquisition/dilution of interests in associates (note 23)	**–**	(420)
Gain arising from fair value adjustment on acquisition of additional interest in an associate (note 23)	**–**	108,142
Net foreign exchange (loss) gain	**(5,196)**	10,811
Gain from changes in fair value of investment properties	**6,617**	6,576
(Allowance) reversal of trade and other receivables and trade receivables from related companies, net	**(34,130)**	100
Gain on disposal of a subsidiary (note 42)	**15,559**	–
	(386,380)	48,429

9. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interest on:		
Bank borrowings wholly repayable within five years	**624,065**	517,526
Other borrowings wholly repayable within five years	**65,034**	54,906
Total borrowing costs	**689,099**	572,432
Add: Factoring cost for discounted receivables	**126,562**	65,802
Less: Amounts capitalised	**(21,526)**	(70,011)
	794,135	568,223

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate of 6.53% (2011: 6.01%) per annum to expenditure on qualifying assets.

10. INCOME TAX (CREDIT) EXPENSE

	2012 HK$'000	2011 HK$'000
Continuing operations		
Current tax:		
– Hong Kong	–	140
– PRC Enterprise Income Tax	617	7,958
	617	8,098
(Over)underprovision in prior year:		
– Hong Kong	(80)	–
– PRC Enterprise Income Tax (Note)	148	18,308
	68	18,308
Deferred tax (note 36):		
Current year	(2,860)	21,882
Income tax (credit) expense	(2,175)	48,288

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for 2012.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for 2011.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Note: The underprovision of PRC Enterprise Income Tax for the year ended 31 December 2011 was mainly attributable to the disallowance of the preferential tax treatment in relation to the proportion of profits attributable to the new capital injected in 2008 under the EIT Law for a subsidiary in the PRC in relation to the year ended 31 December 2008, as notified by the SAT during the year ended 31 December 2011.

10. INCOME TAX (CREDIT) EXPENSE (continued)

The tax (credit) charge for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000 (Restated)
(Loss) profit before taxation from continuing operations	**(2,518,364)**	97,215
Taxation at the income tax rate of 25% (2011: 25%) (Note)	**(629,591)**	24,304
Tax effect of share of results of associates	**(92,595)**	(140,985)
Tax effect of expenses not deductible for tax purpose	**127,644**	59,954
Tax effect of income not taxable for tax purpose	**(33,214)**	(155,237)
Tax effect of tax loss not recognised	**535,320**	236,519
Tax effect of deductible temporary differences not recognised	**92,808**	11,993
Tax effect of utilisation of tax losses previously not recognised	**(102)**	(2,458)
Tax effect of utilisation of deductible temporary differences previously not recognised	**(2,492)**	(4,037)
Underprovision in respect of prior year	**68**	18,308
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(21)**	(73)
Tax (credit) expense for the year	**(2,175)**	48,288

Note: The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.

11. DISCONTINUED OPERATIONS

The Group mainly conducted the vessel chartering operations through two vessels named as SG Enterprises and SG Prosperity. During the year ended 31 December 2012, the Directors decided to cease the vessel chartering operations, which were previously included in shipping operations segment, the rental contracts of these two vessels had been terminated as agreed with the ship-owner, an independent third party. SG Enterprises and SG Prosperity have been delivered to ship-owner on 25 August 2012 and 28 September 2012 respectively. Vessel chartering operations have been presented as discontinued operations and the comparative figures have been represented.

11. DISCONTINUED OPERATIONS (continued)

The results of the vessel chartering operations for the period/year were as follows:

	1 January 2012 to 28 September 2012 HK$'000	1 January 2011 to 31 December 2011 HK$'000
Revenue	**76,312**	93,979
Cost of sales	**(97,140)**	(137,377)
Interest income	**–**	391
Other gains and losses	**(39)**	(47,532)
Administrative expenses	**(8,712)**	(5,901)
Loss before tax	**(29,579)**	(96,440)
Income tax expense	**–**	–
Loss for the period/year	**(29,579)**	(96,440)
Loss for the period/year from discontinued operations include the following:		
Auditor's remuneration	**146**	188
Staff costs	**661**	1,051
(Release of) provision for onerous contracts	**(47,200)**	47,200
Exchange loss	**39**	332

During the year, the vessel chartering operation paid HK$45 million (2011: HK$91 million) which related to the Group's net operating cash flows, paid HK$0.1 million (2011: received HK$0.3 million) in respect of investing activities and received HK$36 million (2011: paid HK$148 million) in respect of financing activities.

12. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations		
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**478,724**	472,968
– retirement benefits scheme contributions	**63,763**	57,976
– share-based payments	**2,813**	19,266
	545,300	550,210
Amortisation of mining assets, included in cost of sales	**–**	2,339
Amortisation of prepaid lease rentals	**8,439**	8,364
Depreciation of property, plant and equipment	**831,838**	828,336
Total depreciation and amortisation	**840,277**	839,039
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	**(787)**	787
– change in fair value of interest rate swap contracts	**(450)**	4,386
– change in fair value of commodity forward contracts	**(157,200)**	(503,197)
	(158,437)	(498,024)
Auditor's remuneration	**3,395**	3,038
Cost of inventories recognised as expenses (including allowance for inventories and fair value of commodity forward contracts upon delivery)	**17,526,819**	21,075,802
Fair value of commodity forward contracts upon delivery, included in cost of sales	**216,924**	179,494
Allowance for inventories, net, included in cost of sales	**130,571**	66,659
Research and development cost recognised as expenses	**3,309**	6,143
Other tax expenses	**41,248**	33,950
Minimum lease payments under operating leases in respect of land and buildings	**3,385**	3,451
Rental income from investment properties under operating leases, less outgoings of HK$49,000 (2011: HK$194,000)	**(1,359)**	(1,653)

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and Chief Executive's emoluments

The emoluments paid or payable to each of the eleven (2011: ten) Directors were as follows:

	Xu Ning HK$'000 (Note b)	Wang Qinghai HK$'000 (Note c)	Cao Zhong HK$'000 (Note d)	Li Shaofeng HK$'000	Zhang Wenhui HK$'000	Chen Zhouping HK$'000 (Note e)	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Wong Kun Kim HK$'000	Leung Kai Cheung HK$'000	Total 2012 HK$'000
2012												
Fees	5	146	146	–	–	4	150	230	330	330	330	1,671
Other emoluments												
Salaries and other benefits	–	–	–	4,442	3,300	3,079	–	–	–	–	–	10,821
Contributions to retirement benefits schemes	–	–	–	222	165	154	–	–	–	–	–	541
Share-based payments	–	–	–	2,813	–	–	–	–	–	–	–	2,813
Total emoluments	5	146	146	7,477	3,465	3,237	150	230	330	330	330	15,846

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Li Shaofeng HK$'000	Zhang Wenhui HK$'000	Chen Zhouping HK$'000	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Wong Kun Kim HK$'000	Leung Kai Cheung HK$'000	Total 2011 HK$'000
2011											
Fees	150	150	–	–	–	150	230	330	330	330	1,670
Other emoluments											
Salaries and other benefits	–	–	4,442	3,299	3,173	–	–	–	–	–	10,914
Contributions to retirement benefits schemes	–	–	467	334	221	–	–	–	–	–	1,022
Performance related incentive payments (Note a)	–	–	4,900	3,380	1,250	–	–	–	–	–	9,530
Share-based payments	–	4,323	5,399	2,328	2,993	–	–	–	–	–	15,043
Total emoluments	150	4,473	15,208	9,341	7,637	150	230	330	330	330	38,179

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and Chief Executive's emoluments (continued)

Notes:

(a) The performance related incentive payments are determined by the Remuneration Committee of the Board of Directors taking into consideration of the market practice, competitive market position and individual performance.

(b) According to the announcement of the Company dated 20 December 2012, Mr. Xu Ning has been appointed as a Non-executive Director of the Company and the Chairman of the Board of Directors as well as a member and the chairman of the Nomination Committee effective from 21 December 2012.

(c) According to the announcement of the Company dated 20 December 2012, Mr. Wang Qinghai has resigned as a Non-executive Director of the Company effective from 21 December 2012 and has ceased to be the Chairman of the Board of Directors as well as a member and the chairman of the Nomination Committee from the same date.

(d) According to the announcement of the Company dated 20 December 2012, Mr. Cao Zhong has resigned as a Non-executive Director of the Company effective from 21 December 2012 and has ceased to be the Vice Chairman of the Board of Directors from the same date.

(e) According to the announcement of the Company dated 20 December 2012, Mr. Chen Zhouping has been re-designated from an Executive Director of the Company to a Non-executive Director of the Company effective from 21 December 2012 and has ceased to be the Deputy Managing Director and a member of the Executive Committee from the same date.

Mr. Li Shaofeng, the Managing Director of the Company, has overall chief executive responsibility for the Group's business development and day-to-day management generally and his emoluments disclosed above include those for services rendered by him as the Managing Director.

No emoluments were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011.

No Directors waived any emoluments in the years ended 31 December 2012 and 2011.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2011: four) were Directors whose emoluments are included in the disclosures in note 13(a) above. The emolument of the remaining two (2011: one) individual is as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	**2,613**	1,325
Contributions to retirement benefits scheme	**159**	112
Performance related incentive payments	**–**	920
Share-based payments	**–**	333
	2,772	2,690

Their emoluments were within the following bands:

	2012	2011
	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1

14. DIVIDENDS

	2012	2011
	HK$'000	HK$'000
Dividends recognised as distribution during the year		
2010 final – HK1 cent per ordinary share	**–**	81,754

The Board of Directors did not declare dividend for the year ended 31 December 2012 and 2011.

15. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	HK$'000
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company	**(1,947,206)**	152,252
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of associates based on dilution of their earnings per share	**(293)**	(439)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(1,947,499)**	151,813

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**8,953,306,227**	8,531,308,549
Effect of dilutive potential ordinary shares on share options	**–**	8,012,370
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**8,953,306,227**	8,539,320,919

For the year ended 31 December 2012, the computation of diluted loss per share does not assume the exercise of share option, as it would result in a decrease in loss per share for continuing operations. For the year ended 31 December 2011, the computation of diluted earnings per share for continuing operations does not assume the exercise of the certain options as the relevant exercise price was higher than the average market price for shares.

15. (LOSS) EARNINGS PER SHARE (continued)

From continuing operations

The calculation of the basic and diluted (loss) earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

(Loss) earnings figures are calculated as follows:

	2012 **HK$'000**	2011 HK$'000
(Loss) profit for the year attributable to owners of the Company	**(1,947,206)**	152,252
Less:		
Loss for the period/year from discontinued operations	**(29,579)**	(96,440)
(Loss) earnings for the purpose of basic (loss) earnings per share from continuing operations	**(1,917,627)**	248,692
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of associates based on dilution of their earnings per share	**(293)**	(439)
(Loss) earnings for the purpose of diluted (loss) earnings per share from continuing operations	**(1,917,920)**	248,253

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share.

From discontinued operations

Basic loss per share for the discontinued operations is HK0.33 cent per share (2011: HK1.14 cents per share) and diluted loss per share for the discontinued operations is HK0.33 cent per share (2011: HK1.13 cents per share), based on the loss for the period/year from the discontinued operations of HK$29,579,000 (2011: HK$96,440,000) and the denominators detailed above for both basic and diluted (loss) earnings per share.

16. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2011	34,234
Exchange adjustments	1,025
Changes in fair value recognised in profit or loss	6,576
At 31 December 2011	41,835
Exchange adjustments	275
Additions	436
Changes in fair value recognised in profit or loss	6,617
Disposals (note 42)	(10,476)
At 31 December 2012	38,687

The fair value of the Group's investment properties located in Hong Kong at 31 December 2012 and 2011 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations.

The fair value of the Group's investment properties located in PRC at 31 December 2012 and 2011 have been arrived at on the basis of a valuation carried out on that date by Hebei Jiaze Appraisal Company Limited, independent qualified professional valuers not connected with the Group. The real estate appraisers of Hebei Jiaze Appraisal Company Limited bear the qualification given by the Ministry of Housing and Urban-Rural Development of PRC to use the designation of Registered Real Estate Appraiser to perform real estate appraisal practices. The valuation was arrived at by reference to market evidence of capitalisation of the rental income from the properties.

16. INVESTMENT PROPERTIES (continued)

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amounts of investment properties shown above are situated in:

	2012 HK$'000	2011 HK$'000
Hong Kong and held under long lease	**5,100**	14,376
The PRC and held under medium-term lease	**33,587**	27,459
	38,687	41,835

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2011	3,564,819	63,212	127,720	9,337,546	315,564	31,819	2,225,751	15,666,431
Exchange adjustments	151,332	2,456	5,317	396,376	13,209	1,278	94,761	664,729
Additions	2,699	491	3,707	9,835	1,190	–	400,547	418,469
Transfer	388,159	–	1,747	305,954	3,482	–	(699,342)	–
Disposals	(1,383)	–	(6,510)	(15)	(736)	–	–	(8,644)
At 31 December 2011	4,105,626	66,159	131,981	10,049,696	332,709	33,097	2,021,717	16,740,985
Exchange adjustments	32,151	472	1,013	78,729	2,938	–	15,845	131,148
Additions	105,947	–	434	1,818	1,187	–	294,569	403,955
Transfer	219,265	–	1,921	1,073,355	–	–	(1,294,541)	–
Disposals	(249)	(1,395)	(5)	(58)	(318)	–	–	(2,025)
At 31 December 2012	4,462,740	65,236	135,344	11,203,540	336,516	33,097	1,037,590	17,274,063
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2011	494,482	40,449	60,385	2,786,320	161,395	27,286	–	3,570,317
Exchange adjustments	23,882	1,649	2,824	132,653	7,753	1,116	–	169,877
Provided for the year	128,773	432	15,221	635,497	47,132	1,281	–	828,336
Eliminated on disposals	–	–	(6,467)	(6)	(680)	–	–	(7,153)
At 31 December 2011	647,137	42,530	71,963	3,554,464	215,600	29,683	–	4,561,377
Exchange adjustments	6,607	319	685	36,928	2,108	–	–	46,647
Provided for the year	140,696	449	12,442	636,169	40,737	1,345	–	831,838
Impairment loss recognised in profit or loss (Note)	59,865	–	–	124,229	–	–	–	184,094
Eliminated on disposals	(41)	(750)	(5)	(4)	(303)	–	–	(1,103)
At 31 December 2012	854,264	42,548	85,085	4,351,786	258,142	31,028	–	5,622,853
CARRYING VALUES								
At 31 December 2012	3,608,476	22,688	50,259	6,851,754	78,374	2,069	1,037,590	11,651,210
At 31 December 2011	3,458,489	23,629	60,018	6,495,232	117,109	3,414	2,021,717	12,179,608

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The properties shown above are situated in PRC and located on land held under medium-term lease.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings and structure	2% to 4%, or over the terms of the leases, whichever is shorter
Leasehold improvements	2.5% to 25%, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	12.5% to 33%
Plant and machinery	3.6% to 10%
Motor vehicles	10% to 25%
Vessels	5% to 18%

Note: During the year ended 31 December 2012, an impairment loss of HK$184,094,000 was recognised in the profit and loss of which HK$4,500,000, HK$119,729,000 and HK$59,865,000 were allocated to steel manufacturing segment's plant and machinery, mineral exploration segment's plant and machinery and mineral exploration segment's buildings and structure. Details of the impairment assessment are set out in note 21.

18. PREPAID LEASE RENTALS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	**370,648**	367,006
Long-term leasehold land in Hong Kong	**–**	843
	370,648	367,849
Analysed for reporting purposes as:		
Current asset	**8,833**	7,912
Non-current asset	**361,815**	359,937
	370,648	367,849

19. MINING ASSETS

	THE GROUP HK$'000
COST	
At 1 January 2011	184,499
Exchange adjustments	7,962
At 31 December 2011	192,461
Exchange adjustments	1,507
At 31 December 2012	193,968
AMORTISATION AND IMPAIRMENT	
At 1 January 2011	4,906
Exchange adjustments	391
Charge for the year	2,339
At 31 December 2011	7,636
Exchange adjustments	686
Impairment loss recognised during the year (Note)	56,642
Charge for the year	–
At 31 December 2012	64,964
CARRYING VALUES	
At 31 December 2012	129,004
At 31 December 2011	184,825

Details of the Group's mining assets are as follows:

Mine	Location	Expiry date
Hongda Iron Ore Mine	Qinglong Manchu Autonomous County, Hebei Province	June 2016
Chagou Iron Ore Mine	Qinglong Manchu Autonomous County, Hebei Province	December 2013

19. MINING ASSETS (continued)

The mining activities of Hongda Iron Ore Mine commenced in September 2009 and amortisation was charged by using the units of production method. There are no mining activities of Chagou Iron Ore Mine since the acquisition of Chagou Iron Ore Mine during the year ended 31 December 2008 and the Directors expect that mining activities will commence in 2014.

The Directors are of the opinion that the expiry date of the mining assets can be extended with minimal cost.

Note: Mining assets are included in the mineral exploration segment which is a cash generating unit ("CGU") for the purpose of impairment testing of the tangible assets ("Unit C"). During the year, the management conducted an impairment assessment on the recoverable amount of Unit C that engages in the mineral exploration business. An impairment loss of HK$56,642,000 (2011: nil) was recognised on the mining assets under Unit C and charged to the profit and loss. Details of the impairment assessment are set out in note 21.

20. GOODWILL/INTANGIBLE ASSET

Goodwill

	THE GROUP HK$'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	218,015
IMPAIRMENT	
At 1 January 2011	50,000
Impairment loss recognised in the year	22,000
At 31 December 2011	72,000
Impairment loss recognised in the year	146,015
At 31 December 2012	218,015
CARRYING VALUES	
At 31 December 2012	–
At 31 December 2011	146,015

Particulars regarding impairment testing on goodwill are disclosed in note 21.

Intangible asset

The Group's intangible asset represents deferred product design fees which had been fully amortised as at 31 December 2012 and 2011.

21. IMPAIRMENT TESTING ON GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND MINING ASSETS

Impairment testing on steel manufacturing segment

For the purposes of impairment testing, the goodwill set out in note 20 has been allocated to two CGUs in the steel manufacturing business operating segment, which includes the Group's subsidiaries – Qinhuangdao Shougang Plate Mill Co., Ltd ("Qinhuangdao Plate Mill") and Shouqin. The carrying amounts of goodwill as at 31 December 2012 and 2011 allocated to these units are as follows:

	Goodwill	
	2012	2011
	HK$'000	HK$'000
Steel manufacturing – Qinhuangdao Plate Mill ("Unit A")	–	144,489
Steel manufacturing – Shouqin ("Unit B")	–	1,526
	–	146,015

The steel manufacturing segment includes CGUs for the purpose of impairment testing of goodwill.

An impairment loss of HK$150,515,000 has been recognised for the CGUs as the recoverable amounts of CGUs were less than respective carrying amounts. The impairment loss was allocated to reduce the carrying amount of assets of the respective CGUs in the following order:

(a) first, to reduce the carrying amount of goodwill of HK$144,489,000 and HK$1,526,000 allocated to Unit A and Unit B respectively; and

(b) then, to reduce the property, plant and equipment of the Unit A and Unit B in total of HK$4,500,000 (as disclosed in note 17).

The recoverable amount is the higher of fair value less costs to sell and value in use. The recoverable amounts of the Units A and B have been determined based on a value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a five-year period and at a discount rate of 13.50% (2011: 11.63%) for both Units A and B. Both sets of cash flows beyond the five-year period are extrapolated for eight years with zero growth rate. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period which have been determined based on past performance and management's expectations for the market development. During the year ended 31 December 2012, the Group's major steel products experienced insufficient market demand due to the depression of steel industry in the PRC. As a result of weakening demand for steel products and excessive steel production capacity of steel industry, the gross margins of CGUs continued to decline in this year and the future cash flows have been revised based on the management's expectation for the market development.

21. IMPAIRMENT TESTING ON GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND MINING ASSETS (continued)

Impairment testing on mineral exploration segment

During the year, as the result of the unexpected unfavourable performance of mineral exploration segment, the management conducted an impairment assessment of individual segment asset. The segment assets mainly include the property, plant and equipment and mining assets. If it is not possible to estimate the recoverable amount of the property, plant and equipment and mining assets individually, the management determines the recoverable amount of Unit C, as defined in note 19 to which such assets belong. The management considers that the recoverable amount of the individual property, plant and equipment and mining assets cannot be determined if (i) the value in use of the asset cannot be estimated to be close to its fair value less costs to sell, and (ii) the asset does not generate cash inflows that are largely independent of those from other assets. Unit C is considered as a cash generating unit for the purpose of the impairment test.

During the year ended 31 December 2012, an impairment loss of HK$236,236,000 was recognised in the profit and loss of which HK$119,729,000 (as disclosed in note 17), HK$59,865,000 (as disclosed in note 17) and HK$56,642,000 (as disclosed in note 19) were recognised to plant and machinery, buildings and structure and mining assets of the Unit C, respectively on a pro rata basis with reference to their respective carrying amounts before impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. The recoverable amounts of mineral exploration segment were determined based on value in use calculation and based on certain key assumptions. Value in use calculations use cash flow projections based on financial budgets approved by the management of the Group covering a five-year period. The discount rates used for the value in use calculations is 15%. Cash flows beyond the five-year period are extrapolated for fifteen years, which takes into account the remaining useful lives of plant and machinery, buildings and structure and the estimated reserves of the relevant mines, using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. The impairment losses in the current year are mainly attributable to unfavourable industry factors such as the decrease in demand of iron ore which was resulted from the depression of iron ore trading industry in the PRC and keen competition among the mining companies and the deterioration of operating performance of mineral exploration.

22. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**3,086,800**	3,086,800
Deemed capital contribution (Note)	**1,592,118**	1,268,371
Less: Impairment loss recognised	**(723,752)**	(723,752)
	3,955,166	3,631,419
Amounts due from subsidiaries	**4,923,692**	5,287,627
Less: Impairment losses recognised	**(462,845)**	(337,889)
	4,460,847	4,949,738
Analysed for reporting purpose as:		
Current asset	**–**	80,000
Non-current asset	**4,460,847**	4,869,738
	4,460,847	4,949,738
Amounts due to subsidiaries	**412,365**	266,201

Note: Deemed capital contribution represented the imputed interest at effective interest rate on the interest-free loans provided to subsidiaries and fair value of financial guarantee given to banks in respect of banking facilities available to subsidiaries.

Amounts due from subsidiaries classified as non-current are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the amounts will not be repayable in the next 12 months.

Amount due from a subsidiary classified as current in 2011 represented dividend receivable from a subsidiary and was unsecured, interest-free and repayable on demand.

Amount due to subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 December 2012 are set out in note 50.

23. INTERESTS/INVESTMENT IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of investment in associates				
Listed in Hong Kong	**6,834,092**	6,834,092	**4,876**	4,876
Unlisted	**20,448**	20,448	**–**	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,094,325**	1,083,350	**–**	–
	7,948,865	7,937,890	**4,876**	4,876
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments (Note)	**(364,213)**	(364,213)	**–**	–
	7,584,652	7,573,677	**4,876**	4,876
Fair value of listed investments	**4,395,456**	4,076,817	**2,719**	2,509

On 5 May 2011, the Company and Shougang HK entered into an agreement, pursuant to which Shougang HK has conditionally agreed to sell the entire issued share capital of Fair Gain Investments Limited ("Fair Gain"), to the Company at a consideration of approximately HK$785,704,000 (the "Acquisition"), which would be satisfied in full by the allotment and issue of the 777,925,013 shares of the Company (the "Consideration Shares") to Shougang HK or its nominee at an issue price of HK$1.01 per Consideration Share, representing the closing price of the Company's shares on 4 May 2011. The consideration was determined by reference to the prevailing market price per share of Shougang Fushan Resources Group Limited ("Shougang Resources") on 4 May 2011 as the major asset held by Fair Gain as that time was the holding of 149,089,993 shares of Shougang Resources.

23. INTERESTS/INVESTMENT IN ASSOCIATES (continued)

The Acquisition was completed on 18 July 2011 (the "Completion Date"). On the Completion Date, the Company issued 777,925,013 shares with the market price of HK$0.71 per share as consideration for the Acquisition, which amounted to approximately HK$552,327,000, while the market price of Shougang Resources is HK$4.43 per share and the fair value of the shares of Shougang Resources acquired amounted to approximately HK$660,469,000. As a result, fair value gain of HK$108,142,000 was recognised and included in other gains and losses as disclosed in note 8. Upon completion of the Acquisition, the Group's equity interest in Shougang Resources increased from 24.44% to 27.21% and such equity interest is continuously accounted for as interest in an associate.

During the year ended 31 December 2012, the Group's interest in an associate, Shougang Resources, has been increased by 0.39% as Shougang Resources has repurchased its own shares and deemed acquisition resulted (2011: increased by 0.01% due to deemed acquisition resulted by the repurchase of shares by Shougong Resources). This has also resulted in a gain on deemed acquisition of interests in Shougang Resources amounted to HK$17,564,000 (2011: loss of HK$376,000) and included in other gains and losses.

During the year ended 31 December 2011, the Group's interest in an associate, Shougang Concord Century Holdings Limited ("Shougang Century") was diluted by 0.01% upon exercise of share options of Shougang Century by the options holders and dilution resulted. This had resulted in a loss on deemed dilution of interests in Shougang Century of HK$44,000 and included in other gains and losses.

Note: The amount represents unrealised gain on disposal of available-for-sale investments to the Group's associate, Shougang Resources, which is determined by the equity interest of Shougang Resources held by the Group upon completion of the disposal of available-for-sale investments to the associate in 2009.

During the year ended 31 December 2012, Shougang Resources early adopted HKFRS 9. As at 31 December 2012, such investments are continuously held by Shougang Resources and classified as financial assets at FVTOCI.

Such unrealised gain will be reversed upon the loss of significant influence over Shougang Resources or disposal of such investments by Shougang Resources.

23. INTERESTS/INVESTMENT IN ASSOCIATES (continued)

Included in the cost of investment in associates is goodwill of approximately HK$2,257,169,000 (2011: HK$2,257,169,000), of which approximately HK$164,787,000 arising on acquisition of Shougang Resources during the year ended 31 December 2011. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2011	2,092,382
Arising on acquisition of additional interest in an associate	164,787
At 31 December 2011 and 31 December 2012	2,257,169

The summarised financial information in respect of the Group's associates is set out below:

	2012 HK$'000	2011 HK$'000
Total assets	**33,068,004**	33,613,153
Total liabilities	**(8,689,351)**	(9,172,864)
Net assets	**24,378,653**	24,440,289
Group's share of net assets of associates	**5,691,696**	5,680,721
Revenue	**7,425,945**	9,006,108
Profit for the year	**1,435,290**	2,196,364
Other comprehensive income	**(369,561)**	(634,630)
Group's share of profits and other comprehensive income of associates for the year	**264,054**	399,187

Details of the associates are set out in note 50.

23. INTERESTS/INVESTMENT IN ASSOCIATES (continued)

The respective carrying amounts of the Group's investment in the listed associates are tested for impairment in entirety in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing the respective recoverable amount. The recoverable amounts of the Group's investment in the listed associates have been determined based on a value in use calculations. The value in use calculations use cash flow projections based on financial budgets covering a five-year period at a discount rate of 15.9% (2011: 19.4%) for investment in Shougang Resources. The value in use calculations use cash flow projections based on financial budgets covering a five-year period at a discount rate of 10.33% for investment in Shougang Century. The parameters adopted in the cash flow beyond the 5 year period were extrapolated with zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin, such estimation is based on the management's expectations for the market development.

As at 31 December 2012 and 2011, the recoverable amounts of the Group's listed associates are higher than the respective carrying amounts and thus no impairment loss is recognised.

24. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS

Equity investments/available-for-sale investments comprise:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Listed investments:		
– Equity securities listed in Australia, at fair value (Note a)	**15,782**	42,228
Unlisted investments:		
– PRC equity securities, at fair value (Note b)	**176,471**	–
– PRC equity securities, at cost (Note b)	**–**	145,608
Total	**192,253**	187,836

These investments in equity securities are not held for trading. Upon the application of HKFRS 9 on 1 January 2012, the Group's investments in listed and unlisted equity securities that were previously classified as available-for-sale investments have been classified as equity investments designated as at FVTOCI. The Group has chosen to designate these investments in equity instruments as at FVTOCI as the management believes that this provides a more meaningful presentation for medium or long-term strategic investments, than reflecting changes in fair value in profit or loss.

24. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes:

a. On 20 March 2007, Timefull Investments Limited ("Timefull"), a subsidiary of the Company entered into a share and option subscription agreement with Australasian Resources Limited ("ARH"), a company listed in Australia, whereby Timefull subscribed 28,000,000 newly-issued shares of ARH ("ARH Shares") at AUD1 each, representing approximately 5.72% (2011: 6.1%) of the enlarged issued share capital of ARH and 14 million call options were granted to Timefull at an exercise price of AUD1.5 per option ("ARH Option") at a consideration of AUD28 million (equivalent to approximately HK$187 million). The ARH Shares acquired was initially recognised as available-for-sale investments and the ARH Option was recognised initially as other financial asset which expired in 2010.

   As at 31 December 2011, based on the decline in the fair value of ARH shares below the initial cost of investment, an impairment loss of HK$53,425,000 has been provided as disclosed in note 8. In the current year, the Group has applied HKFRS 9 and the related consequential amendments in advance of their effective date of 1 January 2015. The listed equity investments previously measured at fair value at the end of the reporting period are designated by the Group as at FVTOCI (as disclosed in note 3). As at 31 December 2012, the fair value loss of HK$26,446,000 is recognised as other comprehensive expense and is included in security investment reserve of the Group under HKFRS 9.

b. The unlisted PRC equity securities represent the Group's investment in 10% equity interest of a private entity established in the PRC, for which the principal activities are ship building, ship repairing and retrofitting. The unlisted equity investments previously measured at cost less impairment under HKAS 39 are now measured at fair value under HKFRS 9. The fair value of the unlisted equity securities as at 1 January 2012 and 31 December 2012 was measured using valuation technique with significant unobservable inputs.

25. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The Group

The balances represent deposits paid for acquisition of property, plant and equipment. Included in the amount, approximately HK$2,286,000 (2011: HK$23,684,000) was paid to the Shougang Group.

26. INVENTORIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Raw materials	**1,807,867**	2,378,270
Work in progress	**808,943**	918,532
Finished goods	**641,951**	771,683
	3,258,761	4,068,485

27. TRADE AND BILLS RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Trade and bills receivables	**2,124,361**	3,057,270
Less: Allowance for doubtful debts	**(141,399)**	(160,489)
	1,982,962	2,896,781
Prepayments and deposits	**135,073**	235,574
Value added tax receivables	**509,966**	594,022
Other receivables	**913**	1,196
Entrusted loan receivables (Note)	**–**	86,144
Less: Allowance for doubtful debts	**(8,192)**	(8,129)
	637,760	908,807
	2,620,722	3,805,588

For most customers, in particular in the business of steel manufacturing, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 60 days. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 60 days	**1,615,374**	2,224,290
61 – 90 days	**155,462**	170,118
91 – 180 days	**88,963**	428,451
181 – 365 days	**123,163**	73,922
	1,982,962	2,896,781

27. TRADE AND BILLS RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Before accepting any new customer, the Group assesses the credit quality of each potential customer and defines a credit rating and limit for each customer. In addition, the Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. In the opinion of Directors, the trade and bills receivables that are not past due nor impaired were of good credit quality at the end of the reporting period.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$367,588,000 (2011: HK$672,491,000) which are past due at the reporting date but for which the Group has not provided for allowance for doubtful debts as continuous repayment was noted subsequent to the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables is 156 days (2011: 135 days).

Ageing of trade receivables which are past due but not impaired.

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
61 – 90 days	**155,462**	170,118
91 – 180 days	**88,963**	428,451
181 – 365 days	**123,163**	73,922
Total	**367,588**	672,491

The Group estimates the future discounted cash flow of those receivables with whom the Group has ceased business over 365 days and considered the receivables are not recoverable because based on historical experience, such receivables that are past due beyond 365 days are generally not recoverable.

27. TRADE AND BILLS RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
At 1 January	**160,489**	161,101
Impairment losses recognised on receivables	**41,828**	382
Amounts written off as uncollectible	**(53,809)**	(1,614)
Impairment losses reversed	**(7,698)**	(256)
Exchange adjustments	**589**	876
At 31 December	**141,399**	160,489

The entire balance of the allowance for doubtful debts with an aggregate amount of HK$141,399,000 (2011: HK$160,489,000) are individually impaired trade receivables which are in severe financial difficulties.

Other receivables of the Group and the Company are unsecured, interest-free and repayable within one year from the end of the reporting period.

Note: As at 31 December 2011, the Group entered into entrusted loan arrangements with banks, in which the Group acted as the entrusting parties and the banks acted as the lenders to provide funding to specific borrowers.

The entrusted loan receivables are secured by certain assets of the specified borrowers, interest bearing at fixed-rates from 8% to 9% per annum. The amounts are repayable within twelve months from the end of the reporting period. All the Group's entrusted loan receivables are denominated in Renminbi, the functional currency of the relevant group entities. During the year ended 31 December 2012, all entrusted loan receivables have been fully settled.

27a. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's bills receivables as at 31 December 2012 that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and trade payables and has recognised the cash received from the banks as secured borrowings. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivables discounted to banks with full recourse	**Bills receivables endorsed to suppliers with full recourse**	**Total**
	HK$'000	HK$'000	HK$'000
Carrying amount of bills receivables	252,813	141,858	394,671
Carrying amount of borrowings and trade payables	(252,813)	(141,858)	(394,671)

28. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY, AMOUNT DUE FROM AN ASSOCIATE

The amounts due from (to) related companies represent amounts due from (to) the members of the Shougang Group. The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) related companies are unsecured, interest-free and are repayable on demand.

The trade receivables from related companies and an aged analysis of such balances net of allowance of doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates are as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 60 days	**151,834**	599,655
61 – 90 days	**11,625**	113,680
91 – 180 days	**–**	229,068
181 – 365 days	**–**	19,367
1 – 2 years	**395**	4,460
	163,854	966,230

28. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY, AMOUNT DUE FROM AN ASSOCIATE (continued)

The Group allows a range of credit period normally not more than 60 days for sales to its related companies. In the opinion of Directors, the trade receivables from related companies that are not past due nor impaired were of good credit quality at the end of the reporting period.

Included in these trade receivables from related companies are receivables with an aggregate carrying amount of HK$12,020,000 (2011: HK$366,575,000) which are past due at the reporting date but for which the Group has not provided allowance for doubtful debts. The Group does not hold any collateral over these balances. The average age of these receivables is 82 days (2011: 129 days).

Ageing of trade receivables from related companies which are past due but not impaired are as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
61 – 90 days	**11,625**	113,680
91 – 180 days	**–**	229,068
181 – 365 days	**–**	19,367
1 – 2 years	**395**	4,460
Total	**12,020**	366,575

The Group estimates the future discounted cash flow of those receivables aged over two years and considered such receivables are not recoverable because based on historical experience, such receivables that are past due beyond 2 years are generally not recoverable.

Movement in the allowance of doubtful debts of trade receivables from related companies

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
At 1 January	**28,395**	27,280
Exchange adjustments	**223**	1,115
At 31 December	**28,618**	28,395

28. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY, AMOUNT DUE FROM AN ASSOCIATE (continued)

In determining the recoverability of trade and non-trade receivables from related companies, the Group considers any change in credit quality of the trade and non-trade receivables from the date credit was initially granted up to the financial statements approval dates. Accordingly, the Directors believe that no further provision is required in excess of the allowance of doubtful debts of trade receivables from related companies.

The trade payables to related companies and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**284,948**	202,232
91 – 180 days	**37,832**	18,765
181 – 365 days	**11,918**	12,111
1 – 2 years	**8,342**	43,718
Over 2 years	**11,419**	20,142
	354,459	296,968

The Group's amount due from a non-controlling shareholder of a subsidiary is unsecured, interest bearing at 3.25% per annum and is repayable on demand.

The Group's amount due from an associate is unsecured, interest-free and repayable on demand.

The Company's amount due from related companies are unsecured, interest-free and repayable on demand.

29. TRADE PAYABLES/AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

As at 31 December 2012 and 2011, the amount due from the ultimate holding company of a shareholder is non-trade in nature, unsecured, interest free and repayable on demand.

The trade payables to the ultimate holding company of a shareholder are unsecured, interest-free and repayable within 60 days. The non-trade payables to the ultimate holding company of a shareholder are unsecured, interest-free and are repayable on demand.

The trade payables to the ultimate holding company of a shareholder and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**2,102,859**	2,731,018
91 – 180 days	**1,179,689**	118,797
1 – 2 years	**141**	140
	3,282,689	2,849,955

30. OTHER FINANCIAL ASSETS/LIABILITIES

Other financial assets

	THE GROUP AND THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Commodity forward contracts with Mount Gibson Iron Limited (Note a)	**834,116**	893,840
Analysed as:		
Non-current	**594,603**	585,738
Current	**239,513**	308,102
	834,116	893,840

30. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial assets (continued)

Notes:

a. In November 2008, the Company entered into certain commodity forward contracts with Mount Gibson Iron Limited ("MGI") to purchase iron ore for which the forward price was determined with reference to Hamersley Benchmark Iron Ore Prices. In November 2010, the commodity forward contracts were revised as the Hamersley Benchmark Iron Ore Prices which were not available in the market and the iron ore forward price has then been revised to be determined with reference to Platts Iron Ore Price.

At 31 December 2012 and 2011, the major terms of the outstanding commodity forward contracts entered by the Company with MGI are as follows:

2012 and 2011

Commodity forward contracts on or after September 2011

Notional amount	Period	Forward price
Purchase approximately 80% of total production of a relevant mine ("Mine A") in Australia (note)	01.11.2010 to the life of the relevant mine	Platts Iron Ore Prices less operating adjustments and marketing commission for lump and fines ore products per dead weight metric tonne
Purchase approximately 56% of total production of a relevant mine ("Mine B") in Australia	01.11.2010 to the life of the relevant mine	Platts Iron Ore Prices less operating adjustments and marketing commission for lump and fines ore products per dead weight metric tonne

Original commodity forward contracts prior to September 2011

Notional amount	Period	Forward price
Purchase approximately 56% of total production of two relevant mines (including Mine A and Mine B) in Australia	01.11.2010 to the lives of the relevant mines	Platts Iron Ore Prices less operating adjustments and marketing commission for lump and fines ore products per dead weight metric tonne

30. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial assets (continued)

Notes: (continued)

a. (continued)

As per the original commodity forward contracts, the Group was entitled to purchase 80% of the 70% of the total production of Mine A and Mine B, and MGI could not enter into further sales agreements with any other customers without the consent of the Group.

Due to the demise of the Hamersley Benchmark Iron Ore Prices in 2010, MGI has sought to negotiate with each of its customers a revised pricing mechanism. However, MGI failed to reach an agreement on the revised pricing mechanism with some of its customers who in total purchase approximately 30% of the total production of Mine A. In August 2011, MGI announced that the commodity forward contracts with these customers of Mine A have ceased to be binding on these customers. As per the commodity forward contracts, when any sales agreements entered into between MGI and these customers prior to 31 October 2008 were terminated, 80% of the 30% of the total production surrendered by these customers would be taken up by the Group. Together with the 56% of the total production of Mine A originally taken by the Group, the Group will purchase 80% of the total production of Mine A from September 2011 onwards.

As at 31 December 2012, the fair value of the commodity forward contracts were determined by the Directors with reference to a valuation report carried out by Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group and the fair value is approximately HK$834,116,000 (2011: HK$893,840,000). For the year ended 31 December 2012, a fair value gain of HK$157,200,000 (2011: HK$503,197,000) has been recognised in profit or loss and a fair value of approximately HK$216,924,000 (2011: HK$179,494,000), representing the fair value attributable to purchases during the year, has been included in cost of inventories upon delivery to the Group.

Discounted cashflow model is used for valuation of the commodity forward contracts. The fair value are based on certain assumptions including the risk free rate in Australia of 3.216% (2011: 3.483%), the forecasted annual production of the mines, the life of the Mine A of 10 years (2011: 9 years) and life of Mine B of 1 year (2011: 2 years), a range of forecasted Platts Iron Ore Index, the spread between Australia – capesize vessel freight rate and Australia – China panamax vessel freight rate and a discount rate of 17% (2011: 17%) throughout the contracts period based on management's best estimate.

30. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial liabilities

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial guarantee contracts (Note b)	**–**	–	**134,400**	141,877
Foreign currency forward contracts (Note c)	**–**	787	**–**	787
Interest rate swap contracts (Note d)	**3,936**	4,386	**3,936**	4,386
	3,936	5,173	**138,336**	147,050

Notes:

b. As at 31 December 2012, the carrying value of the Company's financial guarantee contracts amounted to HK$134,400,000 (2011: HK$141,877,000) represented the amount initially recognised at its fair value less cumulative amortisation recognised in accordance with the Company's revenue recognition policy.

The fair value of the Company's financial guarantee contracts were determined by the Directors with reference to a valuation report carried out by Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group.

The fair value of financial guarantee contracts upon recognition is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of expected loss, as a result of the default.

c. At 31 December 2011, the Group and the Company entered into deliverable foreign currency forward contracts with banks, the major terms of the outstanding contracts are as follows:

THE GROUP AND THE COMPANY

Notional amount	Maturity	Forward exchange rates
Buy RMB16 million	20.02.2012	HKD1.2236 to RMB1
Sell RMB100 million	09.01.2012	HKD1.2166 to RMB1

The fair value of foreign currency forward contracts were measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

At 31 December 2012, the Group and the Company did not have any outstanding foreign currency forward contract.

30. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial liabilities (continued)

Notes: (continued)

d. At 31 December 2012 and 2011, the Group and the Company entered into interest rate swap contracts with bank, the major terms of the outstanding contracts as at 31 December 2012 and 2011 are as follows:

THE GROUP AND THE COMPANY

Notional amount	Maturity	Swaps
USD12.5 million	From 28.01.2011 to 28.07.2014	From USD1-month LIBOR to 1.525% per annum
USD12.5 million	From 18.03.2011 to 18.09.2014	From USD1-month LIBOR to 1.465% per annum

The fair value of interest rate swap contracts is calculated at the present value of the estimated future cash flows based on observable yield curves.

The interest rate swap contracts are classified as current liabilities based on the terms of contracts that the bank may terminate the contracts immediately in the bank's sole discretion.

31. RESTRICTED AND PLEDGED BANK DEPOSITS

The Group

The restricted bank deposits represent bank deposits restricted by certain banks to secure the issuance of letters of credit and pledged bank deposits represent bank deposits pledged to certain banks to secure bank borrowings. The deposits carry fixed interest ranged from 0.35% to 3.05% (2011: 0.40% to 4.38%) per annum.

The restricted deposits amounting to HK$617,329,000 (2011: HK$502,600,000) will be released upon the settlement of the letters of credit which will be within twelve months from the end of the reporting period and are therefore classified as current assets.

Pledged bank deposits amounting to HK$161,672,000 (2011: HK$123,396,000) represent deposits pledged to secure short-term bank borrowings and are therefore classified as current assets.

The remaining pledged bank deposits amounting to HK$92,403,000 (2011: HK$467,547,000) represented deposits pledged to secure bank borrowings and are classified as non-current.

The Company

The pledged bank deposits amounting to HK$92,403,000 (2011: HK$375,000,000) carried fixed interest rate ranged from 0.01% to 0.4% (2011: 0.40% to 4.38%) per annum and represented deposits pledged to secure bank borrowings and are classified as non-current.

32. BANK BALANCES AND CASH

The Group

The Group's bank balances and time deposits carry interest at market rates which range from 0.01% to 3.5% (2011: 0.01% to 4.62%) per annum.

The Company

The Company's bank balances and time deposits carry interest at market rates which range from 0.01% to 0.56% (2011: 0.05% to 4.62%) per annum.

33. TRADE AND BILLS PAYABLES, OTHER PAYABLES, PROVISION AND ACCRUED LIABILITIES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**2,818,279**	2,647,314
91 – 180 days	**527,424**	705,341
181 – 365 days	**120,582**	275,657
1 – 2 years	**70,339**	46,038
Over 2 years	**3,447**	10,604
	3,540,071	3,684,954

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that most of the payables are within the credit timeframe.

Included in the trade payables above are HK$141,858,000 (2011: HK$512,432,000) that has been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period.

At 31 December 2012, other payables of the Group mainly included the receipt in advance from customers of approximately HK$515,427,000 (2011: HK$719,669,000) and construction payables of approximately HK$157,170,000 (2011: HK$247,568,000). Except for the receipt in advance from customers which will be utilised when the goods are delivered and titles have passed, other payables are unsecured, interest-free and are repayable on demand.

As at 31 December 2011, provision for onerous contracts of HK$47,200,000 represented management's best estimate of the Group's leasing cost of vessels through two time charter hires, as disclosed in note 44, exceed the charter hire income of vessels expected to be received. During the year ended 31 December 2012, the amount of HK$47,200,000 is credited to profit or loss over the non-cancellable contract period before the termination of the contracts and included in cost of sales.

34. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**8,255,718**	9,986,483	**–**	1,441,754
In the second year	**411,640**	617,956	**–**	309,466
In the third to fifth years inclusive	**43,527**	1,745,985	**–**	1,145,664
	8,710,885	12,350,424	**–**	2,896,884
Carrying amount of bank loans that are repayable on demand (shown under current liabilities)	**2,031,757**	–	**2,031,757**	–
	10,742,642	12,350,424	**2,031,757**	2,896,884
Less: Amount due within one year shown under current liabilities	**(10,287,475)**	(9,986,483)	**(2,031,757)**	(1,441,754)
Amount shown under non-current liabilities	**455,167**	2,363,941	**–**	1,455,130
Secured	**2,484,795**	3,618,693	**2,031,757**	2,896,884
Unsecured	**8,257,847**	8,731,731	**–**	–
	10,742,642	12,350,424	**2,031,757**	2,896,884

During the year, in respect of bank loans with a carrying amount of HK$2,031,757,000 as at 31 December 2012, the Group cannot fulfill certain terms of the bank loans, which are primarily related to the interest coverage ratio of the Group. The Company informed the lenders and commenced renegotiation of the terms of the loans with the relevant banks. Therefore, the loans have been classified as current liabilities as at 31 December 2012.

The Company is confident that its negotiations with the lenders will be successful. The Company believes that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

34. BANK BORROWINGS (continued)

Included in bank borrowings as at 31 December 2012 was an amount of HK$252,813,000 (2011: HK$162,822,000) relating to advance drawn on bills discounted to banks.

The exposure of the Group's and the Company's fixed-rate borrowings are as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fixed-rate borrowings				
Within one year	**3,787,184**	1,529,530	**–**	–

The exposure of the Group's and the Company's variable-rate borrowings are as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Variable-rate borrowings				
On demand or within one year	**6,500,291**	8,456,953	**2,031,757**	1,441,754
In more than one year but not more than two years	**411,640**	617,956	**–**	309,466
In more than two years but not more than five years	**43,527**	1,745,985	**–**	1,145,664
	6,955,458	10,820,894	**2,031,757**	2,896,884

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 0.8% to 7.872% (2011: from 4.418% to 10%) per annum.

34. BANK BORROWINGS (continued)

The variable-rate bank borrowings of approximately HK$1,817 million (2011: HK$2,684 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus a range of 1.45% to 3.5% (2011: LIBOR plus 0.52% to 2.2%) per annum, which are ranged from 1.66% to 3.71% (2011: ranged from 0.80% to 2.48%) per annum. Approximately HK$215 million (2011: HK$348 million) of the variable-rate borrowings carry interest at the Hong Kong Interbank Offered Rates ("HIBOR") plus 1.7% (2011: HIBOR plus 1.2%) per annum, which is 2.05% (2011: 1.48%) per annum. The remaining variable-rate borrowings carry interest at the People's Bank of China's lending rate ("Lending Rate"), or with a 5% to 30% addition or reduction on the Lending Rate, which are ranged from 5.1% to 7.93% (2011: from 5.18% to 7.93%) per annum.

In 2012 and 2011, the Group's borrowings were secured by certain assets of the Group and are guaranteed by the ultimate holding company of a shareholder. Details are set out in notes 48 and 49.

In 2012 and 2011, the Company's borrowings were secured by certain assets of subsidiaries or bank deposits (details are set out in note 48), and certain loans are guaranteed by a wholly-owned subsidiary.

The Group's and the Company's borrowings that were denominated in currencies other than the functional currencies of the relevant group entities are set out as below:

	THE GROUP HK$'000	THE COMPANY HK$'000
As at 31 December 2012	2,242,999	2,031,757
As at 31 December 2011	3,044,406	2,896,884

35. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The Group

The amounts are unsecured, interest bearing at fixed-rates ranged from 6% to 6.56% (2011: 6.31% to 6.56%) per annum, except for HK$148,075,000 which were non-interest bearing as at 31 December 2011 (2012: nil). The amounts are repayable within twelve months from the end of the reporting period.

36. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 **HK$'000**	2011 HK$'000
Deferred tax assets	**(46,482)**	(45,822)
Deferred tax liabilities	**30,233**	33,034
	(16,249)	(12,788)

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior year:

	Accelerated tax depreciation HK$'000	**Fair value adjustment and revaluation of properties** HK$'000	**Unrealised profit of available-for-sale investments** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
THE GROUP					
At 1 January 2011	24,040	22,971	(45,826)	(35,873)	(34,688)
Exchange differences	933	44	4	(963)	18
(Credit) charge to profit or loss (note 10)	(3,652)	1,447	–	24,087	21,882
At 31 December 2011	21,321	24,462	(45,822)	(12,749)	(12,788)
Exchange differences	124	32	(660)	(97)	(601)
(Credit) charge to profit or loss (note 10)	(3,831)	1,075	–	(104)	(2,860)
At 31 December 2012	17,614	25,569	(46,482)	(12,950)	(16,249)

36. DEFERRED TAX (continued)

At the end of the reporting period, the Group has unused tax losses of approximately HK$4,948 million, of which HK$447 million is subject to IRD's confirmation and HK$1,996 million is subject to SAT's confirmation (2011: HK$2,805 million of which HK$332 million was subject to IRD's confirmation and HK$774 million was subject to SAT's confirmation) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$52 million (2011: HK$51 million) of such losses. No deferred tax asset has been recognised in respect of the HK$4,896 million (2011: HK$2,754 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of which HK$761 million will expire in 2014, HK$846 million will expire in 2015, HK$786 million will expire in 2016 and HK$1,996 million will expire in 2017 (2011: losses of HK$755 million will expire in 2014 and $840 million will expire in 2015 and HK$780 million will expire in 2016), while the remaining tax losses may be carried forward indefinitely. These deferred tax assets have not been recognised due to the unpredictability of future profit streams.

At the end of the reporting period, the Group has deductible temporary differences, which mainly represents allowance for trade receivables, allowance for inventories, impairment loss recognised on property, plant and equipment and mining assets in total of approximately HK$506 million (2011: HK$145 million) and tax credit of approximately HK$63 million (2011: HK$62 million), which represents tax credit granted by the PRC Tax Authority for purchase of plants and machineries manufactured domestically in the PRC and will expire in various dates before 31 December 2014. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2011, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$14 million (2012: nil) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company

At the end of the reporting period, the Company has unused tax losses of approximately HK$111 million of which HK$104 million was subject to IRD's confirmation (2011: HK$91 million of which HK$90 million was subject to IRD's confirmation) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

37. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2011 and 31 December 2011	10,000,000,000	2,000,000
Increase in authorised share capital (Note a)	10,000,000,000	2,000,000
At 31 December 2012	20,000,000,000	4,000,000
Issued and fully paid:		
At 1 January 2011	8,175,381,214	1,635,076
Issue for the acquisition of additional interest in an associate (Note b)	777,925,013	155,585
At 31 December 2011 and 31 December 2012	8,953,306,227	1,790,661

Notes:

(a) On 25 May 2012, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK$2,000,000,000 divided into 10,000,000,000 ordinary shares to HK$4,000,000,000 divided into 20,000,000,000 ordinary shares.

(b) During the year ended 31 December 2011, 777,925,013 shares were issued as consideration for the Acquisition as disclosed in note 23 at HK$0.71 per share, which is based on the market price on the Completion Date.

All new shares issued rank pari passu with the then existing issued shares of the Company in all respects.

38. SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "2002 Scheme") on 7 June 2002.

The purpose of the 2002 Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies (as defined under the 2002 Scheme). The 2002 Scheme was adopted on 7 June 2002 and terminated on 29 May 2012.

38. SHARE OPTION SCHEMES (continued)

Under the 2002 Scheme, the Board of Directors may, at their discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or certain other eligible participants, share options to subscribe for shares of the Company.

The exercise price in relation to each share option will be determined by the Board of Directors at its absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the share of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the 2002 Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer. All share options, except for 8,000,000 share options granted during the year ended 31 December 2010, are fully vested as at 31 December 2012 (2011: all share options except for 12,000,000 share options granted during the year ended 31 December 2010 are fully vested).

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The 2002 Scheme was terminated on 29 May 2012 and no further options can be granted under the 2002 Scheme. However, the share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

No share option was granted and exercised in accordance with the terms of the 2002 Scheme during the year.

The Company adopted a new share option scheme (the "2012 Scheme") on 25 May 2012.

The purpose of the 2012 Scheme is to replace the 2002 Scheme and to continue to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest. The 2012 Scheme will remain in force for a period of 10 years commencing on 25 May 2012.

38. SHARE OPTION SCHEMES (continued)

Under the 2012 Scheme, the Board of Directors may, at its discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or certain other eligible participants, share options to subscribe for shares of the Company.

The exercise price in relation to each share option will be determined by the Board of Directors at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 31 December 2012, there was no share option outstanding under the 2012 Scheme. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 895,330,622, representing approximately 10% of the issued share capital of the Company at the end of the reporting period. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0. 1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

38. SHARE OPTION SCHEMES (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2012:

Grantees	Number of share options: At 1.1.2011, 31.12.2011 and 1.1.2012	Granted during 2012	Transferred to other category during 2012 (Note 1)	Lapsed during 2012 (Note 2)	At 31.12.2012	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$
Directors of the Company	8,000,000	–	–	(8,000,000)	–	23.8.2002	–	23.8.2002 to 22.8.2012	0.295
	4,590,000	–	–	–	4,590,000	12.3.2003	–	12.3.2003 to 11.3.2013	0.280
	33,500,000	–	(13,000,000)	–	20,500,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	29,000,000	–	(13,000,000)	–	16,000,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	29,000,000	–	(13,000,000)	–	16,000,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	29,000,000	–	(13,000,000)	–	16,000,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	29,000,000	–	(13,000,000)	–	16,000,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	4,000,000	–	–	–	4,000,000	14.12.2010	–	14.12.2010 to 13.12.2017	1.180
	4,000,000	–	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2011	14.12.2011 to 13.12.2017	1.180
	4,000,000	–	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2012	14.12.2012 to 13.12.2017	1.180
	4,000,000	–	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2013	14.12.2013 to 13.12.2017	1.180
	4,000,000	–	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2014	14.12.2014 to 13.12.2017	1.180
	182,090,000	–	(65,000,000)	(8,000,000)	109,090,000				
Other employees of the Group	2,600,000	–	–	–	2,600,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	2,600,000	–	–	–	2,600,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	2,600,000	–	–	–	2,600,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	2,600,000	–	–	–	2,600,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	2,600,000	–	–	–	2,600,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	13,000,000	–	–	–	13,000,000				
Other eligible participants (Note 3)	50,000	–	–	(50,000)	–	23.8.2002	–	23.8.2002 to 22.8.2012	0.295
	10,000,000	–	13,000,000	–	23,000,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	10,000,000	–	13,000,000	–	23,000,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	10,000,000	–	13,000,000	–	23,000,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	10,000,000	–	13,000,000	–	23,000,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	10,000,000	–	13,000,000	–	23,000,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	50,050,000	–	65,000,000	(50,000)	115,000,000				
	245,140,000	–	–	(8,050,000)	237,090,000				
Exercisable	233,140,000				229,090,000				

38. SHARE OPTION SCHEMES (continued)

Notes:

1. The 65,000,000 share options were held by a Director of the Company who resigned as a Director of the Company during the year of 2012. In accordance with the 2002 Scheme, the 65,000,000 share options should be lapsed on the date of cessation as a Director of the Company, the Board of Directors of the Company approved the share options held by this Director remain exercisable up to the original expiring date, 19 December 2014, and such share options were reclassified from the category of "Directors of the company" to "Other eligible participants" during the year of 2012. The above share options will be lapsed upon the expiration of the exercise period on 19 December 2014.

2. The share options were lapsed during the year of 2012 due to the expiration of exercisable period on 23 August 2012.

3. Other eligible participants include the Group's resigned or retired employees.

During the year ended 31 December 2011, there was no movements of the share options held by Directors, employees and other eligible participants, except some of the share options became exercisable as at 31 December 2011.

During the years ended 31 December 2012 and 2011, no share options were exercised.

The Group recognised the total expense of HK$2,813,000 for the year ended 31 December 2012 (2011: HK$19,266,000) in relation to share options granted by the Company.

39. RESERVES

	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Special capital reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2011	3,133,915	265,357	22,611	–	948,640	4,370,523
Profit for the year and total comprehensive income	–	–	–	–	641,835	641,835
Shares issued at premium	396,741	–	–	–	–	396,741
Shares issue expenses	(30)	–	–	–	–	(30)
Recognition of equity-settled share based payments	–	19,266	–	–	–	19,266
Dividend recognised as distribution	–	–	–	–	(81,754)	(81,754)
At 31 December 2011	3,530,626	284,623	22,611	–	1,508,721	5,346,581
Profit for the year and total comprehensive income	–	–	–	–	54,029	54,029
Recognition of equity-settled share based payments	–	2,813	–	–	–	2,813
Recovery of advance to a subsidiary (Note a)	–	–	–	170,000	(170,000)	–
Transfer from special capital reserve (Note b)	–	–	–	(170,000)	170,000	–
At 31 December 2012	3,530,626	287,436	22,611	–	1,562,750	5,403,423

39. RESERVES (continued)

Notes

a: Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 13 June 2005 and the subsequent order of the High Court of Hong Kong (the "Court Order") made on 1 September 2005, the entire amounts of approximately HK$1,412,855,000 and HK$1,800,000,000 standing to the credit of the Company's share premium and capital reserve account as at 31 March 2005 respectively were cancelled and eliminated against accumulated losses in accordance with Section 60 of the Hong Kong Companies Ordinance. According to the Court Order, any future recoveries in respect of certain advances to subsidiaries of Company as set out in the Court Order will be credited to special capital reserve.

During the year ended 31 December 2012, advances of the Company amounting to approximately HK$170,000,000 were recovered from a subsidiary. Pursuant to provisos in the Court Order, such amount is credited to the special capital reserve as a result of such realisation.

b: According to the Court Order, the special capital reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the amount shall become available for distribution. During the year ended 31 December 2012, the Company transferred the special capital reserve of HK$170,000,000 (the "Transferred Amount") to accumulated profits. The Transferred Amount is limited up to the aggregate increase in the paid up share capital and share premium account amounting to HK$3,920,083,000 from the date of issuance of the Court Order till the date of transfer.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes the borrowings disclosed in note 34, loans from ultimate holding company of a shareholder disclosed in note 35, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Directors review the capital structure on a semi-annual basis. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

41. FINANCIAL INSTRUMENTS

41a. Categories of financial instruments

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Financial assets at FVTPL	**834,116**	893,840
Financial assets at amortised cost (including cash and cash equivalents)	**4,618,187**	–
Loans and receivables (including cash and cash equivalents)	**–**	6,965,359
Financial assets at FVTOCI	**192,253**	–
Available-for-sale financial assets	**–**	187,836
Financial liabilities		
Financial liabilities at FVTPL	**3,936**	5,173
Financial liabilities at amortised cost	**20,072,691**	21,340,552

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Financial assets at FVTPL	**834,116**	893,840
Financial assets at amortised cost (including cash and cash equivalents)	**4,989,949**	–
Loans and receivables (including cash and cash equivalents)	**–**	5,924,135
Financial liabilities		
Financial liabilities at FVTPL	**3,936**	5,173
Financial liabilities at amortised cost	**2,451,009**	3,168,522
Financial guarantee contracts	**134,400**	141,877

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies

The Group's major financial instruments include equity investments/available-for-sale investments, restricted bank deposits, pledged bank deposits, trade and bills receivables, other receivables, amounts due from (to) related companies, trade receivables from related companies, trade payables to related companies, loans from ultimate holding company of a shareholder, bank balances, trade payables to ultimate holding company of a shareholder, amount due from (to) ultimate holding company of a shareholder, amount due from a non-controlling shareholder of a subsidiary, amount due from an associate, trade and bills payables, other payables, bank borrowings and derivative financial instruments.

The Company's major financial instruments include amounts due from (to) subsidiaries, other receivables, pledged bank deposits, bank balances, other payables, amounts due from related companies, bank borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate and interest rate fluctuations on the Group's financial performance and price fluctuations on the Group's equity instruments and available-for-sale investments. Risk management for the Group's operations is carried out under the guidance of the Executive Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. Certain trade receivables, amount due from (to) related companies, bank balances, trade payables and bank borrowings of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities, which expose the Group to foreign currency risk. Approximately 23% (2011: 20%) of the Group's sales and 23% (2011: 21%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sale.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) ***Currency risk*** *(continued)*

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP			
	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
AUD	**–**	–	**8**	26,312
USD	**2,053,544**	2,734,560	**783,891**	1,001,375
HKD	**353,999**	519,582	**190,892**	239,574

	THE COMPANY			
	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
AUD	**–**	–	**4**	26,312
USD	**1,820,349**	2,554,066	**338,993**	624,176
HKD	**218,295**	348,254	**189,907**	238,720

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

***(i) Currency risk** (continued)*

Sensitivity analysis

The Group and the Company are mainly exposed to exchange rate fluctuations of AUD, USD and HKD against RMB.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The negative/positive number below indicates an increase/decrease in the Group's post-tax loss and decrease/increase in the Company's post-tax profit (2011: increase/decrease in the Group's post-tax loss and decrease/increase in the Company's post-tax profit) where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss for the year.

	THE GROUP								
	AUD			USD			HKD		
	2012	2011		**2012**	2011		**2012**	2011	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
Impact on the result for the year	**–**	(1,098)	(i)	**53,008**	72,360	(ii)	**6,810**	11,690	(iii)

	THE COMPANY								
	AUD			USD			HKD		
	2012	2011		**2012**	2011		**2012**	2011	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
Impact on the result for the year	**–**	(1,098)	(i)	**61,847**	80,573	(ii)	**1,185**	4,573	(iii)

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

***(i) Currency risk** (continued)*

Sensitivity analysis (continued)

(i) This is mainly attributable to the exposure on AUD receivables outstanding at the end of reporting period.

(ii) This is mainly attributable to the exposure on USD receivables, payables and bank borrowings outstanding at the end of reporting period.

(iii) This is mainly attributable to the exposure on HKD receivables, payables and bank borrowings outstanding at the end of reporting period.

(ii) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate bank balances, entrusted loan receivables (see note 27 for details of these loans), bank borrowings (see note 34 for details of these borrowings) and loans from ultimate holding company of a shareholder (see note 35 for details of these loans).

The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to balance the fair value interest rate risk value and cash flow interest rate risk. The management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR and Lending Rate arising from the Group's borrowings.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

***(ii) Interest rate risk** (continued)*

Sensitivity analysis

The sensitivity analyses below presents the effects on the Group's post-tax loss and the Company's post-tax profit for the year as a result of change in interest expense on variable-rate borrowings. The sensitivity to interest rate used is considered reasonable given the market forecasts available at end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period only as the Directors consider that the restricted and pledged bank deposits and bank balances, interest rate swap contracts and other non-derivative instruments may not have significant exposure to change in interest rates. For variable-rate bank borrowings, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2012 would increase/decrease by HK$53,893,000 (2011: HK$83,734,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's post-tax profit for the year ended 31 December 2012 would decrease/increase by HK$16,965,000 (2011: HK$24,189,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

The Group's and the Company's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate debt instruments.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk

The Group is exposed to foreign currency risk, equity and commodity prices risk through its investments in listed equity securities, commodity forward contracts to purchase iron ore and foreign currency forward contracts. The Directors considered that the exposure to foreign currency risk on foreign currency forward contracts as at 31 December 2011 are insignificant.

Sensitivity analysis

The sensitivity analysis (including listed equity securities and commodity forward contracts) have been determined based on the exposure to equity and commodity prices risk by reference to the movements of the share price and commodity price quoted up till the reporting date.

Sensitivity analysis of listed equity securities

The sensitivity analysis below has been determined assuming that a change in the corresponding equity prices had occurred at the end of the reporting period and had been applied to the investments that would have affected the Group's other comprehensive income. A change of 35% (2011: 35%) in stock prices was applied at the end of the reporting period. The applied change of percentage represented management's assessment of the reasonably possible change in stock prices.

	THE GROUP Increase (decrease) in other comprehensive income	
	35% increase	**35% decrease**
	HK$'000	HK$'000
As at 31 December 2012	5,524	(5,524)
As at 31 December 2011	14,780	(14,780)

In addition, if there is a 5% increase/decrease in RMB against AUD, security investment reserve would decrease/increase by HK$789,000 (2011: decrease/increase by HK$2,111,000) for the Group.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

***(iii) Other price risk** (continued)*

Sensitivity analysis of commodity forward contracts

In addition, the Group and the Company are required to estimate the fair value of commodity forward contracts to purchase iron ore at the end of the reporting period with change in fair value to be recognised in consolidated statement of comprehensive income. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the forecasted Platts Iron Ore Index and the spread between freight rates.

The sensitivity analysis below have been determined based on the exposure to the iron ore market price risks, market interest rate risk and the risk of spread between freight rates at the reporting date.

Based on discounted cash flow analysis, if the Platts Iron Ore Index had been 5% higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$14,293,000 and the Company's profit for the year would increase/decrease by HK$14,293,000 (2011: the Group's loss would decrease/increase by HK$31,459,000 and the Company's profit would increase/decrease by HK$31,459,000) as a result of the change in fair value of commodity forward contracts to purchase iron ore.

If the spread between the freight rates had been 5% higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$28,647,000 and the Company's profit for the year would increase/decrease by HK$28,647,000 (2011: the Group's loss would decrease/increase by HK$25,994,000 and the Company's profit would increase/decrease by HK$25,994,000) as a result of the change in fair value of commodity forward contracts.

If market interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$22,493,000 and the Company's profit for the year would decrease/increase by HK$22,493,000 (2011: the Group's loss would increase/decrease by HK$20,237,000 and the Company's profit would decrease/increase by HK$20,237,000) as a result of the change in fair value of commodity forward contracts.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

Market risk *(continued)*

(iii) Other price risk *(continued)*

Sensitivity analysis of commodity forward contracts (continued)

In addition, if there is a 5% increase/decrease in RMB against USD and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$43,882,000 and the Company's profit for the year would decrease/increase by HK$43,882,000 (2011: the Group's loss would increase/decrease by HK$50,405,000 and the Company's profit would decrease/increase by HK$50,405,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent risk as the analysis does not reflect the interdependence of variables.

Credit risk

As at 31 December 2012, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 47.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the Group has reduced credit risk on trade receivables by requesting trade deposits to be made or settlement by bank bills before delivery, especially in the steel manufacturing. The Group mainly deals with companies with a good repayment record and reputation and also has policies in place to assess the credit worthiness of customers.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Credit risk** (continued)*

Before accepting any new entrusted loan borrower, the Group assesses the credit quality of each entrusted loan borrower. The Group also demands the entrusted loan borrowers to pledge certain assets with banks to secure the loans at the time the entrusted loan arrangement is entered into. Therefore, the Group has limited credit risk on entrusted loan receivables.

The Company has limited credit risk on amounts due from subsidiaries and other financial liabilities recognised for financial guarantee contracts. Management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company and the banking facilities drawn from financial institutions. Adequate impairment losses are made for irrecoverable amounts.

The Group and the Company have limited credit risk on liquid funds as the counterparties are banks and financial institutions which are reputable and/or with high credit ratings assigned by international credit-rating agencies.

The Group and the Company do not have significant concentration of credit risk for its trade and other receivables and amounts due from subsidiaries and related companies, with exposure spread over a large number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 79% (2011: 84%) of the total trade receivables as at 31 December 2012.

As at 31 December 2011, the Group has concentration of credit risk from entrusted loan as the Group has only two entrusted loan borrowers.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

Liquidity risk

The Group and the Company manage their liquidity risk by ensuring they have sufficient liquid cash balances and credit facilities to meet their payment obligations as they fall due.

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. A monthly report on forecasted inflow and outflow of cash is compiled for the Directors' review. The management monitors the utilisation of bank borrowings.

The Group and the Company rely on bank borrowings and loan from ultimate holding company of a shareholder as significant sources of liquidity. As at 31 December 2012, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK$2,542 million (2011: HK$2,757 million). The Directors are of the view that the banking facilities could be renewed as historical experience is such that the Group has no difficulty to obtain the renewal and the negotiation with the relevant lenders regarding the rectification of interest coverage ratio of certain bank loans will be successful. In addition, the Group is financially supported by the ultimate holding company of the major shareholder of the Company to maintain the Group's and the Company's liquidity.

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following tables detail the Group's and the Company's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash (inflows) and outflows on those derivatives that require net settlement and gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been derived from interest rate and foreign currency exchange rates at the end of the reporting period. The liquidity analysis for the Group's and the Company's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

Liquidity tables

	THE GROUP								
	Weighted average interest rate %	Repayable on demand or less than 3 months HK$'000	3–6 months HK$'000	6 months to 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012									
Non-derivative financial liabilities									
Trade and bills payables		3,540,071	–	–	–	–	–	3,540,071	3,540,071
Other payables		523,486	–	–	–	–	–	523,486	523,486
Trade payables/amount due to ultimate holding company of a shareholder		3,679,559	–	–	–	–	–	3,679,559	3,679,559
Trade payables/amounts due to related companies		718,260	–	–	–	–	–	718,260	718,260
Loans from ultimate holding company of a shareholder	6.18	14,146	173,560	728,018	–	–	–	915,724	868,673
Bank borrowings									
– fixed rate	6.24	1,105,741	723,176	2,092,955	–	–	–	3,921,872	3,787,184
– variable rate	4.05	4,125,456	1,855,545	823,057	445,872	43,906	–	7,293,836	6,955,458
		13,706,719	2,752,281	3,644,030	445,872	43,906	–	20,592,808	20,072,691
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		622	622	1,265	1,452	–	–	3,961	3,936
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		939,358	939,358	1,878,717	2,280,135	4,395,791	6,492,357	16,925,716	–

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

***Liquidity tables** (continued)*

	THE GROUP								
	Weighted average interest rate	Repayable on demand or less than 3 months	3–6 months	6 months to 1 year	1–2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011									
Non-derivative financial liabilities									
Trade and bills payables		3,684,954	–	–	–	–	–	3,684,954	3,684,954
Other payables		664,502	–	–	–	–	–	664,502	664,502
Trade payables/amount due to ultimate holding company of a shareholder		2,953,024	–	–	–	–	–	2,953,024	2,953,024
Trade payables/amounts due to related companies		677,653	–	–	–	–	–	677,653	677,653
Loans from ultimate holding company of a shareholder	6.53	14,036	172,211	870,562	–	–	–	1,056,809	1,009,995
Bank borrowings									
– fixed rate	6.81	561,075	258,669	763,029	–	–	–	1,582,773	1,529,530
– variable rate	4.85	3,543,574	2,189,674	3,074,214	849,463	1,786,506	–	11,443,431	10,820,894
		12,098,818	2,620,554	4,707,805	849,463	1,786,506	–	22,063,146	21,340,552
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		588	588	1,175	2,350	1,464	–	6,165	4,386
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		1,332,759	1,332,759	2,665,518	4,884,947	9,396,894	7,706,555	27,319,432	–
Foreign currency forward contracts									
– inflow		(141,294)	–	–	–	–	–	(141,294)	(70,647)
– outflow		142,868	–	–	–	–	–	142,868	71,434
		1,574	–	–	–	–	–	1,574	787

Note: Cash outflow represents purchase of iron ore under the commodity forward contracts.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

***Liquidity tables** (continued)*

		THE COMPANY							
	Weighted average interest rate %	Repayable on demand or less than 3 months HK$'000	3–6 months HK$'000	6 months to 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012									
Non-derivative financial liabilities									
Other payables		6,887	–	–	–	–	–	6,887	6,887
Amounts due to subsidiaries		412,365	–	–	–	–	–	412,365	412,365
Bank borrowings – variable rate	2.26	2,031,757	–	–	–	–	–	2,031,757	2,031,757
Financial guarantee contracts		2,606,425	–	–	–	–	–	2,606,425	134,400
		5,057,434	–	–	–	–	–	5,057,434	2,585,409
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		622	622	1,265	1,452	–	–	3,961	3,936
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		939,358	939,358	1,878,717	2,280,135	4,395,791	6,492,357	16,925,716	–

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

***Liquidity tables** (continued)*

	THE COMPANY								
	Weighted average interest rate %	Repayable on demand or less than 3 months HK$'000	3–6 months HK$'000	6 months to 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011									
Non-derivative financial liabilities									
Other payables		5,437	–	–	–	–	–	5,437	5,437
Amounts due to subsidiaries		266,201	–	–	–	–	–	266,201	266,201
Bank borrowings – variable rate	1.61	1,330,016	7,390	142,982	437,394	1,164,916	–	3,082,698	2,896,884
Financial guarantee contracts		3,035,544	–	–	–	–	–	3,035,544	141,877
		4,637,198	7,390	142,982	437,394	1,164,916	–	6,389,880	3,310,399
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		588	588	1,175	2,350	1,464	–	6,165	4,386
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		1,332,759	1,332,759	2,665,518	4,884,947	9,396,894	7,706,555	27,319,432	–
Foreign currency forward contracts									
– inflow		(141,294)	–	–	–	–	–	(141,294)	(70,647)
– outflow		142,868	–	–	–	–	–	142,868	71,434
		1,574	–	–	–	–	–	1,574	787

Note: Cash outflow represents purchase of iron ore under the commodity forward contracts.

41. FINANCIAL INSTRUMENTS (continued)

41b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

***Liquidity tables** (continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

41c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of commodity forward contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and market risk premium;

- the fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

- interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates;

- the fair value of unlisted equity securities are determined using market approach by using market multiples from comparable companies and adjusted by discount on lack of marketability; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

41. FINANCIAL INSTRUMENTS (continued)

41c. Fair value (continued)

Fair value measurements recognised in the statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THE GROUP

	As at 31 December 2012			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at FVTPL				
Derivative financial assets	–	–	834,116	834,116
Financial assets at FVTOCI				
Listed equity securities	15,782	–	–	15,782
Unlisted equity securities	–	–	176,471	176,471
Total	15,782	–	1,010,587	1,026,369
Financial liabilities at FVTPL				
Derivative financial liabilities	–	3,936	–	3,936

41. FINANCIAL INSTRUMENTS (continued)

41c. Fair value (continued)

***Fair value measurements recognised in the statements of financial position** (continued)*

THE COMPANY

	As at 31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL				
Derivative financial assets	**–**	**–**	**834,116**	**834,116**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**3,936**	**–**	**3,936**

THE GROUP

	As at 31 December 2011			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	893,840	893,840
Available-for-sale financial assets				
Listed equity securities	42,228	–	–	42,228
Total	42,228	–	893,840	936,068
Financial liabilities at FVTPL				
Derivative financial liabilities	–	5,173	–	5,173

41. FINANCIAL INSTRUMENTS (continued)

41c. Fair value (continued)

***Fair value measurements recognised in the statements of financial position** (continued)*

THE COMPANY

	As at 31 December 2011			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	893,840	893,840
Financial liabilities at FVTPL				
Derivative financial liabilities	–	5,173	–	5,173

There were no transfers between Level 1 and 2 during the years ended 31 December 2012 and 2011.

41. FINANCIAL INSTRUMENTS (continued)

41c. Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial assets

(a) Derivative financial assets

	THE GROUP AND THE COMPANY
	Commodity forward contracts
	HK$'000
At 1 January 2011	570,137
Total gains or losses:	
– to profit or loss	503,197
Fair value of commodity forward contracts upon delivery	(179,494)
At 31 December 2011	893,840
Total gains or losses:	
– to profit or loss	157,200
Fair value of commodity forward contracts upon delivery	(216,924)
At 31 December 2012	834,116

Of the total gains or losses for the year included in profit or loss, profit of approximately HK$157,200,000 (2011: HK$503,197,000) relates to commodity forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

(b) Unlisted equity securities

The Group's unlisted equity securities were previously classified as available-for-sale equity investments in accordance with HKAS 39 which were measured at cost less any identified impairment losses at the end of the reporting period.

The Group has applied HKFRS 9 as at 1 January 2012 and the Group's unlisted equity securities have been designated as at financial assets at FVTOCI under HKFRS 9.

The carrying amounts of the unlisted equity securities approximated their fair values of HK$145,608,000 as at 1 January 2012. During the year ended 31 December 2012, net fair value gain of HK$29,723,000 has been recognised as other comprehensive income. The fair value as at 31 December 2012 is HK$176,471,000. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

42. DISPOSAL OF A SUBSIDIARY

On 27 March 2012, the Group entered into a sale and purchase agreement with an independent third party (the "Acquirer") to dispose of its entire interest in Godown to the Acquirer. The disposal was completed on 2 April 2012, when the Group lost control of Godown.

	2012
	HK$'000
The net assets of Godown at the date of disposal were as follows:	
Investment properties	**10,476**
Property, plant and equipment	**645**
Prepaid lease rentals	**822**
Net assets disposed of	**11,943**
Gain on disposal of a subsidiary:	
Consideration received	**27,502**
Net assets disposed of	**(11,943)**
Gain on disposal (Note)	**15,559**
Consideration satisfied by:	
Cash	**27,502**
Cash inflow arising on disposal:	
Cash consideration received	**27,502**

Note: The gain on disposal of Godown is mainly attributable to the leasehold land held for owner-occupation which was previously recognised as prepaid lease rentals and measured at cost.

An amount of revaluation reserve of HK$4,987,000, represented the difference between the carrying value and fair value of the prepaid lease rentals arisen from the transfer from prepaid lease rentals to investment property as its use had changed as evidenced by end of owner-occupation in previous years, was transferred directly to accumulated profits upon disposal of Godown.

43. MAJOR NON-CASH TRANSACTIONS

(a) During the current year, advances drawn on bills receivables of HK$353,462,000 (2011: HK$188,805,000) are settled by the bills receivables discounted with banks.

(b) During the year ended 31 December 2011, the Company issued 777,925,013 shares at the market price on the Completion Date, which was HK$0.71 per share, as consideration for the Acquisition as disclosed in note 23.

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**3,385**	3,451
Vessels time charter hire	**104,895**	149,381
	108,280	152,832

As referred to in note 11, the vessel chartering operations has been ceased during the year and therefore no commitments for future minimum lease payments in respect of vessels time charter hire as at 31 December 2012.

44. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessee (continued)

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Vessels time charter hire		Land and buildings		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	113,085	**4,234**	3,180	**4,234**	116,265
In the second to fifth years inclusive	**–**	–	**6,654**	432	**6,654**	432
	–	113,085	**10,888**	3,612	**10,888**	116,697

The Group leases vessels through two time charter hires. The time charter hires commenced on 26 September 1997 and with a lease period of 15 years, plus two months more or less at the Group's option. The daily rates of the time charter hires increase by USD250 every half year until December 2007, and thereafter the daily rates will increase by USD125 every half year. These operations have been discontinued on 28 September 2012 as disclosed in note 11.

The Group leases certain of its office premises and staff quarters in Hong Kong under operating lease arrangements. As at 31 December 2012, leases for properties are negotiated for terms ranging from one to three years.

The Company had no non-cancellable operating lease commitments at the end of the reporting period.

44. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Minimum lease payments received under operating leases during the year are as follows:		
Investment properties, land and buildings	**1,408**	1,847
Vessels time charter hire	**76,312**	93,979
	77,720	95,826

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	Vessels time charter hire		Investment properties, land and buildings		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	1,685	**216**	1,034	**216**	2,719
In the second to fifth years inclusive	**–**	–	**5,655**	3,257	**5,655**	3,257
	–	1,685	**5,871**	4,291	**5,871**	5,976

45. CAPITAL COMMITMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**329,262**	445,936

The Company had no significant commitment at the end of the reporting period.

46. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of these schemes were held separately from those of the Group, in funds under the control of trustees. The cost charged to the profit or loss represented contributions payable to the funds by the Group at rates specified in the rules of the schemes.

In addition to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong, the Group is required to contribute to central pension schemes for certain Group's employees in the PRC based on applicable rates of monthly salary in accordance with government regulations. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

47. CONTINGENT LIABILITIES

The Group

The Group had no significant contingent liabilities at the end of the reporting period.

The Company

As at 31 December 2012, the financial guarantee given to banks in respect of banking facilities available to subsidiaries of approximately HK$2,606 million (2011: HK$3,036 million), of which approximately HK$764 million (2011: HK$832 million) was utilised by subsidiaries. As at 31 December 2012, HK$134,400,000 (2011: HK$141,877,000) were recognised as other financial liabilities in the statement of financial position for such financial guarantee as disclosed in note 30.

48. PLEDGE OF ASSETS

The Group

As at 31 December 2012, the following items were used to secure banking facilities granted to the Group:

(a) Pledged bank deposits amounting to HK$254,075,000 (2011: HK$590,943,000).

(b) As at 31 December 2011, pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Company, with total assets amounting to HK$156,304,000 (2012: nil) and HK$183,587,000 (2012: nil) respectively.

(c) Pledge of the Group's plant and machinery with net book value of HK$19,450,000 (2011: HK$369,682,000).

(d) Pledge of the Group's prepaid lease rentals with net book value of approximately HK$83,828,000 (2011: HK$85,038,000).

(e) Pledge of 1,363,500,000 shares (2011: 1,344,500,000 shares) of the Group's listed associate with the market value of approximately HK$3,885,975,000 (2011: HK$3,536,035,000).

The Company

(a) As at 31 December 2011, the Company pledged the total assets of Equity Dragon Assets Limited and Pointer Investments Limited, with total assets amounting to HK$156,304,000 (2012: nil) and HK$183,587,000 (2012: nil), respectively, to secure banking facilities granted to the Company.

(b) Pledged bank deposits of approximately HK$92,403,000 (2011: HK$375,000,000).

49. RELATED PARTY DISCLOSURES

The Group is an associate of Shougang HK, which is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise under the supervision of the Beijing State-owned Assets Supervision and Administration Commission. Accordingly, the Company and the Group are significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the PRC government. Accordingly, the Group is government related entities in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in note 49(I) to 49(III).

(I) Transactions with Shougang Group

	Notes	**2012** **HK$'000**	2011 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	**3,457,677**	4,997,146
Purchases of raw materials by the Group	(b)	**9,358,329**	11,051,292
Lease rentals charged to the Group	(c)	**2,868**	2,912
Management fee charged to the Group	(d)	**960**	960
Purchases of spare parts by the Group	(e)	**76,688**	84,762
Management fees charged by the Group	(f)	**3,204**	3,204
Rental income charged by the Group	(g)	**151**	151
Interest charged to the Group	(h)	**65,034**	54,906
Service fees charged to the Group	(i)	**90,406**	121,050
Service fees charged by the Group	(j)	**–**	10
Purchase of property, plant and equipment by the Group	(k)	**46,230**	127,189
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(d)	**960**	960
Management fee charged by the Company	(f)	**3,204**	3,204

49. RELATED PARTY DISCLOSURES (continued)

(I) Transactions with Shougang Group (continued)

Notes:

(a) The Group sold steel products, iron ore and scrap materials to Shougang Group.

(b) The Group purchased raw materials from Shougang Group.

(c) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.

(d) Management fees were paid to Shougang HK, the Company's shareholder, for the provision of management services.

(e) The Group purchased spare parts from Shougang Group.

(f) The Group/the Company provided business and strategic development services to Shougang Group.

(g) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, which is a wholly-owned subsidiary of Shougang HK, for renting office.

(h) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 6% to 6.56% (2011: 6.31% to 6.56%) per annum.

(i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services.

(j) The Group charged Shougang Group service fees in respect of processing of steel plates, transportation and administration services provided.

(k) The Group acquired property, plant and equipment from Shougang Group.

In addition, details of share options held by Directors as at 31 December 2012 were disclosed in note 38.

(II) Balances with Shougang Group

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 25.

Details of balances with the Group's related companies are set out in note 28.

49. RELATED PARTY DISCLOSURES (continued)

(II) Balances with Shougang Group (continued)

Details of balances with the ultimate holding company of Shougang HK are set out in notes 29 and 35.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2012, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$5,807,736,000 (2011: HK$5,811,947,000).

(III) Transactions/balances with other PRC government controlled entities

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

(IV) Transactions with non-PRC government-related entities

Transaction with a subsidiary of an associate

During the year ended 31 December 2011, the Group purchased coal products amounted to approximately HK$33,633,000 (2012: nil) from a subsidiary of an associate, Shougang Resources.

(V) Compensation of key management personnel

The remuneration of key management personnel, which represent the Directors during the year was as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Short-term employee benefits	**12,492**	22,114
Post employment benefits	**541**	1,022
Share-based payments	**2,813**	15,043
	15,846	38,179

The remuneration of key management personnel is determined by the Remuneration Committee of the Board of Directors having regard to the market practice, competitive market position and individual performance.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2011 and 2012 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2012 %	2011 %	**2012** %	2011 %	
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Cheer Source Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Equity Dragon Assets Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Standnew Limited	British Virgin Islands/ Hong Kong	US$100 Ordinary shares	**–**	–	**100**	100	Investment holding
Profit News Investments Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Shougang Concord Steel Holdings Limited	British Virgin Islands/ Hong Kong	US$1,000 Ordinary shares	**100**	100	**–**	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK$25,000,000 Ordinary shares	**–**	–	**100**	100	Investment holding
Shougang Concord Godown Limited	Hong Kong	HK$2 Ordinary shares HK$2,000,000 Non-voting deferred shares	**–**	–	**–**	100	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK$100,000 Ordinary shares	**–**	–	**100**	100	Provision of management services
Shougang Concord Steel (International) Company Limited	British Virgin Islands/ Hong Kong	US$1,000 Ordinary shares	**–**	–	**100**	100	Investment holding

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2012 %	2011 %	2012 %	2011 %	
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/ Hong Kong	US$1 Ordinary share	–	–	100	100	Trading of iron ore, coal, coke and steel products and investment holding
Shougang Concord Shipping Holdings Limited	British Virgin Islands/ Hong Kong	US$641,025 Ordinary shares	100	100	–	–	Investment holding
Shougang Concord International Transport Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding and chartering of vessels
Ryegar Limited	United Kingdom/ Hong Kong	£2 Ordinary shares	–	–	100	100	Chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK$2 Ordinary shares	–	–	100	100	Provision of management services
SCIT (Chartering) Limited	British Virgin Islands	US$1 Ordinary share	–	–	100	100	Chartering of vessels
SCIT Services Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	–	–	100	100	Charting of vessels
SCIT Trading Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Trading of iron ore
Centralink International Limited	British Virgin Islands/ Hong Kong	US$2,000,000 Ordinary shares	–	–	70	70	Investment holding
舟山首和中轉儲運有限公司 Zhoushan Shouhe Centra-link Co., Ltd.	PRC	US$5,000,000 Registered capital	#	#	#	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Richson Limited	Samoa/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Casula Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Firstlevel Holdings Limited	Samoa/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
秦皇島首鋼板材有限公司 Qinhuangdao Plate Mill Δ	PRC	US$86,000,000 Registered capital	–	–	100	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Shouqin ΔΔ	PRC	RMB2,700,000,000 Registered capital	–	–	76	76	Manufacture and sale of steel and related products
Pointer Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	100	100	–	–	Provision of management services
Huge Ever Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Froxy Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Host Sun Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Shine Tone Group Limited	Hong Kong	HK$100 Ordinary shares	–	–	100	100	Investment holding
Sky Choice International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100	–	–	100	Investment holding
Timefull Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Excel Bond Investments Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Fair Gain Investments Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Fine Power Group Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2012 %	2011 %	2012 %	2011 %	
Ultimate Capital Limited	Hong Kong	HK$1 Ordinary share	–	–	**100**	100	Investment holding
秦皇島首秦鋼材加工配送有限公司 Qinhuangdao Shouqin Steels Machining & Delivery Co., Ltd. ΔΔ	PRC	RMB300,000,000 Registered capital	–	–	**87.76**	87.76	Value-added services on steel products
秦皇島首秦龍匯礦業有限公司 Qinhuangdao Shouqin Longhui Mining Co., Ltd. *ΔΔΔ	PRC	RMB500,000,000 Registered capital	–	–	**67.84**	67.84	Mining and sale of iron ore
深圳市首康國際貿易有限公司Δ	PRC	USD6,000,000 Registered capital	–	–	**100**	100	Trading of iron ore, coal and coke, and steel products

\# Zhoushan Shouhe Centra-link Co., Ltd. ("Zhoushan") is a cooperative joint venture which was established in 1993 in the PRC for a period of 30 years. The entire registered capital of Zhoushan was contributed by Centralink International Limited ("Centralink"). Centralink is a non wholly-owned subsidiary of the Company. Centralink is entitled to 90% of the net profit generated by Zhoushan but bears all losses. Upon the expiry or early termination of the tenure, all residual assets will belong to Centralink.

Δ Foreign investment enterprise established in the PRC.

ΔΔ Sino-foreign equity joint venture established in the PRC.

ΔΔΔ Limited company established in the PRC.

* For identification purpose only

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Details of the Company's principal associates at 31 December 2011 and 2012 are as follows:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	PRC	Ordinary	**35.71%**	35.71%	**35.71%**	35.71%	Manufacturing of steel cords and processing and trading of copper and brass products
秦皇島首秦嘉華建材有限公司 Qinhuangdao Shouqin K. Wah Construction Materials Company Limited	Incorporated	PRC	PRC	Registered capital	**22.8%**	22.8%	**22.8%**	22.8%	Production and sales of slag powder
Shougang Resources	Incorporated	Hong Kong	PRC	Ordinary	**27.61%**	27.22%	**27.61%**	27.22%	Coking coal mining,production and sale of coking coal products and side products

51. COMPARATIVE INFORMATION

Certain comparative information in respect of trade and bills receivables, trade and bills payables and bank borrowings has been re-presented to conform to current year presentation in the consolidated statement of financial position.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover[1]	17,464,705	11,357,623	15,850,276	21,342,643	**16,292,252**
(Loss) profit attributable to owners of the Company[1]	1,419,463	71,667	499,576	152,252	**(1,947,206)**

Note1: These amounts included turnover and (loss) profit attributable to owners of the Company contributed by discontinued operations.

ASSETS AND LIABILITIES

	At 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	21,027,900	24,246,730	29,628,590	33,560,886	**29,386,120**
Total liabilities	(11,966,562)	(14,505,912)	(18,931,329)	(22,445,599)	**(20,923,316)**
	9,061,338	9,740,818	10,697,261	11,115,287	**8,462,804**
Equity attributable to owners of the Company	7,563,838	8,581,236	9,567,094	10,148,381	**8,093,220**
Non-controlling interests	1,497,500	1,159,582	1,130,167	966,906	**369,584**
	9,061,338	9,740,818	10,697,261	11,115,287	**8,462,804**

SUMMARY OF INVESTMENT PROPERTIES

Particulars of major investment properties held by the Group as at 31 December 2012 are as follows:

Property	Use	Group interest	Category of the lease
No. 158 Jianguo Lu, Qinhuangdao City, Hebei Province, PRC	Commercial	100%	Medium term lease
No. 27 Zhujiang Dao, Zhong Duan, Kai Fa District, Qinhuangdao City, Hebei Province, PRC	Commercial	100%	Medium term lease
No. 23-2-4,Xianfuli Community, Xian Feng Road, Hai Gang District, Qinhuangdao City, Hebei Province, PRC	Residential	100%	Medium term lease
No. 15-1-11, Hongguangbeili Community, Jian She Road, Hai Gang District, Qinhuangdao City, Hebei Province, PRC	Residential	100%	Medium term lease
No. 14-3-8,Hongguangbeili Community, Jian She Road, Hai Gang District, Qinhuangdao City, Hebei Province, PRC	Residential	100%	Medium term lease
Flat A2 on 8 Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong	Residential	100%	Long lease