



**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697

Annual Report  
**2016**

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Zhang Bingcheng (*Chairman*)

Li Shaofeng (*Managing Director*)

Ding Rucai (*Deputy Managing Director*)

Shu Hong (*Deputy Managing 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*)

Ding Rucai

Shu Hong

## AUDIT COMMITTEE

Kan Lai Kuen, Alice (*Chairman*)

Wong Kun Kim

Leung Kai Cheung

## NOMINATION COMMITTEE

Zhang Bingcheng (*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 REGISTRAR

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

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](http://www.shougang-intl.com.hk)



## DIRECTORS' BIOGRAPHIES

**Mr. Zhang Bingcheng**, aged 53, holds a bachelor degree and a master degree in engineering. Mr. Zhang was appointed a Non-executive Director and the Chairman of the Company in August 2016 and is the chairman of the Nomination Committee of the Company. He joined Shougang Corporation, the holding company of Shougang Holding (Hong Kong) Limited (“Shougang Holding”) which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), in 1989 and worked in various companies under Shougang Corporation. Mr. Zhang is the chairman of certain subsidiaries of Shougang Holding. Mr. Zhang has extensive experience in company operation and management.

A fresh engagement letter was entered into with Mr. Zhang for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Zhang is entitled to a director’s fee as may be determined by the Board from time to time. Mr. Zhang declined any director’s fee from the Group voluntarily since the date of his appointment as a Director of the Company.

**Mr. Li Shaofeng**, aged 50, 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, the holding company of Shougang Holding, in 1989 and is the 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 Grand (Group) Limited (“Shougang Grand”), Global Digital Creations Holdings Limited (“GDC”) and Shougang Concord Century Holdings Limited (“Shougang Century”) and an executive director of BeijingWest Industries International Limited (“BeijingWest International”). He is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was a director of Shougang Concord Technology Holdings Limited (now known as HNA Holding Group Co. Limited) (“HNA Holding”) from May 2010 to December 2014 and a director of China Dynamics (Holdings) Limited (“China Dynamics”) from October 2007 to November 2015, both HNA Holding and China Dynamics are Hong Kong listed companies. Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

## DIRECTORS' BIOGRAPHIES

A fresh service agreement was entered into between Mr. Li and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Li is entitled to a monthly salary of HK\$315,000 or such higher salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Li's monthly salary is HK\$315,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance. Mr. Li has voluntarily waived his monthly salary since 1 March 2014.

**Mr. Ding Rucai**, aged 52, senior engineer in professor grade, Mr. Ding graduated from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing with a master degree in ferrous metallurgy. Thereafter, he studied senior business administration in The University of Warwick, United Kingdom. Mr. Ding obtained a doctor of philosophy in ferrous metallurgy from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing. He was appointed an Executive Director and a Deputy Managing Director of the Company in September 2014 and is a member of the Executive Committee of the Company. Prior to this, Mr. Ding held various senior positions in the Group. He joined Shougang Corporation, the holding company of Shougang Holding, in 1989 and thereafter held various senior positions in the group of Shougang Corporation. Mr. Ding is the 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. He is the vice chairman and managing director of Shougang Resources. Mr. Ding has extensive experience in production management of steel industry, project management, import of iron ore, import trading of coking coal resources and shipping management.

A fresh service agreement was entered into between Mr. Ding and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Ding is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Ding declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

## DIRECTORS' BIOGRAPHIES

**Mr. Shu Hong**, aged 46, holds a bachelor degree in engineering and a master degree in business administration. Mr. Shu was appointed an Executive Director and a Deputy Managing Director of the Company in December 2015 and is a member of the Executive Committee of the Company. He joined Shougang Corporation, the holding company of Shougang Holding, in 1993 and worked in various companies under Shougang Corporation. Mr. Shu has extensive experience in company operation and management.

A fresh service agreement was entered into between Mr. Shu and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Shu is entitled to a monthly salary of HK\$200,000 or such higher salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Shu's monthly salary is HK\$200,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Shu's individual performance.

**Mr. Leung Shun Sang, Tony**, aged 74, 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 Grand, GDC and HNA Holding. 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 extensive experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

A fresh engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2017. 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 both financial years 2016 and 2017, the director's fee of Mr. Leung is HK\$230,000 for a full year. Such director's fee was determined by the Board 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 62, 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. 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 Asia Investment Management Limited, a licensed corporation under the SFO. Ms. Kan is licensed as a responsible officer of Asia Investment 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, China Energene International (Holdings) Limited and Cosmopolitan International Holdings Limited, all of which are listed companies in Hong Kong. Ms. Kan is an independent director of AVIC International Maritime Holdings Limited, a company listed on the Catalist Board of Singapore Exchange Securities Trading Limited. Ms. Kan is well experienced in corporate finance including both the equity and debt markets.

A fresh engagement letter was entered into with Ms. Kan for a term of three years commencing on 1 January 2017. 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 both financial years 2016 and 2017, the director's fee of Ms. Kan is HK\$330,000 for a full year. Such director's fee was determined by the Board with reference to Ms. Kan's experience and duties as well as the then prevailing market conditions.

**Mr. Wong Kun Kim**, aged 72, 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. Mr. Wong is licensed as a responsible officer of Asia Investment Management Limited under the SFO. He has over 40 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 HNA Holding from September 2004 to June 2013.

## DIRECTORS' BIOGRAPHIES

A fresh engagement letter was entered into with Mr. Wong for a term of three years commencing on 1 January 2017. 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 both financial years 2016 and 2017, the director's fee of Mr. Wong is HK\$330,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Wong's experience and duties as well as the then prevailing market conditions.

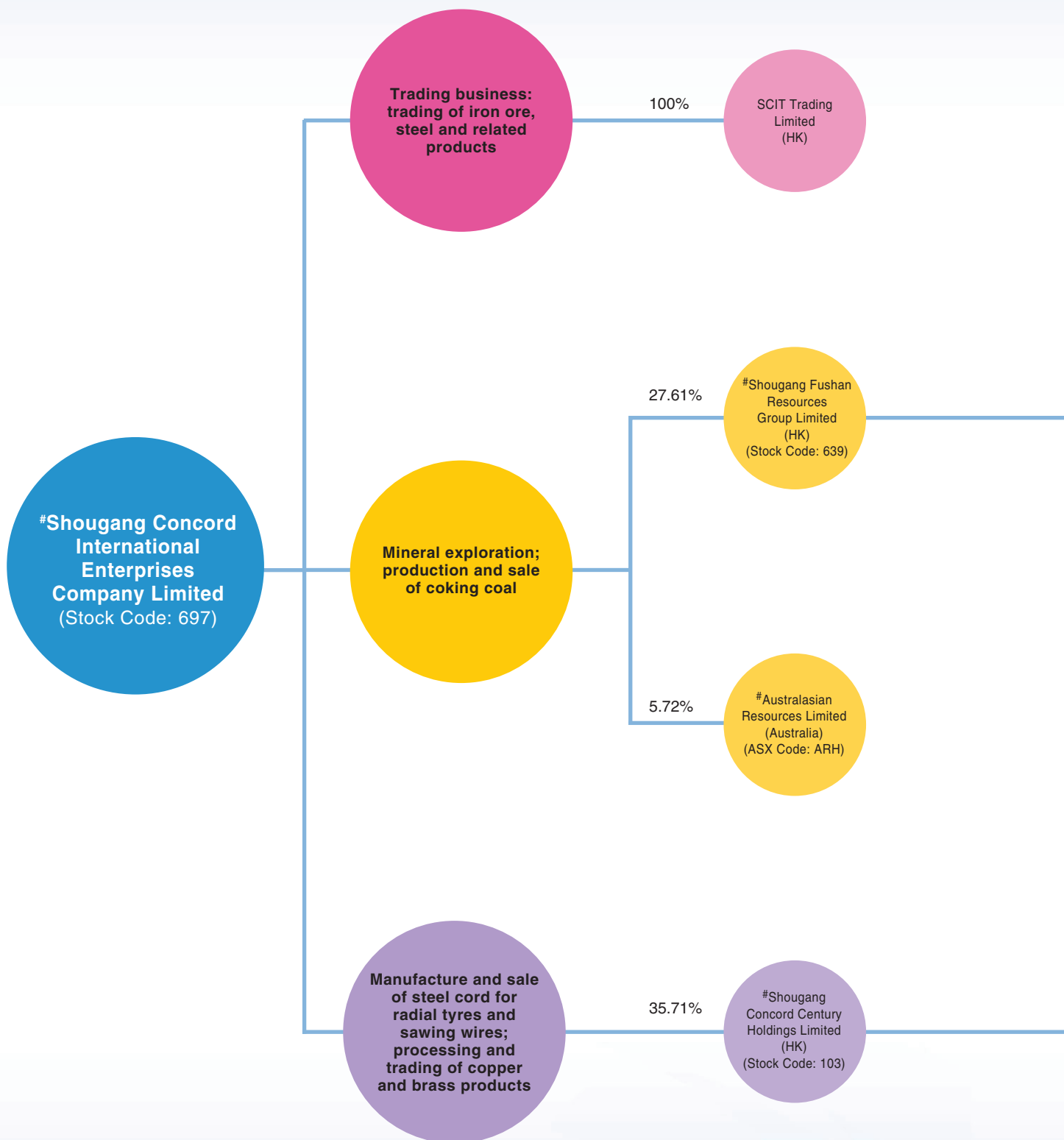
**Mr. Leung Kai Cheung**, aged 71, graduated from The Chinese University of Hong Kong with a bachelor degree in business. Mr. Leung was appointed an Independent Non-executive Director of the Company in June 2006 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of each of BeijingWest International and HNA Holding. Mr. Leung had been a senior executive of Citibank, N.A., the general manager of Barclays Bank PLC in charge of Kowloon and New Territories districts and was 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.

A fresh engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2017. 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 both financial years 2016 and 2017, the director's fee of Mr. Leung is HK\$330,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.



# MAIN OPERATIONAL STRUCTURE

As at 31 December 2016

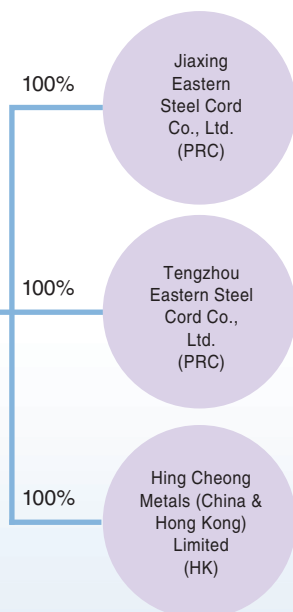
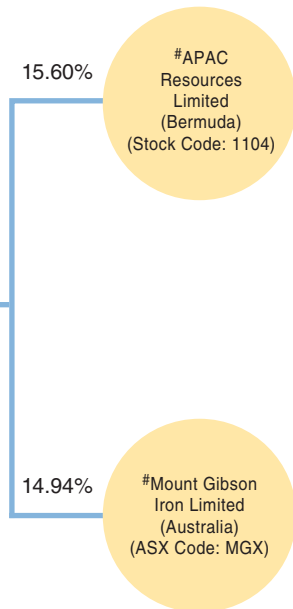


# MAIN OPERATIONAL STRUCTURE

As at 31 December 2016

Note:

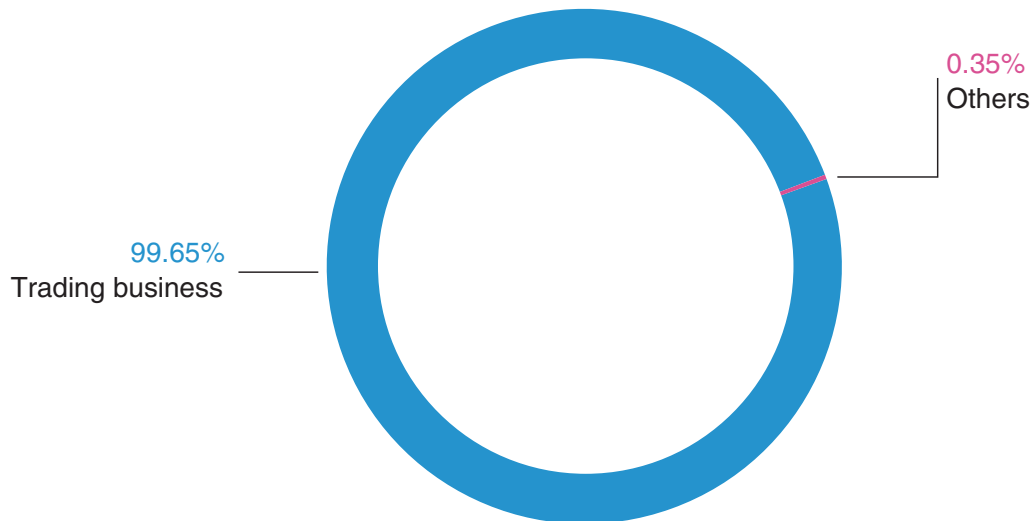
# Listed company



# FINANCIAL HIGHLIGHTS

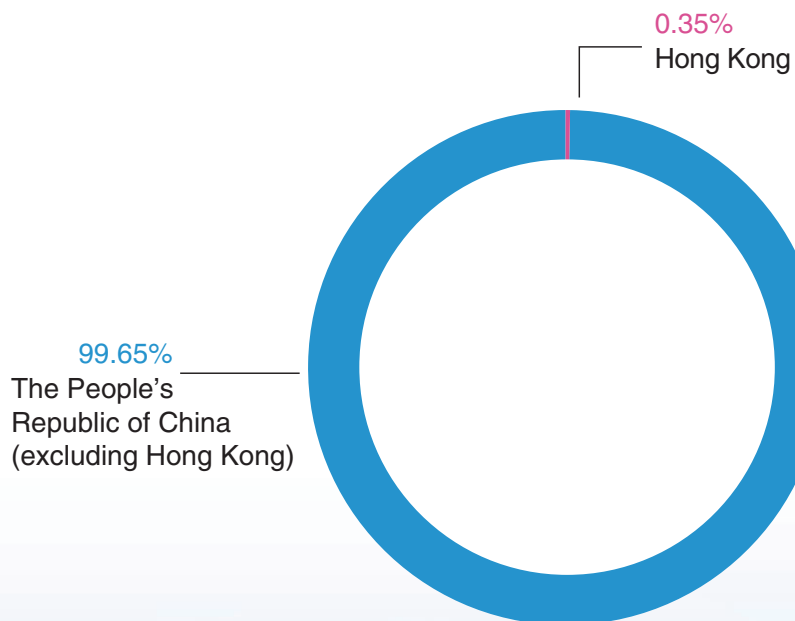
## TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2016

### Continuing operations



## TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2016

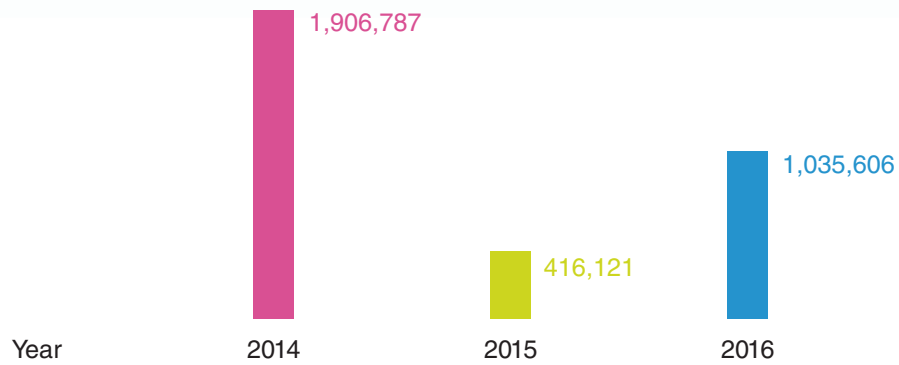
### Continuing operations



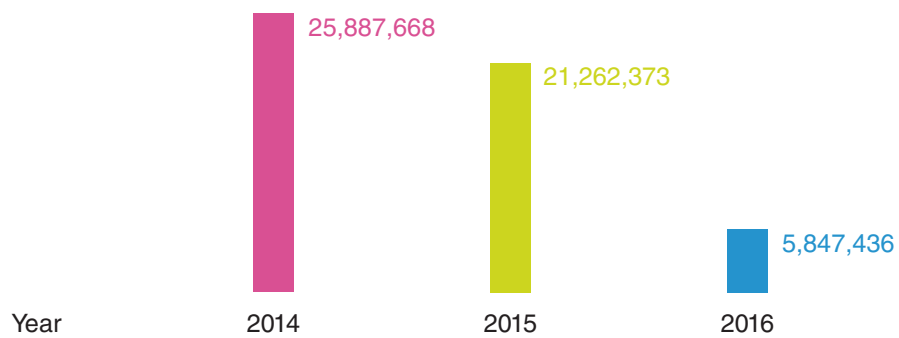
# FINANCIAL HIGHLIGHTS

## TURNOVER (in HK\$'000)

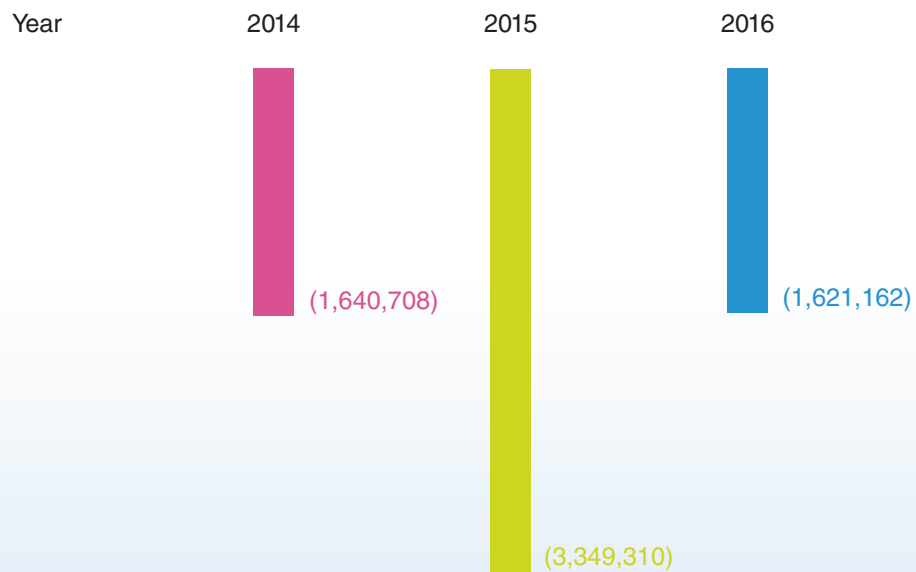
### Continuing operations



## TOTAL ASSETS (in HK\$'000)



## LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY (in HK\$'000)



# CHAIRMAN'S STATEMENT

Various sudden events happened in 2016, namely the Brexit after referendum, the unexpected result of the American Presidential Election and the restart of interest rate hike by the US Federal Reserve Board, led to volatile global financial market. Although the overall economic growth of the PRC remained stable, the drop of RMB exchange rate caused capital outflow. These adverse factors brought great complexity to the overall global economy.

Last year represents a critical year of major reorganization of the Group. Suffered from excessive production capacity together with weak demand, the traditional steel business in Qinhuangdao, which was run by the Group for a long term, had been suffered from severe loss for several years. Fortunately, with strong support from Shougang Corporation, our controlling shareholder, the disposal of the serious loss-making Qinhuangdao business to Shougang Corporation was completed by the end of 2016, which extricated the Group from heavy loss and enabled the financial status of the Group to back on track.

After the reorganization, the Group currently focuses on trading of iron ore imported by the PRC which delivers stable profitability, while at the same time holding interests in two Hong Kong-listed associates, Shougang Fushan Resources Group Limited and Shougang Concord Century Holdings Limited. Meanwhile, the Group will keep on exploring opportunities for new business development, in order to enable long-term and sustainable growth of the Group.

On behalf of the Company, I would like to express my heartfelt gratitude to the fellow members of the Board, the management team and the staff for all their loyalty and dedication to the Company over the past years. In addition, I would also like to thank Shougang Corporation for its all along strong support to the Company.

**Zhang Bingcheng**  
*Chairman*

23 March, 2017



# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPANY OVERVIEW

The Qinhuangdao business has been incurring substantial loss since 2009 principally as a result of the excessive production capacity of steel and slow down in the economy in China. The management of the Company is of the view that it is unlikely that the performance of the Qinhuangdao business can be substantially improved in the near future given that the excessive steel production capacity cannot be resolved in the short term. On 3 October 2016, the Company and Shougang Holding Bonds Limited (a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited, which in turn is a major controlling shareholder of the Company and a wholly-owned subsidiary of Shougang Corporation), entered into an agreement in relation to the disposal of the entire interests in the Group's Qinhuangdao business to it. The Qinhuangdao business comprise two steel mills, a deep processing centre on steel products and exploration and processing of iron ore operation in Qinhuangdao City, Hebei province, China. The disposal was formally completed on 30 December 2016.

After the disposal, the Group's principal business has been focused to trading business. At the same time, through investment in two associates listed in Hong Kong, Shougang Fushan Resources Group Limited ("Shougang Resources") and Shougang Concord Century Holdings Limited ("Shougang Century"), the business of the Group also include exploration and sales of hard coking coal and manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products in China.

## PERFORMANCE REVIEW

	For the year ended 31 December	
	2016	2015
	HK\$ Million	HK\$ Million
<b>Results from continuing operations</b>		
Loss attributable to shareholders		
before share of results of associates	(485)	(1,171)
Share of results of associates	9	(274)
	(476)	(1,445)
<b>Results from discontinued operations</b>	(1,145)	(1,904)
<b>Loss attributable to shareholders</b>	<b>(1,621)</b>	<b>(3,349)</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## PERFORMANCE REVIEW (continued)

### Key Performance Indicators

	For the year ended 31 December/ As at 31 December	
	2016 HK\$ Million	2015 HK\$ Million
Turnover	1,036	416
Gross profit margin	4.8%	15.1%
Loss attributable to shareholders		
Continuing operations	(476)	(1,445)
Discontinued operations	(1,145)	(1,904)
	(1,621)	(3,349)
Loss per share (HK cents)		
Continuing operations	(5.32)	(16.14)
Discontinued operations	(12.78)	(21.25)
	(18.10)	(37.39)
Gross assets	5,847	21,263
Net assets attributable to shareholders	4,705	1,336
Cash and bank balances	561	1,629
Bank loans*	617	6,610
Bank loans to gross assets ratio	10.6%	31.1%

\* Exclude loans from discontinued bills

The Group's loss attributable to shareholders for the year ended 31 December 2016 was HK\$1,621 million, the loss was decreased by 51.6% as compared to the same period last year. The Group's continuing operating business recorded an consolidated turnover of HK\$1,036 million, representing an increase of 148.9% over the same period last year. The loss per share for continuing operations and discontinued operations were 5.32 HK cents (2015: 16.14 HK cents) and 12.78 HK cents (2015: 21.25 HK cents) respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

Year ended 31 December 2016 compared to the year ended 31 December 2015

### Turnover and Cost of Sales

The Group recorded consolidated turnover from continuing operations of HK\$1,036 million for this year, representing an increase of 148.9% when comparing to HK\$416 million last year. The improved turnover was mainly due to surge in trading volume of iron ore and the increase in average selling price (“ASP”).

Cost of sales from continuing operations for the year was HK\$986 million, up 179.1% when comparing to HK\$353 million last year. Increase in cost of sales was also attributable to the surge in trading volume of iron ore.

Gross profit from continuing operations for the year was HK\$49 million, accounting to 4.8% of the turnover, while gross profit margin was 15.1% in last year. The decrease in gross profit margin was mainly because more inventories of medium grade iron ore had been provided by Mount Gibson Iron Limited (“Mt. Gibson”) in last year for trading purpose under the offtake agreements entered into with Mt. Gibson, and the agreements include rebate on marketing commission for purchase of iron ore from Mt. Gibson. Besides, trading of medium grade iron ore brought higher gross profit margin than trading of mainstream minerals. During the year, the Group devoted much effort in procurement from other suppliers so as to drive the trading volume. As there were more rebates on marketing commission and the trading of special graded iron ore in last year, the gross profit margin in this year was lower than that of last year.

### E/(L)BITDA

For the year under review, earnings before interest, tax, depreciation, amortization, impairment loss and change in fair value of financial derivative of the Group for the continuing operations was HK\$26 million (2015: loss HK\$87 million).

### Finance costs

For the year under review, finance costs for the continuing operations amounted to HK\$31 million, 22.0% lower than that of last year. The decrease in finance costs was due to the decrease in the overall loan amounts of the Group.

### Share of results of associates

In this year, we have shared profit of HK\$5 million and HK\$4 million from Shougang Resources and Shougang Century, respectively, whereas for the last year, the share of loss from Shougang Resources and Shougang Century were HK\$139 million and HK\$135 million respectively.

### Taxation

In this year, the tax expense was HK\$49 million, whereas there was nil tax expenses in last year. The tax expense this year was due to the provision of under-provided profits tax in prior years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS

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

Operation/Entity	Attributable interest	For the year ended 31 December	
		2016 HK\$ Million	2015 HK\$ Million
<b>Continuing operations</b>			
1. Trading business	100%	35	48
Sub-total		35	48
2. Share of results of associates			
Shougang Resources	27.61%	5	(139)
Shougang Century	35.71%	4	(135)
Sub-total		9	(274)
3. Others			
Fair value loss on iron ore offtake agreements with Mt. Gibson	–	(131)	(220)
Impairment loss on the goodwill in relation to the investment in Shougang Resources	–	(257)	(952)
Exchange gain/(loss)	–	(16)	4
Corporate and others	–	(116)	(51)
Sub-total		(520)	(1,219)
<b>Total for continuing operations</b>		<b>(476)</b>	<b>(1,445)</b>
<b>Discontinued operations</b>			
1. Steel manufacturing			
Shouqin <sup>1</sup>	76%	(802)	(1,525)
Qinhuangdao Plate Mill <sup>2</sup>	100%	(149)	(210)
Sub-total		(951)	(1,735)
2. Mineral exploration and processing			
Shouqin Longhui	67.84%	(194)	(169)
Sub-total		(194)	(169)
<b>Total for discontinued operations</b>		<b>(1,145)</b>	<b>(1,904)</b>
<b>Total</b>		<b>(1,621)</b>	<b>(3,349)</b>

<sup>1</sup> Included the Group and Shouqin's share of results in its subsidiary, Qinhuangdao Shouqin Steels Machining and Delivery Co. Ltd.

<sup>2</sup> Included Qinhuangdao Plate Mill's share of results in its subsidiaries other than Shouqin Longhui. The results of Shouqin Longhui is included in the mineral exploration and processing segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS (continued)

### Continuing operations

#### Trading business

Trading business involves trading of iron ore, steel and related products, principally focusing on the trading of iron ore imported by the PRC. Iron ore is a vital raw material for the manufacturing of steel, while steel is one of the important material widely applied in our daily life, including development of infrastructures, real estates, shipbuilding, railways, industrial machineries, automobiles and home appliances, etc. Currently, the steel production of the PRC accounts to approximately 50% of the world's production, enabling the PRC to become the world's leading steel manufacturer and iron ore consumer. With better quality, imported iron ore helps reducing substantial mining and processing costs for steel manufacturing, therefore, there is strong demand for imported iron ore in the PRC. The volume of iron ore imported by the PRC hit its first ever record of 1 billion tonnes throughout 2016, and a year-on-year upward trend has been sustained.

Below is the summary of the iron ore price movement for the year ended 31 December 2016.

**Platts IODEX iron ore fines 62% Fe price (USD/dmt)**





# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS (continued)

### Continuing operations (continued)

#### Trading business (continued)

Trading business recorded turnover before elimination of inter-company transactions of HK\$1,128 million for the year ended 31 December 2016, representing an increase of 126.8% when comparing to that of last year. Ever since 2009, the trading business had mainly involved trading of iron ore pursuant to the offtake agreements entered into with Mt. Gibson. However, the amount of iron ore provided by Mt. Gibson to the Group dropped significantly following the suspension of the Koolan Island mine of Mt. Gibson due to the occurrence of seawall slump and flooding in late 2014. Since then, the Group started to generate more sources of procurement from other suppliers so as to increase the trading volume in this year. During the year, sales volume of approximately 2,400,000 tonnes of iron ore was achieved, representing a considerable rise of 93.5% when comparing to 1,240,000 tonnes in last year, and the selling price also ascended 35% to US\$54 per ton (equivalent to HK\$421). While turnover rose, gross profit margin dropped. The decrease in gross profit margin was due to more sale of the inventories of medium grade iron ore in last year provided by Mt. Gibson under the offtake agreements entered into with Mt. Gibson, and the agreements include rebate on marketing commission for purchase of the iron ore from Mt. Gibson. Besides, trading of medium grade iron ore brought higher gross profit margin than trading of mainstream minerals. This segment contributed net profit of HK\$35 million for the year, while net profit of HK\$48 million was recorded last year.

In December 2016, the Group entered into another offtake agreement with Mt. Gibson for the purchase of about one fourth of the first year's production volume of iron ore from Iron Hill, a new project of Mt. Gibson. The offtake agreement has a term of 12 months, with subscription price to be determined based on CFR after taking consideration of the market prevailing price with reference to Platts Iron Ore Index, plus general market premium on iron lump, and penalties in relation to the purity of the iron ore. Under the terms of the CFR, supplier needs to arrange shipment of the goods to the destination port of the buyer at the cost of the supplier. Without production restrictions, the Group is entitled to extend the term of the agreement to a maximum of 12 months. The agreement is still conditional upon approval from the regulatory bodies in Australia and completion of the project by 30 June 2017. Besides, as approval from shareholders of Mt. Gibson is also required, it is expected that Mt. Gibson will convene a general meeting in April 2017 for the approval of the agreement.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS (continued)

### Shougang Resources

#### *Exploration and sale of coking coal*

Shougang Resources is a 27.61% held associate of the Group listed in Hong Kong and is a major hard coking coal producer in China. Shougang Resources currently operates three premium coking coal mines in Shanxi province, the PRC namely Xingwu coal mine, Zhaiyadi coal mine and Jinjiazhuang coal mine. Its consolidated turnover for the year was HK\$1,810 million, a drop of 9.4% over that of last year. After two years of impairment loss, as the coal price lingered at low level in the middle of the year, Shougang Resources still needed to make further impairment loss on its coal mines related assets of HK\$195 million in the year. Yet the impairment loss reduced considerably over the last two years as the coking coal price showed significant rebound in the second half of the year. Profit attributable to shareholders of Shougang Resources in this year was HK\$112 million while there was loss of HK\$416 million in last year. Profit of Shougang Resources attributable to the Group was HK\$5 million in this year.

With excellent product and brand quality of Shougang Resources, we are still confident towards its future operations.

### Shougang Century

#### *Manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products*

Shougang Century is a 35.71% associate of the Group listed in Hong Kong whose businesses are manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products in Shandong and Zhejiang province, the PRC. The Group's share of its net profit was HK\$4 million, comparing to share of loss of HK\$135 million in last year. It recorded a profit in this year because of the substantial improvement in the profit margin of its products. In addition, there were impairment losses of HK\$93 million and HK\$42 million made by Shougang Century on its property, plant and equipment and goodwill respectively in last year. The attributable amount of these impairment losses shared by the Group in last year was approximately HK\$48 million.

Further to the non-legally binding memorandum of understanding ("MOU") dated 13 July 2014 and the supplemental MOUs dated 30 June 2015 and 30 June 2016 between Shougang Century and an independent third party in relation to the proposed capital injection into one of the wholly-owned major subsidiaries of Shougang Century, 滕州東方鋼簾線有限公司 (Tengzhou Eastern Steel Cord Co., Ltd#) ("TESC") as well as the proposed strategic cooperation between Shougang Century and the independent third party. Upon completion of the proposal, Shougang Century and the independent third party will each own 50% interests in TESC. The proposed capital injection would enhance the capital base of TESC and provide additional financial resources to TESC, which will be utilised to fund the phase II construction of TESC's steel cord production facilities with an annual production capacity of 100,000 tonnes. The completion of the proposal is subject to the fulfilment of certain conditions.

# For identification only

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS (continued)

### Discontinued operations – Qinhuangdao business

Disposal of the Qinhuangdao business was completed on 30 December 2016. Therefore, the steel manufacturing and mineral exploration and processing business in Qinhuangdao was classified as discontinued operations, and the results of which was only been accounted for up to 30 December 2016.

### Steel Manufacturing

The Group operated 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 still faced a dire operating environment. This core segment recorded net loss of HK\$951 million during the period ended 30 December 2016, while that of last year was net loss of HK\$1,735 million.

### Shouqin

The Group held an effective interest of 76% in Shouqin before disposal of the Qinhuangdao business.

Shouqin was a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production. It had formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, hydro-electrical and ultra-thick plates were among the most advanced in the PRC. Its annual production capacities of heavy plate had reached 1.8 million tonnes. For the period ended 30 December 2016, Shouqin reported a turnover of HK\$6,116 million before inter-group elimination, recording a 3.4% drop on the comparative period. It sold approximately 1,650,000 tonnes of heavy plates during the period, an increase of 1.9% comparing to that of last year. The drop in turnover was mainly due to decrease in ASP of heavy plates and decrease in the exchange rate of RMB. The ASP (exclude VAT) of heavy plate was RMB2,474 (HK\$2,885) per tonne, 1.9% lower than that of the last year. Production of slab was mainly used for Shouqin’s internal consumption while some sales were made towards Qinhuangdao Plate Mill and Processing Centre and were eliminated on consolidation. The ASP (exclude VAT) of slab was RMB1,867 (HK\$2,177) per tonne, 6.1% higher than that of last year. It sold approximately 596,000 tonnes of slabs during the period, an increase of 3.8% comparing to that of last year.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. (“Processing Centre”) is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. For the period ended 30 December 2016, this entity recorded HK\$539 million in turnover before inter-group elimination, which was 10.5% increase compared with that of last year.

For the period ended 30 December 2016, the aggregate net loss of Shouqin and Processing Centre attributable to the Group was HK\$802 million. The loss was decreased by HK\$723 million comparing to the net loss of HK\$1,525 million in last year due to increase in ASP of slab and the improvement of gross loss margin.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS (continued)

### Discontinued operations – Qinhuangdao business (continued)

#### Steel Manufacturing (continued)

##### *Qinhuangdao Plate Mill*

The Group held the 100% interest in Qinhuangdao Plate Mill before disposal of the Qinhuangdao business.

Qinhuangdao Plate Mill recorded a turnover of HK\$809 million before inter-group elimination for the period ended 30 December 2016, a drop of 46.8% comparing with that of last year. The drop was mainly due to the lower sales volume in the weak market. During the period, the sales volume of heavy plate was approximately 247,000 tonnes only, a drop of 42.7% compare to that of last year. ASP (exclude VAT) was RMB2,123 (HK\$2,476) per tonne, 8.3% lower than that of last year. The Group's share of net loss of Qinhuangdao Plate Mill during the period ended 30 December 2016 was HK\$149 million while the net loss in last year was HK\$210 million.

##### *Mineral exploration – production and processing of iron ore products*

The Group held an effective 67.84% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd (“Shouqin Longhui”) before disposal of the Qinhuangdao business. Shouqin Longhui was situated at Qinglong County, Qinhuangdao City, Hebei province, the PRC.

Shouqin Longhui held two magnetite iron ore mines in addition to concentrating and pelletizing facilities. Due to the difficult operating environment of iron ore industry, Shouqin Longhui did not record any sales during the period under review. Loss of Shouqin Longhui attributable to the Group during the period ended 30 December 2016 was HK\$194 million, the loss was increased by HK\$25 million comparing to an attributable loss of HK\$169 million in last year.

## COMPLIANCE WITH LAWS AND REGULATIONS

Since the Company is a Hong Kong company listed on the Hong Kong Stock Exchange, the Group will ensure its compliance with the Companies Ordinance, Listing Rules and Securities and Futures Ordinance of Hong Kong. Upon disposal of the Qinhuangdao business, the Group focuses on the trading of iron ore imported by the PRC, thus, all the relevant laws and regulations in relation to this business will be observed. The operating arm under the Group in Hong Kong is mainly responsible for administrative duties such as recruitment, therefore, it will comply with the Employment Ordinance of Hong Kong.

The discontinued operations of the Group located in Qinhuangdao, the PRC, which involved steel manufacturing and selling, and mineral exploration and processing, etc. All relevant laws and regulations of the PRC had been observed for the Group's operations in the Mainland China.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's environmental policy and performance are disclosed in the environmental, social and governance report of this annual report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CUSTOMERS AND SUPPLIERS

Through years of business cooperation, the Group has established good relationship with customers and suppliers. The ultimate holding company of the major controlling shareholder of the Company is Shougang Corporation, which together with its subsidiaries, is also the largest supplier and the second largest customer of the Group. During the year, the sales and purchases made by the Group to and from Shougang Corporation and its subsidiaries accounted for 4.8% and 29.9% of the total sales (including the discontinued operations) and total purchases (including the discontinued operations) of the Group, respectively. In addition, the Group entered into iron ore offtake agreements with an Australia-listed iron ore producer Mt. Gibson. Mt. Gibson will supply iron ore to the Group on a long term basis so as to stabilise supply to the Group's trading business.

## PRINCIPAL RISKS AND UNCERTAINTIES

Upon disposal of the Qinhuangdao business, the Group is mainly engaged in the trading of iron ore, principally focusing on the trading of iron ore imported by the PRC. As a vital raw material for the manufacturing of steel, demand for iron ore depends on the demand for steel in the PRC. Over the years, demand for imported iron ore in the PRC maintains upward trend, but any adverse change will affect the amount of imported iron ore and thereby reducing the Group's trading volume of iron ore. Further, profit from this segment will be decreased, resulting to unsatisfactory performance of the Group.

Besides, under the long-term offtake agreements entered into between the Group and Mt. Gibson, purchase of iron ore includes rebate on marketing commission. However, at late 2014, the seawall outside of Mt. Gibson's Koolan Island mine collapsed and resulted in flooding in the mine, thus the production was suspended at the moment. Mt. Gibson has not yet determined a definite restoration schedule. In case of restoration of Koolan Island mine, the extra rebate on marketing commission will bring higher profit to the trading business of the Group.

In addition to the trading business, the Group is also engaged in mining and sale of hard coking coal as well as the manufacture and sale of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products in the Mainland by holding interests in the Hong Kong listed associates, Shougang Resources and Shougang Century. As a vital raw material for steel refining, the sale of coking coal of Shougang Resources has close connection with the steel demand. Weak demand on steel will directly dampen the results of Shougang Resources. For Shougang Century, as its business mainly depends on the automobile demand of the PRC, its manufacture and sale of steel cord for radial tyres business will be affected by the drop of demand on automobiles. With significant proportion of investments in these associates, the results of which will to a certain extent affect the overall performance of the Group.

After the US rose the interest rate by a quarter point by the end of 2015 and 2016, the pace of interest rate hike may be accelerated, which in turn will add extra interest expenses to the Group, and affect profit of the Group.

Save for the abovementioned risks and uncertainties, the analysis on market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk of the Group are detailed in the note respecting financial instruments to the financial statements.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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. Cash/Bank Balances and Loans

The cash and bank balances, loans and financial leverage of the Group as at 31 December 2016 as compared to 31 December 2015 is summarized below:

	<b>As at 31 December 2016</b>	As at 31 December 2015		
	<b>Total HK\$ Million</b>	Other than Qinhuangdao business HK\$ Million	Qinhuangdao business HK\$ Million	Total HK\$ Million
Cash and bank balances	<b>561</b>	620	1,009	1,629
Loans				
– from banks*	<b>617</b>	905	5,705	6,610
– from parent company	–	–	1,431	1,431
<b>Total loans</b>	<b>617</b>	905	7,136	8,041
<b>Total assets</b>	<b>5,847</b>	6,406	14,857	21,263
<b>Total loans to total assets</b>	<b>10.6%</b>	14.1%	48.0%	37.8%

\* excluding financing from discounted bills.

As at 31 December 2016, all bank borrowings of the Group are denominated in US dollar and repayable within one year. Based on the past financing experience, the Group has the ability to renew or refinance the banking facilities upon maturity.

As at 31 December 2016, the Group pledged 863,000,000 shares of Shougang Resources, a listed associate of the Group, to secure its bank borrowings.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)

### 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 through borrowings. For the year ended 31 December 2016, approximately 99.7% of the Group's turnover for the continuing operations was denominated in US Dollars. 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 if necessary. No amount of such derivatives was outstanding as at the end of the period.

### 3. Financing activities

The Company has no new bank financing during this year.

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 the relevant financial covenants for the relevant period or to revise the relevant financial covenants, as the case may be.

## MATERIAL ACQUISITIONS & DISPOSALS

On 3 October 2016, the Company entered into a conditional agreement with Shougang Holding Bonds Limited, a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited, which in turn is a major controlling shareholder of the Company and a wholly-owned subsidiary of Shougang Corporation, for the disposal of Ultimate Century Investments Limited ("Ultimate Century") at a consideration of HK\$1. Ultimate Century is the ultimate controlling company holding the business of the Group in Qinhuangdao City, Hebei Province, the PRC. The Qinhuangdao business involved steel manufacturing and selling and mineral exploration and processing business. The purchaser will bear all obligations and liabilities of the Qinhuangdao business. The disposal was completed on 30 December 2016.

There was no acquisition by the Group during this year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **CAPITAL STRUCTURE**

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

The issued share capital of the Company was HK\$5,345,183,055 (represented by 8,957,896,227 ordinary shares).

## **EMPLOYEES AND REMUNERATION POLICIES**

After the disposal of the Qinhuangdao business, the Group has a total of 40 employees as at 31 December 2016.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Upon disposal of the Qinhangdao business to Shougang Corporation by the end of 2016, the steel operations of the Group, which had been running for over two decades, has come to an end. The Group has changed its focus to the trading of iron ore, while at the same time still holding two Hong Kong-listed associates, Shougang Resources and Shougang Century. These associates are engaged in mining and sale of hard coking coal, and the manufacture and sale of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products, respectively, in the Mainland.

The financial status of the Group has been back on track after the reorganization, albeit years of severe loss. The current focus in the business of iron ore trading mainly targets on the iron ore imported by the PRC as there is strong demand on imported iron ore by the Mainland. The Group has maintained amiable relationship with suppliers and customers. In addition to our long-term partner Mt. Gibson from Australia, the Group has devoted much effort in joining force with other suppliers including Shougang Corporation. By inputting more resources in the development of the iron ore trading business, a further surge of the trading volume in the coming year is expected, thereby generating stable revenue to the Group. Following the changes in iron ore trading market, the Group will accommodate the actual situation by adjusting the strategies and modes of operation of its trading business. To cope with the potential risks that may be encountered by its trading business arising from the changes in the market, the Group will take proper measures, including the use of appropriate hedging instruments if necessary, to mitigate the risks that its trading business may face. Meanwhile, the results of the two listed associates have achieved significant improvement in the second half of 2016, the continuous advancement of which will bring certain extent of profit contribution to the Group in the future. Apart from paving solid foundation, the management will keep on exploring opportunities for new business development, in order to enable long-term and sustainable growth of the Group.

Various events happened in 2016 have stroke heavy blows to the global economy, namely the Brexit after referendum, the unexpected result of the American Presidential Election, leading to volatile financial market around the world. Following the one-quarter point increase in interest rate by the US at the end of 2016, the US Federal Reserve Board has explicitly expressed the possibility to raise the interest rate for three times in 2017. Looking forward to 2017, a sophisticated and ever-changing situation still lies ahead of the global financial market and the operating environment may suffer from further shocks. In spite of the uncertainties, with strong support from Shougang Corporation, our major controlling shareholder, we are still confidence to the future development of the Company.

# 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 Company has complied with the code provisions of the Corporate Governance Code (the “CG 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”) during the financial year ended 31 December 2016, except for the following deviations:

- Under the code provision A.2.7 of the CG 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 first part of code provision E.1.2 of the CG 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.

Mr. Zhang Gongyan, the then chairman of the Board and the Nomination Committee of the Company, did not attend the annual general meeting of the Company held on 29 June 2016 (the “2016 AGM”) as he had another business engagement. The Managing Director of the Company took the chair of the 2016 AGM. Other members of the Board including the chairmen of the Audit and Remuneration Committees and all other members of the Audit, Remuneration and Nomination Committees attended the 2016 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2016 AGM were already of sufficient calibre and number for answering questions at the 2016 AGM.



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Composition

The Board currently comprises a total of eight Directors, being three Executive Directors, two 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.

The Board is characterised by significant diversity and 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.

Save for those as disclosed in the section headed “Directors’ Biographies” as set out on pages 3 to 7 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

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.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** (continued)

### **Composition** (continued)

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.

### **Board diversity**

The Company adopted a board diversity policy (the "Board Diversity Policy") on 28 August 2013 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy is posted on the website of the Company.

### **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.

# CORPORATE GOVERNANCE 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. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. 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 reasonable 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. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that Board meeting.

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (continued)

### Attendance records

During the financial year ended 31 December 2016, 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 2016 are as follows:

	<b>Number of meeting(s) attended/eligible to attend</b>
<i>Executive Directors</i>	
Li Shaofeng	4/4
Ding Rucai	4/4
Shu Hong	4/4
<i>Non-executive Directors</i>	
Zhang Bingcheng ( <i>Chairman</i> ) ( <i>appointed with effect from 1 August 2016</i> )	0/2
Ip Tak Chuen, Edmond	2/4
Leung Shun Sang, Tony	4/4
Zhang Gongyan ( <i>resigned with effect from 1 August 2016</i> )	0/2
<i>Independent Non-executive Directors</i>	
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.

### Appointment and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will give adequate consideration to the Board Diversity Policy and review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and nomination of Directors.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** (continued)

### **Appointment and re-election of Directors** (continued)

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 agreements 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.

Each of Mr. Wong Kun Kim and Mr. Leung Kai Cheung, who will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company, has served as an Independent Non-executive Director of the Company for more than 9 years. As an Independent Non-executive Director with extensive experience and knowledge and in-depth understanding of the Company's operations and business, each of Mr. Wong Kun Kim and Mr. Leung Kai Cheung has expressed objective views and given independent guidance to the Company over the past years, and he continues demonstrating a firm commitment to his role. The Nomination Committee and the Board consider that the long service of Mr. Wong and Mr. Leung would not affect their exercise of independent judgement and are satisfied that each of Mr. Wong and Mr. Leung has the required character, integrity and experience to continue fulfilling the role of an Independent Non-executive Director. The Company will state in a circular which will contain, among other things, the notice convening the forthcoming annual general meeting of the Company the reasons why the Nomination Committee and the Board consider both Mr. Wong and Mr. Leung are still independent and the recommendation to shareholders to vote in favor of the re-election of each of Mr. Wong and Mr. Leung as a Director.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (continued)

### Insurance for 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.

### 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 and the Company is responsible for arranging and funding suitable training for the Directors.

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2016, a summary of which is as follows:

Directors	Continuous professional development	
	Type <sup>(Note I)</sup>	Subject <sup>(Note II)</sup>
Zhang Bingcheng	B	4
Zhang Gongyan	B	4
Li Shaofeng	B	4
Ding Rucai	A	1
	B	4
Shu Hong	B	4
Ip Tak Chuen, Edmond	B	1, 4
Leung Shun Sang, Tony	A	1
	B	4
Kan Lai Kuen, Alice	A	1, 2, 3
	B	4
Wong Kun Kim	A	1, 3
	B	4
Leung Kai Cheung	A	1, 2
	B	4

*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: Management

4: Businesses relating to the Company

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. During the period from 1 January 2016 to 31 July 2016, Mr. Zhang Gongyan was the Chairman of the Company. Mr. Zhang Bingcheng succeeded Mr. Zhang Gongyan as the Chairman of the Company from 1 August 2016. 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 responsibilities. 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.

The responsibilities of the Chairman 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.



# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Executive Committee (continued)

During the year, twenty physical meetings of the Executive Committee were held. Amongst those meetings, two meetings were held for the purpose of performing the corporate governance duties and the attendances of the members of the Executive Committee at these meetings are as follows:

<u>Committee members</u>	<u>Number of meeting(s) attended/eligible to attend</u>
Li Shaofeng ( <i>chairman of the committee</i> )	2/2
Ding Rucai	2/2
Shu Hong	2/2

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 compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2015; and
- reviewing the revised Internal Control Manual of the Company.

### 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, risk management and internal control systems; 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.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Audit Committee (continued)

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.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprises 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:

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Kan Lai Kuen, Alice ( <i>chairman of the committee</i> )	2/2
Wong Kun Kim	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 2015;
- reviewing the interim results of the Group for the six months ended 30 June 2016;
- reviewing the revised Internal Control Manual of the Company; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by an independent advisory firm.

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.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES** (continued)

### **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;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- assessing the independence of Independent Non-executive Directors; and
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives.

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 give adequate consideration to the Board Diversity Policy and 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.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Nomination Committee (continued)

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

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Zhang Bingcheng ( <i>chairman of the committee</i> ) ( <i>appointed as a member and the chairman of the committee from 1 August 2016</i> )	0/1
Li Shaofeng – as alternate of Mr. Zhang Bingcheng	1/1
Leung Shun Sang, Tony	2/2
Kan Lai Kuen, Alice	2/2
Wong Kun Kim	2/2
Leung Kai Cheung	2/2
Zhang Gongyan ( <i>chairman of the committee</i> ) ( <i>ceased to act as a member and the chairman of the committee from 1 August 2016</i> )	0/1
Li Shaofeng – as alternate of Mr. Zhang Gongyan	1/1

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

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting;
- considering and making recommendations to the Board for the appointment of Mr. Zhang Bingcheng as a Non-executive Director and the Chairman of the Company; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES** (continued)

### **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 of the Board and/or the Managing Director of the Company 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.

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.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Remuneration Committee (continued)

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:

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Wong Kun Kim ( <i>chairman of the committee</i> )	1/1
Li Shaofeng	1/1
Leung Shun Sang, Tony	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:

- reviewing and approving the terms of the service agreements of the Executive Directors of the Company;
- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2017;
- considering the bonuses of the Executive Directors of the Company for the year 2016;
- making recommendations to the Board on the terms of the engagement letters of the Non-executive Directors of the Company; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2017.

Details of remuneration paid to Directors and senior management for the year are set out in note 12 to the consolidated financial statements.



# CORPORATE GOVERNANCE REPORT

## 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 and/or the Managing Director of the Company 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 board procedures, and all applicable laws, rules and regulations, are followed. The selection, appointment and dismissal of the Company Secretary are 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.

## RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Group has complied with Principle C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. A review of the effectiveness of risk management and internal control system has been conducted annually to cover all material controls, including financial, operational and compliance controls. Main features of the risk management and internal control systems are described in the sections below:

### Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL (continued)

### Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

# CORPORATE GOVERNANCE REPORT

## **RISK MANAGEMENT AND INTERNAL CONTROL (continued)**

### **Internal Auditors**

The Group has outsourced the internal audit work to SHINEWING Risk Services Limited, which is one of the professional internal audit services provider in Hong Kong. The internal audit function carried out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The internal audit function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An internal audit plan has been reviewed by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reviewed by the Audit Committee and reported to the Board.

### **Effectiveness of the Risk Management and Internal Control Systems**

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by internal audit function and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

# CORPORATE GOVERNANCE REPORT

## **INSIDE INFORMATION DISCLOSURE POLICY**

The Company adopted an inside information disclosure policy (the “Inside Information Disclosure Policy”) on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;
- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
- identifying who are the Company’s authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company’s existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

The Inside Information Disclosure Policy is posted on the website of the Company.

## **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 2016.

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.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

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

<b>Services rendered</b>	<i>HK\$'000</i>
Audit services	2,286
Non-audit services:	
Interim review	684
Special review for very substantial disposal transaction	660
Tax services	96
Others	111
	<hr/>
	3,837

## 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 annual and interim reports 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 84 to 90 of this annual report.

# CORPORATE GOVERNANCE 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](http://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.

During the year, two general meetings were held. One of the general meetings was the 2016 AGM and the other was the extraordinary general meeting held on 23 December 2016 (the "EGM") for approving the followings:-

1. the agreement dated 3 October 2016 between Shougang Holding Bonds Limited (a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited, being the purchaser) and the Company (being the vendor) in respect of the disposal of the entire shareholding in Ultimate Century Investments Limited which held the businesses carried out by the Group in Qinhuangdao City, Hebei Province, the PRC, to Shougang Holding Bonds Limited;
2. the master agreement dated 3 October 2016 between Shougang Corporation and the Company in respect of the continuing connected transactions for the purchase of iron ore, steel and other related products by the Group from Shougang Corporation and the annual caps therefor for the three financial years ending 31 December 2019; and
3. re-election of Mr. Zhang Bingcheng as Director of the Company.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS (continued)

The auditor of the Company, Deloitte Touche Tohmatsu, attended the 2016 AGM. Details of the Directors' attendances at the general meetings of the Company held during the year are as follows:

Directors	2016 AGM	EGM
<i>Executive Directors</i>		
Li Shaofeng	✓	✓
Ding Rucai	✓	✓
Shu Hong	✓	✓
<i>Non-executive Directors</i>		
Zhang Bingcheng ( <i>appointed with effect from 1 August 2016</i> )	N/A	X
Ip Tak Chuen, Edmond	X	X
Leung Shun Sang, Tony	✓	✓
Zhang Gongyan ( <i>resigned with effect from 1 August 2016</i> )	X	N/A
<i>Independent Non-executive Directors</i>		
Kan Lai Kuen, Alice	✓	✓
Wong Kun Kim	✓	✓
Leung Kai Cheung	✓	✓

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 general meetings, the chairman of the meetings 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.



# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### Convene an extraordinary general meeting

Shareholder(s) representing at least 5% of the total voting rights of all shareholders of the Company having a right to vote at general meetings can request the Directors to call a general meeting pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such request must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary.

### Put forward proposals at shareholders' meetings

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company or at least 50 shareholders who have a relevant right to vote at a general meeting can request the Company to circulate to the shareholders of the Company a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution or other business to be dealt with at that meeting pursuant to Section 580 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The expenses shall be borne by the shareholder(s) making the request unless the meeting concerned is an annual general meeting and the statement is received by the Company in time for sending with the notice of the meeting. The request must identify the statement to be circulated, and must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary at least 7 days before the meeting to which it relates.

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company or at least 50 shareholders who have a right to vote on the resolution at an annual general meeting can request the Company to give to the shareholders of the Company notice of a resolution that may properly be moved and is intended to be moved at that meeting pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The request must identify the resolution of which notice is to be given, and must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary no later than 6 weeks before the annual general meeting to which the requests relate, or if later, the time at which notice of the meeting is given.

### Shareholders' enquiries

Specific enquiries or 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

There is no change in the Company's constitutional documents during the year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PREAMBLE

The Group is an associate of Shougang Holding (Hong Kong) Limited, 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.

The Group's operations are mainly segregated into three segments, namely steel manufacturing, mineral exploration and trading of iron ore, steel and related products before disposal of the Qinhuangdao business. The steel manufacturing and mineral exploration activities ("Discontinued Operations") were all located at the Qinhuangdao City, Hebei Province, China. Such businesses had been disposed to Shougang Holding Bonds Limited, a wholly-owned subsidiary of Shougang Corporation on 30 December 2016. After the disposal, the remaining business of the Group are mainly the trading of iron ore, steel and related products and the administrative activities of the headquarter in Hong Kong ("Continuing Operations").

The Board believes that a sound environmental, social and governance structure is vital for continued sustainability and development of the Group's activities. In addition to business growth, the Group has been pursuing excellence in environmental protection, social responsibility and governance areas. The Group wishes to enhance the awareness of environmental protection and social caring through the disclosure on its environmental and social performance under a transparent manner; meanwhile, the Group also wishes to uplift the sense of responsibility for environment and community among its various stakeholders including shareholders, investors, employees, customers, suppliers, government and regulators. With reference to its own experience and practice, the Group primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules as its standards, with an aim to establish a sound environmental, social and governance structure.

This Environmental, Social and Governance ("ESG") Report is a review of its performance in environment, social and governance areas for the period from 1 January 2016 to 31 December 2016. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the Group's corporate governance and culture. The Group is willing to take more responsibilities for the society but with a view to balancing the shareholders' interests and the society's benefits.

## REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG report covers the operational boundaries including the activities of the headquarter and subsidiaries in Hong Kong and Mainland China. For governance section, please refer to page 27 to 49 (Corporate Governance Report) of this annual report.

The reporting period of this ESG report is for the financial year of 2016, i.e. from 1 January 2016 to 31 December 2016, unless specially stated otherwise.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

The Company acknowledges the need and importance of the stakeholder engagement as one of the key elements in ESG reporting. The Group is also committed to achieving a high standard of ESG that can properly promote the Group's reputation as a caring and responsible company to enhance corporate value and accountability of the company.

To conduct the first materiality assessment in identifying and understanding the main concerns and material interests to stakeholders in the ESG report, the Group has engaged the stakeholders, including employees of the Group, the customers and the main suppliers to do a materiality assessment survey. Stakeholders are selected based on the relevance to and understanding of the business. They have to rank each aspect and issue of ESG according to its importance on the business operations and level of influence on the decisions to stakeholders.

After assessing the feedback from internal and external stakeholders through a survey, the Group has viewed the sustainability strategies, practices and measures undertaken in 2016 and relevant aspects throughout this report so as to align with the stakeholders' expectations.

## ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in which it engages. The Group stringently controls the production of wastes, waste gases and sewage emission; and complies with the applicable prevention and control regulations and environmental laws and ordinances on wastage, waste gases and sewage emission in Hong Kong and the PRC during the production process and daily operation. Those laws, ordinances and regulations include the Environmental Protection Law of the PRC (《中國環境保護法》), the Prevention and Control of Atmospheric Pollution of the PRC (《中國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中國水污染防治法》), the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), the Product Eco-responsibility Ordinance (Chapter 603 of the Laws of Hong Kong). All offices of the Group should implement effective energy conservation measures to reduce the consumption of papers, water and electricity.

This section will primarily disclose the policies and practices on the emissions, use of resources and environmental and natural resources of the Group during the financial year of 2016.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL SUSTAINABILITY (continued)

### 1. Emissions

The market of the Group's Discontinued Operations in steel manufacturing and mineral exploration were still weak in the financial year of 2016, excessive production capacity and the imbalance between supply and demand were still the key issues within the industry which could not be resolved in the near term. Therefore production activities in the manufacturing and mining segments during the financial year of 2016 had not fully utilized the production capacity of the Group.

The Greenhouse Gas ("GHG") emission of the Group's Discontinued Operations is mainly generated from its purchased electricity consumed by the daily operation. With more and more emphasis on saving energy to curb global climate change by the Group's management, along with the effective implementation of the corresponding policies and measures by the Group's internal employees, the Group hopes to reach a positive reduction of the GHG emission from its production line year by year.

The Group has appealed the staff to save water and electricity in the daily operation; it has also taken initiatives for full recycling of waste materials to reduce unnecessary waste produced in order to minimise the environmental impact. The specific emissions are reported respectively as below:

#### *Wastewater Produced*

For the Continuing Operations, wastewater produced by the Group was mainly generated from the daily water usage from the Group's staff during working hours in office, which including wastewater from washing and toilet flushing. No hazardous wastewater was produced from the operation. No specific treatment were taken to reduce the Group's wastewater since the amount of wastewater generated was already very insignificant and only covered the domestic sewage which could be directly discharged to the local municipal wastewater treatment plant.

As for the Discontinued Operations, the Group has constructed a centralized water supply and closed-loop water system, which implemented the water for use in production on cascade basis. By combining the principles of voicing diversion, rain and sewage diversion and loop principle, the smelting of steel, iron and rolling of steel were built with water treatment system with separate loop. There was zero wastewater generated from production.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL SUSTAINABILITY (continued)

### 1. Emissions (continued)

#### *Solid Waste Produced*

Solid waste produced by the Group for the Continuing Operations was mainly generated from the daily paper usage, packaging waste, office document waste and staff food waste. Due to the nature of our business, there was no hazardous solid waste produced from the Continuing Operations of the Group.

To mitigate the amount of solid waste produced, the Group has taken measures to reduce the amount of paper consumption by improving the efficient use of paper. The Group adopted the policy of commitment to environment by appealing our staff to think before printing, copy and print on both sides of paper, reuse items like envelopes, folders and paper clips, use email instead of paper and turn off lights, computers and electrical equipment before leaving the office. Furthermore, the Group is planning to keep good record of the consumption amount annually and expected to cultivate a more environmental-friendly manner year by year.

As for the Discontinued Operations, solid waste mainly includes the residual scraps generated from the manufacturing line. To minimise the amount of solid waste, the Group has been adopted comprehensive recycle of the residual scraps in the smelting process.

#### *GHGs Emission*

To mitigate the GHGs emissions, the Group has taken direct and indirect measures as stated below. Directly, The Discontinued Operations has applied fully enclosed joint silos, which eliminated the traditional raw steel enterprises yard mode and integrated storage and distribution as a whole. This resolved the dusting problem of raw materials, reduced the cost of dumping and ensured the quality of raw materials and fuels whilst eliminating pollution. Dust was removed in a fully enclosed loop, which utilized all vacuum suction tankers in pneumatic conveying to eliminate secondary dusting. In addition, pulse dust-dry technique was applied at large blast furnace to treat blast furnace gas. Indirectly, the Group understood well that to make more efficient use of electricity would directly reduce the amount of GHGs emissions. The Group has also taken other methods, such as to choose more environmental friendly paper supplier, to save the amount of paper consumed and fresh water consumed by its staff.

#### *Noise Control*

To mitigate the noise that the operation site produced by the Discontinued Operations, the Group selected low-noise equipment, using silencers, noise separation, vibration reduction and flexible connections in air compressors, oxygen compressors, blowers, etc.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL SUSTAINABILITY (continued)

### 2. Use of Resource

#### *Electricity Consumption*

For the Continuing Operations, all of its electricity consumption in the office was directly from the lighting, air-conditioners, computers and other office equipment.

To ensure the effective use of electricity, several electricity saving methods were applied by the Group during the financial year of 2016, including the following:

- Turn office lights off whenever and wherever not necessary;
- Turn office cooling air-conditioners down, or turn off whenever not necessary;
- Follow a cleaning and maintenance schedule that keeps office equipment (such as refrigerator, air-conditioner, paper shredder, etc.) running efficiently; and
- Replace high electricity consumption lamps with the installation of electricity saving lamps for office lighting.

#### *Water Consumption*

For the Continuing Operations, water consumption by the Group was entirely from the domestic use by its staffs during the working hours in the office building.

To reduce the water consumption, the Group engaged and informed every employee to play a role in water usage, so this is a prime opportunity to get employees involved in the business's green efforts and remind employees to be conscientious of water use.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL SUSTAINABILITY (continued)

### 2. Use of Resource (continued)

#### *Paper Consumption*

To ensure environmental and efficient use of paper, the Group has made great efforts from the “starting point” to the “end point”. The “starting point” means to choose the more environmental friendly paper source as the supplier, through which to indirectly reduce the amount of trees loss while producing the same amount of paper, and to choose recycled paper instead of normal paper to reduce natural resources loss. The “end point” means to directly reduce the amount of paper consumption through various measure. The Group has also endeavoured to take several methods to manage the paper consumption described as below:

- To “think before print”: use posters and stickers as the reminder for staff;
- To use both side: set computer defaults to print double-sided when possible;
- Give a second chance: use paper printed on only one-side for draft documents or as scratch paper;
- E-mail tips: to remind staff consider the environment before printing the email;

#### *Energy Consumption*

The Group implemented various energy recycling measures in the Discontinued Operations, which not only save energy but also reduce emissions of pollutants. The recovery of gas from by-products through the use of advanced technologies are all applied in sintering, hot stove, sleeve kilns, furnaces and captive power generation.

Energy saving mechanism was adopted by the Discontinued Operations of the Group to ensure best management of the energy consumption in the steel manufacturing process. Through information technology, digital technology, precise control, segment management, the Group implements total process management over the procurement, production, operation, use and recycle of energy products. Comprehensive monitoring and economic distribution of energy is realized and the goals of systematic energy saving are achieved.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL SUSTAINABILITY (continued)

### 2. Use of Resource (continued)

#### *Iron Ore Consumption*

As to the Discontinued Operations, the production for every tonne of steel required approximately 1.6 tonnes of iron ore. For the period ended 30 December 2016 (date of disposal), approximately 2,325,000 tonnes of slab were produced by the Group. Hence, approximately 3,720,000 tonnes of iron ore had been used for the Group's steel manufacturing business.

### 3. The Environment and Natural Resources

The Group was in strict compliance with the relevant laws and regulations and conducted regularly inspecting and monitoring on the regular operation of the Group. For the Discontinued Operations, the Group conducted energy recycling in the daily operation to save natural resources and raise resources utilization efficiency. The residual resources from the operation site were adequately utilized from comprehensive application of power generation projects (pressure generation), which not only saved energy but also reduced emissions of pollutants and noise. The recovery of gas from by-products through the use of advanced technologies were all applied in sintering, hot stove, sleeve kilns, furnaces and captive power generation. For example, the blast furnace gas generated from the production after going through gravity dusting and dry dusting were all recovered and stored, which were applied pressure generation of electricity, sintering ignition, stove, furnace coal injection mixing air and rolling furnace production. The converter gas generated from the production after one time dusting were applied in torpedo baking, bake steel package, captive power plant boilers, lime sleeve kiln production. The steam generated from the factory area accounted for 75% of the total usage of steam in the residual heat recycling within the factory area, which was applied to sintering mixing, RH furnace production, the production of liquid oxygen and other areas.

As for the environmental impacts from the operation process, the Group's routine operation exerted no bad influence on its surroundings. Waste water, solid waste, air emission, noise and other environmental impacts generated from the operation process of the Group were in conformity with environmental laws and regulations. The green landscaping in the factory of Qinhuangdao Shouqin Metal Materials Co., Ltd, the principal subsidiary of the Group amounted to 720,000 square metres covering approximately 40% of the total operation site.

The Group will continue to adhere to the safety, harmony and green development concept and make unremitting efforts to create a resource-saving and environmental-friendly corporate.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY

The Group persisted in the combination of a people-oriented management philosophy and an innovation mechanism. Through diversity and humanistic management, the Group has established a close relationship of mutual trust and support between the Group and its staff, and created a positive, healthy and motivated corporate culture and work environment for its employees. Meanwhile, the Group cherished every talent and provides employees with a competitive remuneration mechanism. Moreover, the Group also incessantly optimized its human resources structure, and improved its management methods in order to fully bring out employees' enthusiasm and initiatives

### 1. Employment

The Group regarded employees as its most important and valuable assets, seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving the remuneration system and career paths, the Group expected to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward the harmonious and stable employment relationship.

#### *Law compliance*

Our human resources policies strictly adhered to the applicable employment laws and regulations in Hong Kong and the PRC, including the Employment Ordinance, Mandatory Provident Fund (MPF) Schemes Ordinance, Minimum Wage Ordinance, Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), etc. The Group reviews and updates relevant company policies constantly in accordance with the latest laws and regulations.

#### *Compensation and dismissal*

To motivate and reward the employees, the Group offered competitive and fair remuneration and benefits based on individuals' performance, professional qualifications, experiences and market benchmarks to attract, motivate and retain high-calibre workforce. The Group conducts annual review to ensure that the employees are recognised appropriately with regard to their working efforts and contributions. Meanwhile, any termination of employment contract would be based on reasonable and lawful grounds. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

#### *Benefits and welfares*

To cultivate employees' sense of belonging, additional employee benefits includes medical insurance, dental insurance, MPF, year-end bonus and discretionary extra bonus.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **SOCIAL SUSTAINABILITY** (continued)

### **1. Employment** (continued)

#### *Working hours and rest periods*

The Group arranges reasonable working hours and leave for our employees which are in line with local employment laws. In addition to statutory holidays stipulated by the region such as the basic paid annual leave, employees may also be entitled to maternity leave, marriage leave, funeral leave and sick leave for employees under the employment law of the local government.

#### *Talent acquisition (recruiting and retention talents)*

Talent acquisition is vital to our business future development. Therefore the Group attaches great importance to the effective two-way communication system between the general staff and managerial staff. Employees maintained timely and smooth communication with the management, colleagues and partners of the companies within the Group through internal email, employee handbook and management meeting. etc. The interactive communication system benefited the Group's decision-making process and resulted in a barrier-free employer-employee relationship.

#### *Equal opportunity and anti-discrimination*

As an equal opportunity employer, the Group is committed to create a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in terms of all human resources and employment decisions, for instance, training and promotion opportunities, dismissals and retirement policies irrespective of their gender, race, age, disability, family status, marital status, sexual orientation, religion beliefs, nationality or any other non-job related factors in all business units. The equal opportunities policy enforced zero tolerance to any workplace discrimination, harassment or victimization in accordance to relevant government legislation, ordinances and regulations such as Disability Discrimination Ordinance, Race Discrimination Ordinance and Sex Discrimination Ordinance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY (continued)

### 1. Employment (continued)

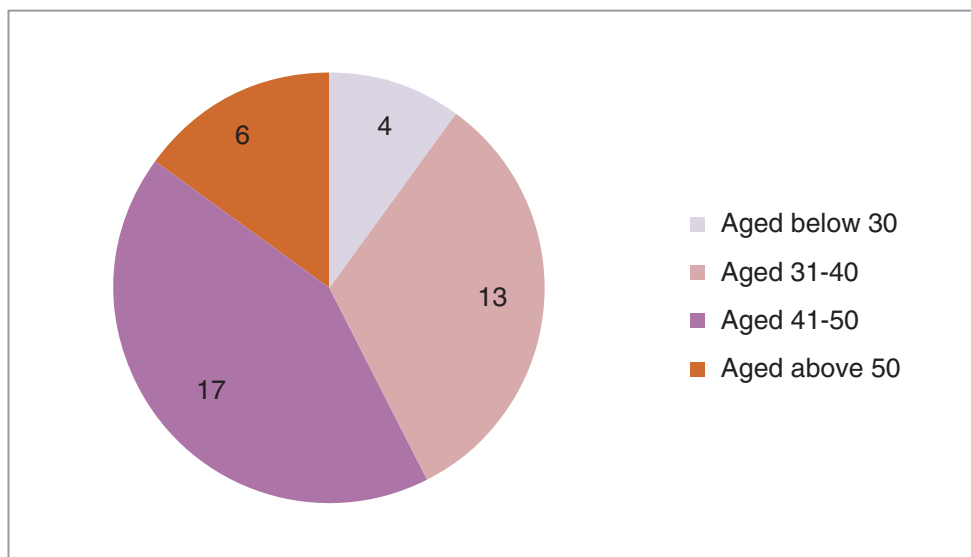
#### Staff composition

After the disposal of Discontinued Operations business, the Group had a workforce of 40 employees in Hong Kong at 31 December 2016. The tables below show the employee details by age distribution, employment type, work locations, gender and employee turnover rate.

**Table 1: Total workforce by age distribution and employment type in 2016**  
(unit: number of employee)

Age	Aged below 30	Aged 31-40	Aged 41-50	Aged above 50	Total
Staff (Note 1)	4	13	17	6	40

Note 1: the Group's staffs in the table above are all permanent staff without any part-time or contract basis.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY (continued)

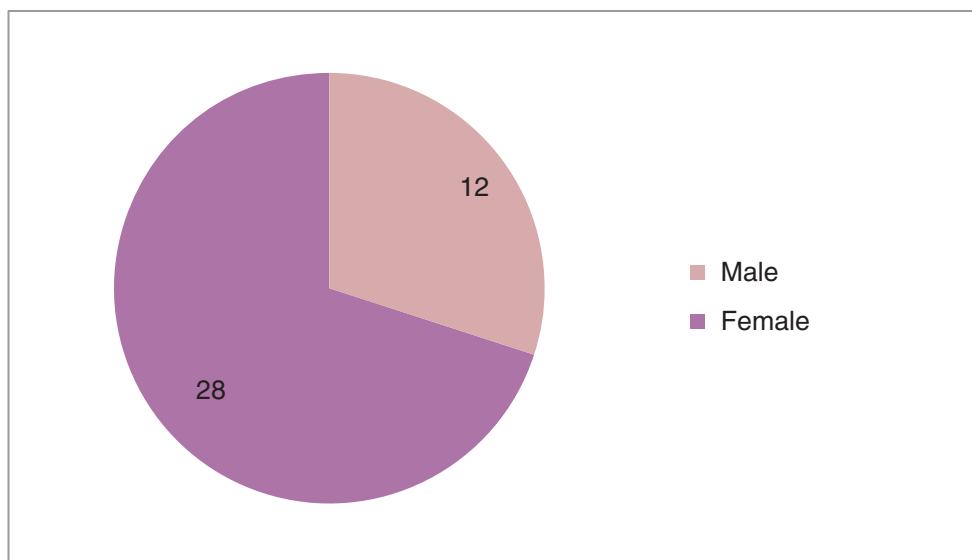
### 1. Employment (continued)

#### Staff composition (continued)

**Table 2: Total workforce by age distribution, gender and employee turnover rate in 2016  
(unit: number of employee)**

Gender	Aged 30 or below	Aged 31-40	Aged 41-50	Aged above 50	Total	Loss of employees	Turnover rate (%) (Note 2)
Male	0	3	6	3	12	1	2.5
Female	4	10	11	3	28	3	7.5
<b>Total</b>	<b>4</b>	<b>13</b>	<b>17</b>	<b>6</b>	<b>40</b>	<b>4</b>	<b>10.0</b>

Note 2: Turnover rate = loss of employees (i.e. the number of regular employees voluntarily resigned) ÷ annual total workforce of the Group.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY (continued)

### 1. Employment (continued)

#### Staff composition (continued)

**Table 3: Total workforce by age group, geographical region and employee turnover rate in 2016 (unit: number of employee)**

Age	Staff (Note 3)	Loss of employees	Turnover rate (%)
Aged 30 or below	4	0	0
Aged 31-40	13	1	2.5
Aged 41-50	17	2	5.0
Aged above 50	6	1	2.5
<b>Total</b>	<b>40</b>	<b>4</b>	<b>10.0</b>

Note 3: The Group's staffs in the table above are all located in Hong Kong.

#### Employee activities

In 2016, the Group hosted a series of activities for our employees, including 2016 Spring Festival Meal and Christmas Party, eight trigrams boxing held by Tong Ren Tang and fitness walking for the employees in Hong Kong. These events helped our employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion among its employees.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **SOCIAL SUSTAINABILITY (continued)**

### **2. Health and Safety**

#### *Law compliance*

To provide and maintain a good working conditions and a safe and healthy working environment, our safety and health policies are in line with various laws and regulations stipulated by the Government of Hong Kong and the PRC, including the Occupational Safety and Health Ordinance, the Production Safety Laws of the PRC (《中國安全生產法》), the People's Republic of China Occupation Disease Prevention Law (《中國職業病防治法》) and Regulation on Work-Related Injury Insurance (《工傷保險條例》).

#### *Work-related fatalities & injuries*

In 2016, the Group continued to enhance management and control over safety and health risks. The Group has kept the good record for achieving a safe workplace environment.

#### *Health & safety policies*

For the Discontinued Operations, to ensure the health and safety of the employees, the Group provided safety training to relevant employees including emergency management, hazardous materials handling, machine safeguarding and occupational health and safety. During the operation process, all the to-be-used and waste hazardous material were collected and stored in specific storeroom and supervised by specific department.

Since our main business for the Continuing Operations is trading of iron ore, steel and related products which are conducted in the office building, there is no specific safety training courses arranged for the employees. However, the Group set stringent safety and labour practice standards to minimize the risk of accidents and enhance the employees' health and safety awareness. The Group has bought medical insurance and dental insurance for all employees in Hong Kong. The Group participated in the emergency response drill held by the office building management department from time to time. The Group hired cleaning company to disinfect the carpets and clean the air-conditioning system regularly. The Group strives to maintain a clean, tidy, smoke-free, non-toxic, non-hazardous, healthy and safe working environment.

### **3. Development and Training**

The Group offered different training and development opportunities to the staff in order to strengthen the work-related skills and knowledge and improve operational efficiency and productivity. For newly hired employees, the Group provided comprehensive orientation training for them to understand the corporate culture, business flow, working health and safety, management systems and group development. Relevant department occasionally shared some learning material through intranet. The Group provided training to the employees in terms of different stages of the work needs and requirements. The Group mainly conducted enterprise-based training and sometimes organized external training according to specific needs.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY (continued)

### 4. Labour Standards

#### *Law compliance*

The Group strictly abided by the Employment Ordinance of Hong Kong, Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), Prohibition of Child Labour of the PRC (《中國禁止使用童工規定》) and other related labour laws and regulations in Hong Kong and China to prohibits any child and forced labour employment.

#### *Preventing child and forced labour policies*

To combat against illegal employment on child labour and forced labour, prior to the confirmation of employment, the Group specified that all employees shall provide a valid identity documents to ensure that the applicants were lawfully employable. And a whistle blowing mechanism has been established to monitor and ensure full compliance of latest and relevant laws and regulations that prohibits child labour and forced labour. There would be regular checks and inspections on the execution of our human resources policies for the Group's headquarters and principal operation offices.

### 5. Supply Chain Management

It is critical and vital for the Group to maintain and manage a sustainable and reliable supply chain. The Group achieved this goal by conducting comprehensive evaluation of potential suppliers and thorough investigations of selected suppliers, imposing strict standards on the quality of suppliers' raw materials and services, and reviewing the suppliers' products, services, previous track record, ongoing projects, reputation, quality and their social and environmental responsibility regularly so as to maintain a good and long-term relationship with suppliers.

#### *Supply chain management policies to managing environmental and social risk*

The Group's main business is trading of iron ore for the Continuing Operations and production and sales of steel plate for the Discontinued Operations. Thus the Group's principal supply is iron ore. The Group requires suppliers to be legally law-abiding and have gained the Occupational Safety & Health (OSH) certification, thus the Group gave priority to those with good reputation whose products were in high accordance to the industry standard and the relevant laws.

#### *Monitoring/Evaluation process*

To ensure sufficient supply, the Group kept close contact with the suppliers and reserve products in advance. Besides, the Group had backup suppliers. About the risk of price fluctuation, the Group called for bids and compared the prices when choosing a specific supplier, which abided strictly by the internal price control method, thus there was little risk about price fluctuation. Besides, the Group attached great importance to the communication with the suppliers to build inter-trust and only entered into supply contacts with them based on the projects and needs. Therefore, the suppliers were reliable after long-term cooperation. Anyhow, the Group would conduct some basic evaluations in top management turnover, production capacity, changes in manufacturing techniques and raw materials, and violations of the law and discipline of the suppliers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **SOCIAL SUSTAINABILITY** (continued)

### **5. Supply Chain Management** (continued)

#### ***Non-compliance***

According to the evaluation of the Group, those with serious problems existed in the regulatory compliance, delivery, health and safety, and environment protection were put in the black list immediately.

### **6. Product Responsibility**

The philosophy about the products and service of the Group is to provide products with good quality up to the specification and keep in good relationship with customers and pursue win-win to both parties at all times.

#### ***Law compliance***

With regard to our product quality and safety for the Discontinued Operations, the quality management system was in line with the rules and regulations as stipulated by the PRC government such as Safe Production Law (《安全生產法》) and Patent Law (《專利法》) and regulations stipulated by the Group like Standard for Steel Billet and Plate Production Management (《鋼坯鋼板標準管理規定》) and Management Method for the New Product Development (《新產品開發管理辦法》).

#### ***Product quality and safety control procedures***

Since the Group focused on the trading of iron ore, steel and related products, the product quality and safety control procedures mainly went on in the Discontinued Operations. The ship plate was the main product in the steel manufacturing segment. The quality of the Group's produced ship plates was well recognized by the world and obtained approval certificates of nine classification societies in the PRC, USA, France, Germany, Norway, South Korea, United Kingdom, Japan and Italy. The production strictly abided by the regulations of the Group. The quality control section was set up to assess product quality.

#### ***Labelling & Advertising***

The steel products of the Group for the Discontinued Operations have gained the OHSMS18001-2001 system certification. The Group complied with the Advertisement Law (《廣告法》) when advertising the products.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **SOCIAL SUSTAINABILITY** (continued)

### **6. Product Responsibility** (continued)

#### *Products and services complaints mechanism*

The Group abided by the internal management program of clients' complaints to deal with products and services complaints. Relevant employees were in charge of complaints raised by the clients. After received complaints, the relevant staff would fill in the quality complaint report form and hand over to the relevant department along with the contract and relevant information. Experts would confirm and analyse the complaints with relevant departments. Once confirming the complaints, the Group would work out specific solutions and response relevant clients and record the complaints. The fact that the Group attached great importance to the complaints strengthened the Group's product offerings and service quality, and consequently enabled the Group to stay competitive in the market.

#### *Products and services recall procedures*

When it was confirmed that the products sold were not up to the specification, experts in charge of products quality would be sent to check the exact situation of the products and send feedback to the Group. Then they would contact the clients to recall the products and take follow-up actions to satisfy the clients and self-examine.

#### *Protection on intellectual property right*

Intellectual Property Rights (IPR) is crucial to the steel production industry's sustainable business growth. The Group strictly complied with relevant laws and regulations on protecting and maintaining IPR in the PRC such as Patent law of the People's Republic of China (《中華人民共和國專利法》), Intellectual Property Law of the People's Republic of China (《中華人民共和國智慧財產權法》) and Tort Liability Law of the People's Republic of China (《中華人民共和國侵權責任法》) and internal regulations stimulated based on the national laws mentioned above like the intellectual property management system. The production line had strict rules control the process from receiving raw material to final marking to assure the product traceability and uniqueness.

#### *Consumer information protection and privacy policies*

The Group is committed in abiding by the Personal Data (Privacy) Ordinance and Consumer Council Ordinance in Hong Kong, and Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中國消費者權益保護法》) to ensure that the customers' rights are strictly protected. All collected personal data is treated confidentially and kept securely, and only accessible by designated personnel. The Group prohibits the provision of consumer information to a third party without authorisation from the customers. Customers remain the rights to review and revise their data, and also remain the rights to opt out from any direct marketing activities. For specific practices, the Group has set up programs to keep customer's personal data. Only authorised personnel could access to restricted information with permission. The data processing of the customer roster is guided by specific regulations from different departments.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL SUSTAINABILITY (continued)

### 7. Anti-corruption

#### *Law compliance*

To maintain a fair, integrity and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery as set out by the government of the PRC and Hong Kong, such as Law of the People's Republic of China on Anti-money Laundering (《中國反洗錢法》), Article 274th of the Criminal Law of the People's Republic of China (on extortion and fraud) (《中國刑法第274條(關於敲詐勒索)》), Prevention of Bribery Ordinance, and Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, etc.

#### *Control system/whistle-blowing system*

Besides, the Group has formulated and strictly enforced our anti-corruption policies as stipulated in the construction of the party style and the honest and clean government in the employees' handbook that the Group would not be tolerated any form of corruption. All employees are expected to discharge their duties with integrity and self-disciplined, and they are required to abstain from engaging in any activities related to bribery, extortion, fraud and money laundering which might affect their business decision or independent judgment in the course of business operation which exploit their positions against the Group's interests.

The Group would conduct investigations against any suspicious or illegal behaviour which are related to bribery, extortion, fraud and money-laundering to protect the Group's interests. Corresponding assessment, consulting, investigation and punishment internal procedures are introduced in the Group. Furthermore, the Group has set up procedures to enable employees or outsiders to report any suspicious activities including any requesting, receiving or accepting any forms of benefits from any persons, companies or organisations having conflict of interest with the Group and misconduct behaviours.

The Group advocates a confidentiality mechanism to protect the whistle-blowers, who could report verbally or in writing to the management of the Group. The Company's compliance and internal controls list full details and supporting evidence of suspected misconduct or malpractice. Where criminality is suspected, a report will be made to the relevant authorities.

### 8. Community Investment

The Group believes that employees are always our solid foundation and most care. Having won the "MPF Good Employer" for two years, the Group made great contribution to the welfare of our employees.

# 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 2016.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 47 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 91 to 224 of this annual report.

The Board of Directors of the Company (the “Board”) does not recommend the payment of any dividend in respect of the year (2015: Nil).

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” on page 12 and pages 13 to 26 of this annual report respectively.

## 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 225 of this annual report.

## SHARE CAPITAL

Details of movements in the Company’s share capital during the year are set out in note 35 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## DONATIONS

No charitable donation was made by the Group during the year (2015: Nil).

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Zhang Bingcheng	<i>(appointed with effect from 1 August 2016)</i>
Li Shaofeng	
Ding Rucai	
Shu Hong	
Leung Shun Sang, Tony	
Kan Lai Kuen, Alice*	
Wong Kun Kim*	
Leung Kai Cheung*	
Zhang Gongyan	<i>(resigned with effect from 1 August 2016)</i>
Ip Tak Chuen, Edmond	<i>(resigned with effect from 1 January 2017)</i>

\* *Independent Non-executive Directors*

In accordance with clause 102(A) of the Company's articles of association, Mr. Ding Rucai, Mr. Wong Kun Kim and Mr. Leung Kai Cheung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS OF SUBSIDIARIES

During the year and up to the date of this report, directors of the subsidiaries of the Company include Li Shaofeng, Ding Rucai, Shu Hong, Leung Shun Sang, Tony, Chen Yaxun\*, Dong Hongbin\*, Hua Xishan\*, Jiang Zhigao\*, Li Xiaosong\*, Li Xinsheng\*, Liu Haifeng\*, Liu Hailong\*, Liu Zhengqun\*, Liu Zhisong\*, Lu Hongguang\*, Shen Yiping\*, Song Qingqiu, Tan Qinghui\*, Wang Jianguo\*, Wang Li\*, Wang Xiangyu\*, Yang Junlin, Yu Jinglong\* and Zhao Jiuliang\*. Those marked with an asterisk\* ceased to be directors of the relevant subsidiaries of the Company as at the date of this report.

## DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

# REPORT OF THE DIRECTORS

## 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 2016 had the following interests in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2016 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

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company			Total interests	Total interests as to % of the total number of shares of the Company in issue as at 31.12.2016
		Interests in shares	Derivative interests*	Total interests		
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%	
Ip Tak Chuen, Edmond <sup>#</sup>	Beneficial owner	2,290,000	–	2,290,000	0.02%	
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%	

\* The 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 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.

<sup>#</sup> Mr. Ip Tak Chuen, Edmond resigned as a Director of the Company with effect from 1 January 2017.



# REPORT OF THE DIRECTORS

## 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 total number of shares of Shougang Century in issue as at 31.12.2016
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	7,652,000	13,800,000	21,452,000	1.11%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	12,000,000	19,652,000	1.02%

\* The interests are unlisted physically settled options.

Save as disclosed above, as at 31 December 2016, 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, its parent company or any subsidiary of its parent company 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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# REPORT OF THE DIRECTORS

## 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
Zhang Bingcheng*	Shougang Holding Trade (Hong Kong) Limited and Shougang International Trade (Hong Kong) Limited	Trading of iron ore and steel products	Director
Li Shaofeng	Shougang Holding (Hong Kong) Limited ("Shougang Holding") <sup>#</sup>	Steel manufacturing, and trading of iron ore and steel products	Director
Ding Rucai	Shougang Holding <sup>#</sup>	Steel manufacturing, and trading of iron ore and steel products	Director
Zhang Gongyan <sup>^</sup>	Shougang Corporation <sup>#</sup>	Steel manufacturing, trading of iron ore and steel products, and mineral exploration	Director

<sup>#</sup> Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.

\* Mr. Zhang Bingcheng was appointed as a Director of the Company with effect from 1 August 2016.

<sup>^</sup> Mr. Zhang Gongyan resigned as a Director of the Company with effect from 1 August 2016.

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.

# REPORT OF THE DIRECTORS

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2016, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests 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:

### Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 31.12.2016	Note(s)
Shougang Holding	Beneficial owner, interests of controlled corporations	4,214,625,699	47.04%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.78%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.57%	1
CK Hutchison Holdings Limited ("CK Hutchison")	Interests of controlled corporations	455,401,955	5.08%	2
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	2

#### Notes:

- Shougang Holding indicated in its disclosure form dated 7 September 2011 (being the latest disclosure form filed up to 31 December 2016) 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.
- CK Hutchison indicated in its disclosure form dated 23 March 2015 (being the latest disclosure form filed up to 31 December 2016) that as at 18 March 2015, 430,274,586 shares of the Company were held by two wholly-owned subsidiaries of Cheung Kong and 25,127,369 shares of the Company were held by CEF Holdings Limited which in turn was held as to 50% by Cheung Kong. Cheung Kong was in turn wholly-owned by CK Hutchison. The long position in the 455,401,955 shares of the Company held by CK Hutchison and Cheung Kong were the same block of shares.

# REPORT OF THE DIRECTORS

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

### **Long positions in the shares/underlying shares of the Company (continued)**

Save as disclosed above, as at 31 December 2016, 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.

## **CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in the section headed "Continuing Connected Transactions" below, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

## **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 7 June 2002, the shareholders of the Company adopted the 2002 Scheme which would be valid for a period of ten years. 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 by the Company 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. 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.

# REPORT OF THE DIRECTORS

## 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.

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 20,000,000 which represents approximately 0.22% of the issued shares of the Company as at the date of this annual report. As the 2002 Scheme was terminated on 29 May 2012, no further options can be granted under the 2002 Scheme since then. 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.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

### (a) The 2002 Scheme (continued)

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

Category or name of grantee	Options to subscribe for shares of the Company at the beginning and at the end of the year	Date of grant	Exercise period	Exercise price per share
<b>Director of the Company</b>				
Li Shaofeng	20,000,000 <sup>Note</sup>	14.12.2010	14.12.2010 – 13.12.2017	HK\$1.180
	20,000,000			

*Note:* 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 grantee.

### (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.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

### (b) The 2012 Scheme (continued)

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 shares 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 number of shares of the Company in issue 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 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 the grantee, his/her associates and all core 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 ten 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.



# REPORT OF THE DIRECTORS

## **SHARE OPTION SCHEMES (continued)**

### **(b) The 2012 Scheme (continued)**

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 2016, there was no share option outstanding under the 2012 Scheme.

## **EQUITY-LINKED AGREEMENTS**

Save as disclosed in the section headed “Share Option Schemes” herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

## **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 did not have any reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Ordinance.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods or rendering of services to the Group's five largest customers (including the discontinued operations) accounted for approximately 23.9% of the total revenue (including the discontinued operations) from sales of goods or rendering of services for the year and revenue from sales of goods or rendering of services to the largest customer included therein amounted to approximately 9.1%. Purchases from the Group's five largest suppliers (including the discontinued operations) accounted for approximately 47.1% of the total purchases (including the discontinued operations) for the year and purchases from the largest supplier included therein amounted to approximately 29.9%. The ultimate holding company of the controlling shareholder of the Company was Shougang Corporation, which together with its subsidiaries, was the largest supplier and one of the top five customers of the Group. Save as disclosed above, none of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) 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:

### (a) Master agreement dated 4 December 2013

As stated in the announcement of the Company dated 4 December 2013 and in the circular of the Company dated 9 December 2013, a master agreement 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, was entered into on 4 December 2013 (the "2013 Master Agreement") for governing the continuing connected transactions entered into between the Group and Shougang Corporation and/or its associates for the three financial years ended 31 December 2016. Pursuant to the 2013 Master Agreement, Shougang Corporation and/or its associates would provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and services and other related products and/or services to the Group (the "Purchases under the 2013 Master Agreement") and the Group would provide raw materials, scrap materials, steel products, leasing and services and other related products and/or services to Shougang Corporation and/or its associates (the "Sales under the 2013 Master Agreement") during the three financial years ended 31 December 2016.

The cap amounts of the Purchases under the 2013 Master Agreement and the Sales under the 2013 Master Agreement for each of the three financial years ended 31 December 2016 are as follows:

	Financial year ended 31 December		
	2014	2015	2016
	HK\$ million	HK\$ million	HK\$ million
Cap amounts for the Purchases under the 2013 Master Agreement	16,800	18,700	21,000
Cap amounts for the Sales under the 2013 Master Agreement	18,000	20,800	24,100

# REPORT OF THE DIRECTORS

## **CONTINUING CONNECTED TRANSACTIONS** (continued)

### **(a) Master agreement dated 4 December 2013** (continued)

The basis of determining the prices for the continuing connected transactions contemplated under the 2013 Master Agreement was in accordance with: (1) comparable market price; or (2) if no comparable market price could be taken as a reference, a price reasonably agreed between the parties on normal commercial terms and such price should be no less favourable to the Company than that available to/from (as appropriate) independent third parties.

As Shougang Corporation is 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 from, and regular sales of materials and steel products to, one of the largest steel companies in the PRC.

The 2013 Master Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 27 December 2013.

The continuing connected transactions carried out under the 2013 Master Agreement during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS (continued)

### (b) Master agreement dated 3 October 2016

With the expiry of the term of the 2013 Master Agreement on 31 December 2016 and that the Group would need to secure a stable supply of iron ore, steel and related products to support the business of trading in iron ore, steel and related products carried out by the Group following the disposal of the holding company for the business carried on by the Group in Qinhuangdao City, Hebei Province, the PRC on 30 December 2016, a new master agreement between the Company and Shougang Corporation was entered into on 3 October 2016 (the “2016 Master Agreement”) for governing the continuing connected transactions to be entered into between the Group and Shougang Corporation and/or its associates for the three financial years ending 31 December 2019. Pursuant to the 2016 Master Agreement, Shougang Corporation and/or its associates will provide iron ore, steel and related products to the Group (the “Purchases under the 2016 Master Agreement”) during the three financial years ending 31 December 2019.

The cap amounts of the Purchases under the 2016 Master Agreement for each of the three financial years ending 31 December 2019 are as follows:

	Financial year ending 31 December		
	2017	2018	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amounts for the Purchases under the 2016 Master Agreement	1,100	1,600	2,700

The basis of determining the prices for the continuing connected transactions contemplated under the 2016 Master Agreement will be in accordance with: (1) comparable market price based on the Platts Iron Ore Index; or (2) if no comparable market price can be taken as a reference, a price reasonably agreed between parties on normal commercial terms and such price should be no less favourable to the Company than that available from independent third parties.

# REPORT OF THE DIRECTORS

## **CONTINUING CONNECTED TRANSACTIONS (continued)**

### **(b) Master agreement dated 3 October 2016 (continued)**

The 2016 Master Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 23 December 2016. Details of the continuing connected transactions contemplated under the 2016 Master Agreement have been disclosed in the announcement of the Company dated 3 October 2016 and in the circular of the Company dated 18 November 2016.

The transactions took place during the year as set out in notes 46(I)(a) and (b) 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 note 46(I)(c) 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 46(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 23, 26 and 27 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 33 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 46(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.

# REPORT OF THE DIRECTORS

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

- (a) Pursuant to the facility letter entered into by the Company on 26 November 2015 (the “Facility Letter”) with China CITIC Bank International Limited (“China CITIC”) relating to a term loan facility of US\$15,000,000 (the “China CITIC Facility”), the Company shall ensure that Shougang Holding, the controlling shareholder of the Company, remains its largest shareholder with shareholding of not less than 35% throughout the life of the China CITIC Facility. Breach of the above will constitute an event of default upon the occurrence of which, China CITIC may at any time (a) cancel the China CITIC Facility; (b) declare that all or any part of the China CITIC Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Letter be immediately due and payable; and/or (c) declare that all or any part of the China CITIC Facility be payable on demand by China CITIC. The China CITIC Facility shall be repaid by the Company in one lump sum on final maturity date which falls on the second anniversary from the date of drawdown of the China CITIC Facility.
- (b) Under the facility letter entered into by the Company on 9 February 2015 with Bank of China (Hong Kong) Limited (“BOC”) relating to the banking facilities of (i) a term loan up to US\$35,000,000 (the “BOC Facility I”); and (ii) a revolving loan up to US\$15,000,000 (the “BOC Facility II”) (BOC Facility I and BOC Facility II, collectively the “BOC Facilities”), the Company shall undertake and procure that (i) Shougang Holding, the controlling shareholder of the Company, 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 BOC 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 all amounts due or owing by the Company to BOC under the BOC Facilities shall become immediately due and payable. The BOC Facility I shall be repaid by the Company by two instalments with the last instalment due on the date falling 42 months after the date of first drawn down of the BOC Facility I while the BOC Facility II shall be repaid or reborrowed by the Company at the end of each interest period provided that each drawdown must be repaid not later than one year from the date of relative drawdown. By a letter from BOC dated 10 August 2016, the BOC Facility II was cancelled. The repayment terms of the BOC Facility I had been amended. The Company shall repay the outstanding principal of the BOC Facility I not less than US\$15,000,000 within 2 weeks from the date of announcement of the completion of disposing the Qinhuangdao business of the Group (the “Announcement Date”) or 13 February 2017, whichever is earlier. The remaining principal together with interest accrued shall be repaid in full within 12 months from the Announcement Date or 13 August 2018, whichever is earlier. Accordingly, a sum of US\$15,000,000 was repaid by the Company on 5 January 2017.

# REPORT OF THE DIRECTORS

## **CORPORATE GOVERNANCE**

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 49 of this annual report.

## **ENVIRONMENTAL AND SOCIAL MATTERS**

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2016 are set out in the Environmental, Social and Governance Report on pages 50 to 66 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, 23 March 2017

# INDEPENDENT AUDITOR'S REPORT



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)

## OPINION

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 91 to 224, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of other financial assets</i></p> <p>We identified the valuation of other financial assets as a key audit matter due to the fact that a significant degree of management judgement involved in determining the fair value of the commodity forward contracts classified as other financial assets and its significance to the consolidated financial statements.</p> <p>The management has determined the valuation of other financial assets with reference to the valuation report carried out by an independent qualified professional valuer not connected with the Group under the discounted cash flow model.</p> <p>Discounted cashflow model is used for determination of the fair value of other financial assets, in which the key assumptions include the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of capsize vessel freight rate and panamax vessel freight rate, the forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mines, the lives of mines and the discount rate, as disclosed in notes 5 and 38c.</p> <p>The management concludes that valuation of other financial assets is fairly stated.</p>	<p>Our procedures in relation to valuation of other financial assets included:</p> <ul style="list-style-type: none"><li>• Understanding the management estimation and judgement and assessing the reasonableness of key assumptions based on our knowledge of the business and industry;</li><li>• Evaluating the independent external valuer's competence, capabilities and objectivity;</li><li>• Evaluating the appropriateness and reasonableness of the discount cash flow model and its key assumptions including the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of capsize vessel freight rate and panamax vessel freight rate, the forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mines, the lives of mines and the discount rate and checking its mathematical accuracy; and</li><li>• Evaluating the sensitivity analysis on those assumptions and key inputs prepared by management to assess the extent of impact on the discounted cash flow model.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of interest in an associate</i></p> <p>We identified the impairment assessment of interest in Shougang Fushan Resources Group Limited (“Shougang Resources”), an associate of the Group which is engaged in coking coal mining, production and sales of coking coal products as a key audit matter due to the estimation uncertainty and significant management judgement involved in the impairment assessment of interest in Shougang Resources and its significance to the consolidated financial statements.</p> <p>Determining the amount of impairment of interest in Shougang Resources requires an estimation of the recoverable amount, which is the value in use derived by the discounted cash flow model.</p> <p>The key assumptions of the discounted cash flow model include the budgeted sales, gross margin and the discount rates.</p> <p>As disclosed in notes 5 and 21, the carrying value of the Group’s interests in Shougang Resources as at 31 December 2016 was approximately HK\$4,229,616,000, in which approximately HK\$1,048,488,000 is the goodwill. During the year ended 31 December 2016, HK\$257,000,000 of impairment loss has been recognised in respect of the goodwill associated with the interest in Shougang Resources. The management concludes that no additional impairment loss in relation to the interest in Shougang Resources is required. This conclusion required significant management judgement in relation to the assumptions and critical judgements considered in the future operating plans of Shougang Resources.</p>	<p>Our procedures in relation to the impairment assessment of interest in an associate included:</p> <ul style="list-style-type: none"><li>• Understanding the management estimation and judgement and assessing the reasonableness of key assumptions based on our knowledge of the business and industry;</li><li>• Assessing the appropriateness and reasonableness of the key assumptions, which include budgeted sales, gross margin and the discount rates prepared by the management and critical judgements used by management by comparing management’s past estimates and plans, the current year’s estimates and plans and taking into account the future operating plans;</li><li>• Evaluating the sensitivity analysis on those assumptions and key inputs prepared by management to assess the extent of impact on the discounted cash flow model; and</li><li>• Evaluating the historical accuracy of the financial budget for the discounted cash flow model by comparing the historical budget to actual results.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Accounting for disposal of segments of steel manufacturing and mineral exploration and processing</i></p> <p>We identified the disposal of segments of steel manufacturing and mineral exploration and processing (the "Disposal") as a key audit matter due to the significance of the transaction to the consolidated financial statements as a whole.</p> <p>As disclosed in note 39, the Group had disposed certain group subsidiaries engaging in the steel manufacturing and mineral exploration and processing to a wholly-owned subsidiary of a major shareholder of the Company. The Disposal was completed on 30 December 2016 and after the Disposal, the Group discontinued the operation of the segments and treated these operations as discontinued operations and the comparative figures in the consolidated statement of profit or loss and other comprehensive income are re-presented. Net gain from the Disposal has been directly recognised in the reserve as it is deemed as the capital contribution from the Group's major shareholder.</p> <p>We focused on the accuracy of the calculation and accounting treatment of the gain from the Disposal, whether the consolidated financial statements properly included the results of the discontinued operations up to the date of disposal and disclosure in respect of presenting the segments as discontinued operations.</p> <p>The management concludes that the accounting treatment and the current disclosure in relation to the Disposal is proper.</p>	<p>Our procedures in relation to assessing the accounting for the transaction and associated impact on the Group's consolidated financial statements included:</p> <ul style="list-style-type: none"><li>• Obtaining an understanding of the terms and arrangement of the Disposal by reviewing the terms of sale and purchase agreement in relation to the Disposal;</li><li>• Checking the computation of results and items included within the discontinued operations disclosure notes and evaluating whether they appropriately present the amounts of the segments up to the date of disposal;</li><li>• Inquiring the management and assessing the recoverable amount of the assets and the provision of the liabilities immediately before the completion of the Disposal in accordance with the requirements of HKFRSs;</li><li>• Checking the calculation of the gain from the Disposal by comparing the net liabilities disposed with the consideration; and</li><li>• Evaluating the appropriateness of recognising the gain on the Disposal as capital contribution reserve and the disclosure of the segments as discontinued operations within the Group's Consolidated financial statements in accordance with the requirements of HKFRSs.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## **OTHER INFORMATION**

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wu Chung Ming.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

23 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK\$'000	2015 HK\$'000 (Restated)
<b>Continuing operations</b>			
Revenue	6	1,035,606	416,121
Cost of sales		(986,212)	(353,301)
Gross profit		49,394	62,820
Other income	7	7,683	12,374
Other gains and losses	8	(15,216)	2,405
Change in fair value of derivative financial instruments	28	(131,136)	(219,863)
Administrative expenses		(58,958)	(37,069)
Finance costs	9	(31,036)	(39,815)
Impairment loss on interest in an associate	21	(257,000)	(951,681)
Share of results of associates		9,118	(274,967)
Loss before taxation		(427,151)	(1,445,796)
Income tax expense	10	(49,064)	–
Loss for the year from continuing operations	11	(476,215)	(1,445,796)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	39	(1,478,005)	(2,443,843)
<b>Loss for the year</b>		<b>(1,954,220)</b>	<b>(3,889,639)</b>
<b>Other comprehensive income (expense)</b>			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		402,032	203,496
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income		(51,815)	(73,968)
Share of exchange differences of an associate arising on translation to presentation currency		(35,927)	(38,106)
Share of fair value gain (loss) on investment in equity instruments designated as at fair value through other comprehensive income of an associate		50,445	(35,737)
Item that may be subsequently reclassified to profit or loss:			
Share of exchange differences of an associate arising on translation of foreign operations		(139,772)	(165,127)
Other comprehensive income (expense) for the year		224,963	(109,442)
<b>Total comprehensive expense for the year</b>		<b>(1,729,257)</b>	<b>(3,999,081)</b>



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK\$'000	2015 HK\$'000 (Restated)
Loss for the year attributable to owners of the Company:			
– from continuing operations		(476,215)	(1,445,501)
– from discontinued operations		(1,144,947)	(1,903,809)
		<b>(1,621,162)</b>	<b>(3,349,310)</b>
Loss for the year attributable to non-controlling interests:			
– from continuing operations		–	(295)
– from discontinued operations		(333,058)	(540,034)
		<b>(333,058)</b>	<b>(540,329)</b>
Total comprehensive expense attributable to:			
Owners of the Company		(1,479,135)	(3,489,490)
Non-controlling interests		(250,122)	(509,591)
		<b>(1,729,257)</b>	<b>(3,999,081)</b>
Loss per share	14		
From continuing and discontinued operations			
– Basic and diluted		<b>(18.10) HK cents</b>	(37.39) HK cents
From continuing operations			
– Basic and diluted		<b>(5.32) HK cents</b>	(16.14) HK cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties	15	6,000	38,818
Property, plant and equipment	16	2,246	9,239,351
Prepaid lease rentals	17	–	292,754
Mining assets	18	–	–
Goodwill	19	–	–
Interests in associates	21	4,654,460	5,353,944
Equity investments	22	783	56,199
Deferred tax assets	34	32,291	32,582
Other financial assets	28	181,716	312,852
Deposits for acquisition of property, plant and equipment	23	–	15,665
Pledged bank deposits	29	–	191,428
		<b>4,877,496</b>	15,533,593
<b>CURRENT ASSETS</b>			
Inventories	24	–	1,531,574
Trade and bills receivables	25	394,779	2,005,306
Trade receivables from related companies	26	8,704	126,205
Trade receivables from ultimate holding company of a shareholder	27	–	1,313
Prepayments, deposits and other receivables	25	5,414	399,431
Prepaid lease rentals	17	–	7,531
Amounts due from related companies	26	456	212,946
Amounts due from associates	26	26	7,372
Restricted bank deposits	29	–	832,566
Pledged bank deposits	29	23,073	85,062
Bank balances and cash	30	537,488	519,474
		<b>969,940</b>	5,728,780
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	31	276,093	3,464,157
Trade payables to related companies	26	8,212	652,676
Trade payables to ultimate holding company of a shareholder	27	–	7,074,234
Other payables, provision and accrued liabilities	31	48,831	1,175,267
Tax payable		192,307	144,669
Amounts due to related companies	26	–	263,378
Amount due to ultimate holding company of a shareholder	27	–	2,137
Bank borrowings – due within one year	32	616,783	5,986,616
Loans from ultimate holding company of a shareholder – due within one year	33	–	1,013,135
		<b>1,142,226</b>	19,776,269
<b>NET CURRENT LIABILITIES</b>		<b>(172,286)</b>	(14,047,489)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,705,210</b>	1,486,104

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	32	–	818,938
Deferred tax liabilities	34	–	29,318
Loans from ultimate holding company of a shareholder – due after one year	33	–	417,910
		–	1,266,166
		<b>4,705,210</b>	<b>219,938</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	35	<b>5,345,183</b>	5,345,183
Reserves		<b>(639,973)</b>	(4,008,871)
Equity attributable to owners of the Company		<b>4,705,210</b>	1,336,312
Non-controlling interests		–	(1,116,374)
		<b>4,705,210</b>	<b>219,938</b>

The consolidated financial statements on pages 91 to 224 were approved and authorised for issue by the Board of Directors on 23 March 2017 and are signed on its behalf by:

**Li Shaofeng**  
DIRECTOR

**Ding Rucai**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company											
	Share capital	Capital contribution reserve	Revaluation reserve	Exchange reserve	Share option reserve	Enterprise expansion fund and statutory reserve	Security investment reserve	Non-distributable reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	5,345,183	-	28,338	1,211,901	289,560	727,735	(744,169)	51,979	(2,084,725)	4,825,802	(582,402)	4,243,400
Loss for the year	-	-	-	-	-	-	-	-	(3,349,310)	(3,349,310)	(540,329)	(3,889,639)
Exchange differences arising on translation	-	-	-	155,369	-	-	-	-	-	155,369	48,127	203,496
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(56,579)	-	-	(56,579)	(17,389)	(73,968)
Share of other comprehensive expense of associates	-	-	-	(203,233)	-	-	(35,737)	-	-	(238,970)	-	(238,970)
Total comprehensive expense for the year	-	-	-	(47,864)	-	-	(92,316)	-	(3,349,310)	(3,489,490)	(509,591)	(3,999,081)
Transfer on dissolution of subsidiaries (Note d)	-	-	-	(11,452)	-	(1,163)	-	-	12,615	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(24,381)	(24,381)
At 31 December 2015	5,345,183	-	28,338	1,152,585	289,560	726,572	(836,485)	51,979	(5,421,420)	1,336,312	(1,116,374)	219,938
Loss for the year	-	-	-	-	-	-	-	-	(1,621,162)	(1,621,162)	(333,058)	(1,954,220)
Exchange differences arising on translation	-	-	-	306,662	-	-	-	-	-	306,662	95,370	402,032
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(39,381)	-	-	(39,381)	(12,434)	(51,815)
Share of other comprehensive (expense) income of associates	-	-	-	(175,699)	-	-	50,445	-	-	(125,254)	-	(125,254)
Total comprehensive income (expense) for the year	-	-	-	130,963	-	-	11,064	-	(1,621,162)	(1,479,135)	(250,122)	(1,729,257)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(658)	(658)
Disposal of subsidiaries (note 39)	-	4,848,033	(28,338)	(1,244,914)	-	(726,572)	104,807	(51,979)	1,946,996	4,848,033	1,367,154	6,215,187
At 31 December 2016	5,345,183	4,848,033	-	38,634	289,560	-	(720,614)	-	(5,095,586)	4,705,210	-	4,705,210

## Notes:

- Revaluation reserve represented 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.
- Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after tax of the Company's subsidiaries under the applicable laws and regulations in the People's Republic of China (other than Hong Kong).
- Non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.
- During the year ended 31 December 2015, Zhoushan Shouhe Centra-link Co. Ltd. ("Zhoushan"), a subsidiary registered in People's Republic of China, was dissolved. Exchange reserve and statutory reserve of Zhoushan were released to accumulated losses upon dissolution.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 HK\$'000	2015 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(1,954,220)	(3,889,639)
Adjustments for:		
Interest income	(22,374)	(42,480)
Interest expenses	509,136	647,453
Income tax expenses (credit)	45,565	(4,308)
Share of results of associates	(9,763)	274,529
Gain from changes in fair value of investment properties	(363)	(107)
Loss on disposal of property, plant and equipment	54	86
Depreciation of property, plant and equipment	832,120	917,635
Amortisation of prepaid lease rentals	7,416	7,715
Change in fair value of derivative financial instruments	131,136	219,863
(Reversal of) allowance for inventories, net	(251,390)	257,825
Allowance for trade and other receivables, net	26,566	72,208
Impairment loss on interest in an associate	257,000	951,681
Operating cash flows before movements in working capital	(429,117)	(587,539)
Decrease in inventories	366,309	510,206
Increase in trade and bills receivables	(483,624)	(303,550)
(Increase) decrease in prepayments, deposits and other receivables	(16,844)	244,825
Decrease (increase) in trade receivables and amounts due from related companies	95,644	(151,128)
Increase in trade receivables from ultimate holding company of a shareholder	(6,833)	(142)
Increase (decrease) in trade and bills payables	706,240	(650,334)
Increase in other payables, provision and accrued liabilities	270,875	197,140
Increase in trade payables to ultimate holding company of a shareholder	101,184	783,765
(Decrease) increase in trade payables to related companies	(2,462)	306,453
Cash generated from operations	601,372	349,696
Interest paid	(502,019)	(645,550)
Income taxes paid	(200)	(301)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>99,153</b>	<b>(296,155)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 HK\$'000	2015 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Decrease in restricted bank deposits		161,170	353,695
Withdrawal of pledged bank deposits		313,076	229,001
Placement of pledged bank deposits		(59,659)	(384,785)
Purchase of property, plant and equipment		(181,995)	(94,932)
Purchase of investment properties		(279)	(1,275)
Deposits paid for acquisition of property, plant and equipment		(8,247)	(16,339)
Dividends received from associates		292,792	277,867
Interest received		22,374	42,480
Proceeds from disposal of property, plant and equipment		2,772	1,509
Decrease in amount due from ultimate holding company of a shareholder		–	2,134
Decrease/(increase) in amount due from associates		4,827	(2,323)
Decrease in amount due from a non-controlling shareholder of a subsidiary		–	3,803
Net cash outflow from disposal of subsidiaries	39	(131,838)	–
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>414,993</b>	<b>410,835</b>
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised		5,670,441	6,704,364
Advance on discounted bills		158,547	33,041
Advance from related companies		133,092	13,009
Repayment to related companies		(197,266)	(6,269)
Advance from ultimate holding company of a shareholder		2,192	829
Repayment of bank borrowings		(6,954,522)	(7,770,713)
Dividends paid to non-controlling shareholders of a subsidiary		(658)	(24,381)
Repayment to ultimate holding company of a shareholder		(1,863)	(384)
New loans granted by ultimate holding company of a shareholder		705,347	597,015
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(484,690)</b>	<b>(453,489)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>29,456</b>	<b>(338,809)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>519,474</b>	<b>872,250</b>
Effect of foreign exchange rate changes		(11,442)	(13,967)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>		<b>537,488</b>	<b>519,474</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 2016, and the ultimate and immediate 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 47.

Subsequent to the disposal of subsidiaries on 30 December 2016 as set out in note 39, the directors of the Company (“Directors”) re-assessed the functional currency of the Company. The Directors determined to change the functional currency from Renminbi (“RMB”) to Hong Kong dollars (“HK\$”) with effect from 30 December 2016 after taking into consideration of the primary economic environment of the Company’s main operations. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 *The Effect of Changes in Foreign Exchange Rates*. The consolidated financial statements are also presented in HK\$.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group had net current liabilities of approximately HK\$172,286,000 (2015: HK\$14,047,489,000) as at 31 December 2016 and incurred loss of approximately HK\$1,954,220,000 (2015: HK\$3,889,639,000) during the year ended 31 December 2016. Taking into account the financial resources of the Group, including the financial support from the ultimate and immediate holding company of the major shareholder of the Company, Shougang Corporation, the Directors are of the opinion that the Group 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year.

Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs Amendments to HKAS 16 and HKAS 41	Annual Improvements to HKFRSs 2012 – 2014 Cycle Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the new and revised 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.

### 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:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### HKFRS 9 Financial Instruments

The Group had early adopted HKFRS 9 as amended in 2010 in 2012. A revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

In terms of the amendments, debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Directors do not anticipate that the application of HKFRS 9 will have any effect on the Group’s consolidated financial statements.

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### HKFRS 15 Revenue from Contracts with Customers (continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 41, total operating lease commitment of the Group in respect of office premises in Hong Kong as at 31 December 2016 amounted to HK\$13,597,000, the Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s result but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 *Income Taxes*, whether to recognise a deferred tax asset in relation to unrealised tax losses of a debt instrument that is classified as an available-for-sale financial asset in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* under certain specific facts and circumstances.

The Directors do not anticipate that the amendments to HKAS 12 will have any effect on the Group’s consolidated financial statements.

Other than set out above, the Directors do not anticipate that the application of other new and revised HKFRSs will have a material effect on the Group’s consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the Hong Kong Companies Ordinance.

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 at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Basis of consolidation (continued)**

#### ***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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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, 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 ("CGU") to which the goodwill relates may be impaired (see the accounting policy below).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

#### *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, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's CGUs (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in associates

An associate is an entity over which the Group has significant influence. 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, an investment in an associate is 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 associate. When the Group's share of losses of an associate exceeds the Group's interest in that 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 the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 of disposal) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Interests in associates (continued)**

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with its associate of the Group (such as sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### ***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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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.

### 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.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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.

### 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 subsequent accumulated impairment losses, if any.

Properties 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.

Depreciation is recognised so as to write off the costs of assets 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Mining assets

Mining assets mainly include mining rights. 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 and no future economic benefits are expected from its disposal. 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 profit or loss in the period in which the property is derecognised.

### 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, including the cost of acquiring land held under operating leases, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

#### *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 recognised 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.

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into 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 period. 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 partial disposal of an interest in an associates that includes a foreign operation of which the retained interest becomes a financial asset), 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation 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 losses.

Goodwill and fair value adjustments on identifiable assets acquired and liability assumed through 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 other comprehensive income.

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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and 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 bases 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 deferred tax 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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, rather than through sale.

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.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (a) Financial assets

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.

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 other income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (a) Financial assets (continued)

##### (ii) Financial assets at fair value through profit or loss ("FVTPL")

Investments in equity instruments are classified as at FVTPL, unless the Group designates such investment that is not held for trading as 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 (a)(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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (a) Financial assets (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 Group has designated all investments in equity investments (listed or unlisted) that are not held for trading as at FVTOCI on initial application of HKFRS 9.

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.

#### (b) 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 when 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (b) Impairment losses of financial assets (continued)

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.

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, trade receivables from ultimate holding company of a shareholder 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, trade receivable from ultimate holding company of a shareholder 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (c) *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 losses.

#### (d) *Financial liabilities and equity instruments*

##### (i) *Classification and measurement*

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

##### (1) *Equity instruments*

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### (d) Financial liabilities and equity instruments (continued)

##### (i) Classification and measurement (continued)

##### (2) 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 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.

##### (ii) Derecognition of financial liabilities

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are 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 case 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 terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured 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, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

The amount recognised as a provision is 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. When 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).

### 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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services recorded is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, 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, 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.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 determining 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. 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 the fair value changes of the investment properties on disposal.

For the investment properties located in the PRC, the Directors concluded that they 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 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 the carrying amounts of the assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 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 and bills 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.

As at 31 December 2016, the carrying amount of trade and bills receivables is HK\$394,779,000, net of allowance for doubtful debts of HK\$2,248,000 (31 December 2015: carrying amount of HK\$2,005,306,000, net of allowance of doubtful debts of HK\$119,758,000).

The movement in the allowance for doubtful debts recognised during the year is set out in note 25.

### *Impairment of interests in associates*

The carrying amount of interests in associates amounting to HK\$4,654,460,000 (2015: HK\$5,353,944,000) is 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 of disposal. The value in use is based on the estimations of future expected cash flows from the associates and a suitable discount rate. The key assumptions of the discounted cash flow model include the budgeted sales, gross margin and the discount rates. 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 of HK\$257,000,000 has been recognised in respect of interests in an associate for the year ended 31 December 2016 (2015: HK\$951,681,000). Details of the recoverable amount calculation for interests in associates are disclosed in note 21.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### Key sources of estimation uncertainty (continued)

#### *Income taxes*

No deferred tax asset has been recognised in respect of tax losses of approximately HK\$397 million of which HK\$310 million is subject to confirmation by Hong Kong Inland Revenue Department (“IRD”) (2015: HK\$9,938 million, of which HK\$373 million was subject to confirmation by IRD and HK\$2,593 million was subject to confirmation by the State Administration of Taxation of the PRC (“SAT”)) 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 IRD, a deferred tax asset may be recognised.

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

On 24 October 2014, Mount Gibson Iron Limited (“MGI”) announced that there was a slump in the main pit in Koolan Island (“Main Pit”) seawall in Koolan Island and Main Pit was inundated as result of the breach of the seawall. As at 31 December 2016, the management of MGI is still assessing the timing and cost of options to rebuild the Main Pit seawall and resume production and MGI announced that the assessment will be completed in March 2017.

The Directors consider that the production of Main Pit is unlikely to resume during the year 2017, and therefore the entire carrying amount of the commodity forward contracts are classified as non-current asset as at 31 December 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 (continued)*

The fair value of commodity forward contracts stated in the statement of financial position is determined by 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 current portion of commodity forward contracts was determined based on the present value of future cash inflows within one year from the end of the reporting period and the remaining present value of future cash inflows was classified as non-current. 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 price, the forecasted annual production of the mines, the lives of the mines, the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of capsize vessel freight rate and panamax vessel freight rate, the forecasted marketing commission saving and a discount rate of 19.49% (2015: 19.72%), 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\$181,716,000 (2015: HK\$312,852,000). Details of the commodity forward contracts are disclosed in note 28.

#### *Fair value measurements and valuation processes*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available for level 1 inputs. In the level 2 fair value measurements, the Group derived the inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly with reference to the market information. When level 1 and level 2 inputs are not available, the Group engages a third party qualified valuer to perform the valuation of commodity forward contracts and unlisted equity securities designated as at FVTOCI. The Group works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments and investment properties. Notes 15, 22, 28 and 38c provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION

Revenue arising from sales of steel products, sales of iron ore, sale of other steel related products and management services income during the year is as follows:

	2016 HK\$'000	2015 HK\$'000 (Restated)
<b>Continuing operations</b>		
Sale of iron ore	921,970	412,305
Sale of other steel related products	110,014	–
Management services income	3,622	3,816
	<b>1,035,606</b>	416,121
<b>Discontinued operations</b>		
Sale of steel products (note 39)	6,262,980	6,844,690
Mineral exploration and processing	–	11,884
	<b>6,262,980</b>	6,856,574
	<b>7,298,586</b>	7,272,695

### Segment information

Information reported to the Directors, 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;
Trading business	– trading of steel products and iron ore;
Mineral exploration and processing	– mining, processing and sale of iron ore; and
Others	– management services and leasing income.

The segments of steel manufacturing and mineral exploration and processing were discontinued in the current year and details are set out in note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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.

### Continuing operations

For the year ended 31 December 2016

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
Revenue			
External sales	1,031,984	3,622	1,035,606
Inter-segment sales	95,844	–	95,844
<b>Segment revenue from continuing operations</b>	<b>1,127,828</b>	<b>3,622</b>	<b>1,131,450</b>
Eliminations			(95,844)
Group revenue			<b>1,035,606</b>
<b>Segment profit (loss)</b>	<b>20,470</b>	<b>(9,764)</b>	<b>10,706</b>
Interest income			7,680
Central administration costs			(35,483)
Change in fair value of derivative financial instruments			(131,136)
Finance costs			(31,036)
Impairment loss on interest in an associate			(257,000)
Share of results of associates			9,118
Loss before taxation from continuing operations			<b>(427,151)</b>

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION (continued)

### Segment revenue and results (continued)

#### Continuing operations (continued)

For the year ended 31 December 2015 (Restated)

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
Revenue			
External sales	412,305	3,816	416,121
Inter-segment sales	85,006	–	85,006
Segment revenue from continuing operations	497,311	3,816	501,127
Eliminations			(85,006)
Group revenue			416,121
Segment profit	45,119	7,521	52,640
Interest income			12,138
Central administration costs			(24,248)
Change in fair value of derivative financial instruments			(219,863)
Finance costs			(39,815)
Impairment loss on interest in an associate			(951,681)
Share of results of associates			(274,967)
Loss before taxation from continuing operations			(1,445,796)

Inter-segment sales are charged at prevailing market rates.

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, change in fair value of derivative financial instruments, finance costs, impairment loss on interest in an associate and share of results of associates. This is the measure reported to the Directors for the purposes of resource allocation and performance assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION (continued)

### Segment assets and liabilities

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

	2016 HK\$'000	2015 HK\$'000
<b>Segment assets</b>		
Trading business	587,579	426,452
Others	11,280	5,250
Steel manufacturing	–	12,111,967
Mineral exploration and processing	–	1,434,503
Total segment assets	598,859	13,978,172
Interests in associates	4,654,460	5,353,944
Equity investments	783	56,199
Deferred tax assets	32,291	32,582
Amounts due from related companies – non-trade	456	212,946
Amount due from associates – non-trade	26	–
Restricted bank deposits	–	832,566
Pledged bank deposits	23,073	276,490
Bank balances and cash	537,488	519,474
Consolidated assets	5,847,436	21,262,373

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION (continued)

### Segment assets and liabilities (continued)

	2016 HK\$'000	2015 HK\$'000
<b>Segment liabilities</b>		
Trading business	<b>327,745</b>	45,478
Others	<b>5,391</b>	3,697
Steel manufacturing	–	11,805,882
Mineral exploration and processing	–	511,277
<b>Total segment liabilities</b>	<b>333,136</b>	12,366,334
Amounts due to related companies – non-trade	–	263,378
Amount due to ultimate holding company of a shareholder – non-trade	–	2,137
Bank borrowings	<b>616,783</b>	6,805,554
Tax payable	<b>192,307</b>	144,669
Deferred tax liabilities	–	29,318
Loans from ultimate holding company of a shareholder	–	1,431,045
<b>Consolidated liabilities</b>	<b>1,142,226</b>	21,042,435

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION (continued)

### Other segment information

2016

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
<b>Continuing operations</b>			
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets (Note)	16	352	368
Depreciation of property, plant and equipment	12	255	267
Loss on disposal of property, plant and equipment	3	1	4
Reversal of impairment loss for trade and other receivables, net	–	(20)	(20)
Increase in fair value of investment properties	–	(321)	(321)

2015 (Restated)

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
<b>Continuing operations</b>			
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets (Note)	–	46	46
Depreciation of property, plant and equipment	138	242	380
Reversal of impairment loss for trade and other receivables, net	(27)	–	(27)

Note: Non-current assets excluded equity investments, pledged bank deposits and deferred tax assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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:

	2016 HK\$'000	2015 HK\$'000 (Restated)
<b>Continuing operations</b>		
Iron ore	921,970	412,305
Other steel related products	110,014	–
Management services	3,622	3,816
	<b>1,035,606</b>	416,121

### 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 for continuing operations 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 from continuing operations		Non-current assets (Note)	
	2016 HK\$'000	2015 HK\$'000 (Restated)	2016 HK\$'000	2015 HK\$'000
PRC, excluding Hong Kong (country of domicile)	1,031,984	–	–	9,612,316
Hong Kong	3,622	3,816	4,662,706	5,328,216
Australia	–	412,305	–	–
	<b>1,035,606</b>	416,121	<b>4,662,706</b>	14,940,532

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. REVENUE AND SEGMENT INFORMATION (continued)

### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of total sales of the Group from the continuing operations are as follows:

	2016 HK\$'000	2015 HK\$'000
Customer A <sup>1</sup>	202,642	N/A <sup>2</sup>
Customer B <sup>1</sup>	111,489	N/A <sup>2</sup>
Customer C <sup>1</sup>	N/A <sup>2</sup>	143,966
Customer D <sup>1</sup>	N/A <sup>2</sup>	94,199
Customer E <sup>1</sup>	N/A <sup>2</sup>	92,638

<sup>1</sup> Revenue from trading business.

<sup>2</sup> The corresponding revenue did not contribute over 10% of the total sales of the Group from the continuing operations.

## 7. OTHER INCOME

### Continuing operations

	2016 HK\$'000	2015 HK\$'000 (Restated)
Interest income on bank deposits	7,680	12,138
Sundry income	3	236
	<b>7,683</b>	<b>12,374</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 8. OTHER GAINS AND LOSSES

### Continuing operations

	2016 HK\$'000	2015 HK\$'000 (Restated)
Loss on disposal of property, plant and equipment	(4)	–
Net foreign exchange (loss) gain	(15,553)	2,378
Gain from changes in fair value of investment properties	321	–
Reversal of impairment loss for trade and other receivables, net	20	27
	<b>(15,216)</b>	<b>2,405</b>

## 9. FINANCE COSTS

### Continuing operations

	2016 HK\$'000	2015 HK\$'000 (Restated)
Interest on bank borrowings	31,036	39,815

## 10. INCOME TAX EXPENSE

### Continuing operations

	2016 HK\$'000	2015 HK\$'000 (Restated)
Current tax:		
– Hong Kong	–	–
Under-provision in prior years:		
– Hong Kong (Note)	49,064	–
Income tax expense	<b>49,064</b>	<b>–</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 10. INCOME TAX EXPENSE (continued)

### Continuing operations (continued)

No provision for Hong Kong profits tax for the current year had been made in the consolidated financial statements as the Group had no Hong Kong assessable profit for 2016 and 2015.

Note: The amount mainly represents the profits tax of approximately HK\$49,061,000 in relation to the offshore trading profits of iron ores claimed by the Group in prior years (the "Offshore Claim"). The Group has received tax assessment demanding notes on the Offshore Claim (the "Assessment") issued by the Inland Revenue Department subsequent to the end of the reporting period. Although the management of the Group has lodged an objection against the Assessment, provision for prior years' Hong Kong profits tax has been made as the management of the Group is not certain about the probability of the success of the objection.

The tax expense for the year can be reconciled to the loss before taxation from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK\$'000	2015 HK\$'000 (Restated)
Loss before taxation	<b>(427,151)</b>	(1,445,796)
Taxation at the income tax rate of 16.5% (2015: 16.5%) (Note)	<b>(70,480)</b>	(238,556)
Tax effect of share of results of associates	<b>(1,505)</b>	45,370
Tax effect of expenses not deductible for tax purpose	<b>82,514</b>	200,509
Tax effect of income not taxable for tax purpose	<b>(13,827)</b>	(10,204)
Tax effect of tax loss not recognised	<b>4,650</b>	5,752
Tax effect of utilisation of tax losses previously not recognised	<b>(1,352)</b>	(2,871)
Under-provision in respect of prior years	<b>49,064</b>	–
<b>Tax expense for the year</b>	<b>49,064</b>	–

Note: As set out in note 39, subsequent to the completion of the Disposal, the management of the Group considers to apply a Hong Kong tax rate of 16.5% for the computation of the income tax expense as the major operations of the Group are in Hong Kong.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 11. LOSS FOR THE YEAR

### Continuing operations

	2016 HK\$'000	2015 HK\$'000 (Restated)
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	20,652	21,897
– retirement benefits scheme contributions	925	980
	<b>21,577</b>	22,877
Depreciation of property, plant and equipment	267	380
Change in fair value of commodity forward contracts	131,136	219,863
Auditor's remuneration	3,837	3,164
Cost of inventories recognised as expenses	967,704	287,301
Gross rental income from investment properties, net of direct operation expenses nil (2015: nil)	(23)	(216)
Minimum lease payments under operating leases in respect of land and buildings	4,565	3,730
Service and management fees charged by Shougang Group (included in related parties transactions as disclosed in note 46)	960	960

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

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

The emoluments paid or payable to each of the ten (2015: eleven) Directors were as follows:

	Executive Directors of the Company			Non-executive Directors of the Company			Independent Non-executive Directors of the Company			Total 2016 HK\$'000	
	Li Shaofeng HK\$'000	Ding Rucai HK\$'000	Shu Hong HK\$'000	Zhang Gongyan HK\$'000 (Note a)	Zhang Bingcheng HK\$'000 (Note b)	Ip Chuen, Edmond HK\$'000 (Note c)	Leung Shun Sang, Tony HK\$'000	Kan Lai Kuen, Alice HK\$'000	Wong Kun Kim HK\$'000		Leung Kai Cheung HK\$'000
2016											
Fees	-	-	-	99	-	150	230	330	330	330	1,469
Other emoluments											
Salaries and other benefits	-	-	2,400	-	-	-	-	-	-	-	2,400
Contributions to retirement benefits schemes	-	-	18	-	-	-	-	-	-	-	18
Total emoluments	-	-	2,418	99	-	150	230	330	330	330	3,887

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	Executive Directors of the Company				Non-executive Directors of the Company			Independent Non-executive Directors of the Company			Total 2015 HK\$'000	
	Li Shaofeng HK\$'000	Ding Rucui HK\$'000	Shu Hong HK\$'000	Zhang Wenhui HK\$'000	Zhang Gongyan HK\$'000	Ip Tak Chuen, Edmond HK\$'000	Leung Shun Sang, Tony HK\$'000	Xu Ning HK\$'000	Kan Lai Kuen, Alice HK\$'000	Wong Kun Kim HK\$'000		Leung Kai Cheung HK\$'000
2015												
Fees	-	-	-	-	99	150	230	71	330	330	330	1,540
Other emoluments												
Salaries and other benefits	-	-	200	2,860	-	-	-	-	-	-	-	3,060
Contributions to retirement benefits schemes	-	-	2	74	-	-	-	-	-	-	-	76
<b>Total emoluments</b>	<b>-</b>	<b>-</b>	<b>202</b>	<b>2,934</b>	<b>99</b>	<b>150</b>	<b>230</b>	<b>71</b>	<b>330</b>	<b>330</b>	<b>330</b>	<b>4,676</b>

Notes:

- (a) According to the announcement of the Company dated 1 August 2016, Mr. Zhang Gongyan has resigned as a Non-executive Director of the Company and the Chairman of the Board with effect from 1 August 2016.
- (b) According to the announcement of the Company dated 1 August 2016, Mr. Zhang Bingcheng has been appointed as a Non-executive Director of the Company and the Chairman of the Board with effect from 1 August 2016.
- (c) According to the announcement of the Company dated 23 December 2016, Mr. Ip Tak Chuen, Edmond has resigned as a Non-executive Director of the Company with effect from 1 January 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Notes: (continued)

- (d) According to the announcement of the Company dated 26 November 2015, Mr. Shu Hong was appointed as an Executive Director and the Deputy Managing Director of the Company with effect from 1 December 2015. Before the appointment as Director, Mr. Shu Hong was an employee of the Company with employee emoluments of approximately HK\$1,671,000 in 2015, and he was one of the five individuals with the highest emoluments in the Group.
- (e) According to the announcement of the Company dated 26 November 2015, Mr. Zhang Wenhui resigned as an Executive Director and the Deputy Managing Director of the Company with effect from 1 December 2015.
- (f) According to the announcement of the Company dated 28 May 2015, Mr. Zhang Gongyan was appointed as a Non-executive Director of the Company and the Chairman of the Board with effect from 1 June 2015.
- (g) According to the announcement of the Company dated 28 May 2015, Mr. Xu Ning resigned as a Non-executive Director of the Company and the Chairman of the Board with effect from 1 June 2015.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

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. Mr. Li Shaofeng has voluntarily waived his monthly salary of HK\$315,000 since 1 March 2014.

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 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, which including Mr. Shu Hong, (2015: two, Mr. Shu Hong and Mr. Zhang Wenhui) was Director whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining four (2015: three) individuals are as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and other benefits	5,098	3,435
Contributions to retirement benefits scheme	226	202
	<b>5,324</b>	<b>3,637</b>

Their emoluments were within the following band:

	2016 No. of employees	2015 No. of employees
HK\$1,000,001 to HK\$1,500,000	3	3
HK\$1,500,001 to HK\$2,000,000	1	–
	<b>4</b>	<b>3</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 13. DIVIDENDS

The Board of Directors did not declare dividend for the years ended 31 December 2016 and 2015.

## 14. LOSS PER SHARE

### From continuing and discontinued operations

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

	2016 HK\$'000	2015 HK\$'000
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share		
Loss for the year attributable to owners of the Company	<b>(1,621,162)</b>	<b>(3,349,310)</b>

	2016	2015
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>8,957,896,227</b>	<b>8,957,896,227</b>

For the years ended 31 December 2016 and 31 December 2015, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 14. LOSS PER SHARE (continued)

### From continuing operations

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

	2016 HK\$'000	2015 HK\$'000
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share		
Loss for the year attributable to owners of the Company	<b>(476,215)</b>	(1,445,501)

	2016	2015
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>8,957,896,227</b>	8,957,896,227

For the years ended 31 December 2016 and 31 December 2015, 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.

## 15. INVESTMENT PROPERTIES

	HK\$'000
<b>FAIR VALUE</b>	
At 1 January 2015	38,953
Additions	1,275
Exchange adjustments	(1,517)
Changes in fair value recognised in profit or loss	107
At 31 December 2015	38,818
Additions	279
Exchange adjustments	(2,173)
Changes in fair value recognised in profit or loss	363
Disposal of subsidiaries (note 39)	(31,287)
At 31 December 2016	6,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. INVESTMENT PROPERTIES (continued)

All of the 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 fair value of the investment properties located in Hong Kong as at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on the respective dates by AA Property Services Limited, an independent qualified professional valuer not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors.

In 2016, the fair value was determined based on the investment approach by reference to the capitalisation of the rental income receivable with due allowance for reversionary income potential. The key inputs to the investment approach used in valuing the investment property which is situated in Hong Kong and held under long-term lease were the monthly rental income of HK\$18,000, the term rate of 3% and reversionary rate of 3.5%. An increase in the rental income used would result in an increase in fair value measurement of the investment property, and vice versa. An increase in the term rate used would result in a decrease in fair value measurement of the investment property, and vice versa. An increase in the reversionary rate used would result in a decrease in fair value measurement of the investment property, and vice versa.

In 2015, as the lease term has expired and the management decided to put the property into refurbishment, with no potential rental income receivable to be capitalised, the valuer made reference to similar property in the same building to determine the fair value of the investment property, thus the fair value was determined based on the direct comparison approach by making reference to sales evidence of similar property in the vicinity as available on the market. The key input used in valuing the investment property which is situated in Hong Kong and intended to be held under long-term lease was the unit value of HK\$11,800 per square foot, by taking reference to the history average unit price of similar properties recently available on the market.

All investment properties located in the PRC have been disposed due to the disposal of subsidiaries during the current year as set out in note 39.

The fair value of the investment properties located in the PRC as at 31 December 2015 has been arrived at on the basis of a valuation carried out on that date by Hebei Jiaze Appraisal Company Limited, an independent qualified professional valuer not connected with the Group. The real estate appraisers of Hebei Jiaze Real Estate Appraisal Co., Ltd. obtained the qualification given by the Ministry of Housing and Urban-Rural Development of PRC to perform real estate appraisal practices. The fair value was determined based on the income approach by reference to market evidence of capitalisation of the rental income from the properties. There has been no change from the valuation technique used in the prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. INVESTMENT PROPERTIES (continued)

The key inputs used in valuing the investment properties which were situated in the PRC and held under medium-term lease were the monthly rental income ranging from approximately RMB53,000 to RMB77,000 and discount rate of 6%. An increase in the rental income used would result in an increase in fair value measurement of the investment properties, and vice versa. An increase in the discount rate used would result in a decrease in fair value measurement of the investment properties, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties was their current use.

Details of the investment properties and information about the fair value hierarchy at the reporting date are as follows:

	<b>2016</b>	2015	<b>Fair value as at 31 December 2016</b>	Fair value as at 31 December 2015
	<b>Level 3</b>	Level 3	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Residential property unit located in Hong Kong	<b>6,000</b>	5,400	<b>6,000</b>	5,400
Commercial and residential property units located in the PRC	–	33,418	–	33,418
	<b>6,000</b>	38,818	<b>6,000</b>	38,818

The fair value measurement of the investment properties located in HK and the PRC are categorised into level 3 as the significant inputs to the fair value measurement are unobservable.

There were no transfers into or out of level 3 during the year. The carrying amounts of investment properties shown above are situated in:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Hong Kong and held under long-term lease	<b>6,000</b>	5,400
The PRC and held under medium-term and long-term leases	–	33,418
	<b>6,000</b>	38,818

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Vessels	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>								
At 1 January 2015	4,806,222	65,099	139,335	12,292,405	333,731	6,263	287,883	17,930,938
Exchange adjustments	(216,924)	(2,759)	(6,166)	(554,806)	(14,942)	-	(13,294)	(808,891)
Additions	1,151	-	1,077	11,239	1,450	-	94,959	109,876
Transfer	15,446	-	266	46,242	355	-	(62,309)	-
Disposals	-	-	(165)	(2,348)	(2,607)	(6,263)	-	(11,383)
At 31 December 2015	4,605,895	62,340	134,347	11,792,732	317,987	-	307,239	17,220,540
Exchange adjustments	(299,279)	(3,792)	(8,550)	(766,185)	(20,493)	-	(20,472)	(1,118,771)
Additions	951	-	183	78,942	-	-	117,585	197,661
Transfer	44,538	-	-	69,239	-	-	(113,777)	-
Disposals	(2,645)	-	(5,719)	(4,326)	(1,043)	-	-	(13,733)
Disposal of subsidiaries (note 39)	(4,349,460)	(54,571)	(117,628)	(11,170,402)	(293,850)	-	(290,575)	(16,276,486)
At 31 December 2016	-	3,977	2,633	-	2,601	-	-	9,211
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>								
At 1 January 2015	1,184,459	43,052	103,894	5,773,490	325,359	6,263	-	7,436,517
Exchange adjustments	(56,249)	(1,875)	(4,760)	(285,302)	(14,989)	-	-	(363,175)
Provided for the year	157,381	342	6,295	745,808	7,809	-	-	917,635
Eliminated on disposals	-	-	(160)	(885)	(2,480)	(6,263)	-	(9,788)
At 31 December 2015	1,285,591	41,519	105,269	6,233,111	315,699	-	-	7,981,189
Exchange adjustments	(85,919)	(2,582)	(6,770)	(437,744)	(20,365)	-	-	(553,380)
Provided for the year	147,603	245	2,603	681,044	625	-	-	832,120
Eliminated on disposals	(130)	-	(5,718)	(4,049)	(1,010)	-	-	(10,907)
Disposal of subsidiaries (note 39)	(1,347,145)	(37,209)	(92,993)	(6,472,362)	(292,348)	-	-	(8,242,057)
At 31 December 2016	-	1,973	2,391	-	2,601	-	-	6,965
<b>CARRYING VALUES</b>								
At 31 December 2016	-	2,004	242	-	-	-	-	2,246
At 31 December 2015	3,320,304	20,821	29,078	5,559,621	2,288	-	307,239	9,239,351

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2016, approximately HK\$89,021,000 (2015: HK\$32,062,000) of plant and equipment has been purchased from Shougang Group.

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 2016 and 31 December 2015, no impairment loss was recognised in the profit or loss for property, plant and equipment. Details of the impairment assessment are set out in note 20.

## 17. PREPAID LEASE RENTALS

	2016 HK\$'000	2015 HK\$'000
The prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	–	300,285
Analysed for reporting purposes as:		
Current asset	–	7,531
Non-current asset	–	292,754
	–	300,285

As set out in note 39, the prepaid lease rentals have been disposed due to the disposal of subsidiaries during the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. MINING ASSETS

	HK\$'000
<hr/>	
COST	
At 1 January 2015, 31 December 2015 and 1 January 2016	199,476
Disposal of subsidiaries (note 39)	(199,476)
<hr/>	
At 31 December 2016	–
<hr/>	
AMORTISATION AND IMPAIRMENT (Note)	
At 1 January 2015, 31 December 2015 and 1 January 2016	199,476
Disposal of subsidiaries (note 39)	(199,476)
<hr/>	
At 31 December 2016	–
<hr/>	
CARRYING VALUES	
At 31 December 2016	–
<hr/>	
At 31 December 2015	–

Details of the 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	January 2016

The mining activities of Hongda Iron Ore Mine commenced in September 2009 and amortisation was charged by using the units of production method. There were no mining activities of Hongda Iron Ore Mine during the years ended 31 December 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. MINING ASSETS (continued)

There were no mining activities of Chagou Iron Ore Mine since the acquisition of Chagou Iron Ore Mine during the year ended 31 December 2008.

The mining right of Chagou Iron Ore Mine and Hongda Iron Ore Mine expired in January 2016 and June 2016 respectively. As set out in note 39, the mining right has been disposed due to the disposal of subsidiaries during the current year.

Note: Mining assets are included in the mineral exploration and processing segment which is a CGU, representing the Group's subsidiary – Qinhuangdao Shouqin Longhui Mining Co., Ltd. ("Unit C") for the purpose of impairment testing of the tangible assets.

Details of the impairment assessment are set out in note 20.

## 19. GOODWILL

	HK\$'000
<hr/>	
COST	
At 1 January 2015, 31 December 2015 and 1 January 2016	218,015
Disposal of subsidiaries (note 39)	(218,015)
<hr/>	
At 31 December 2016	–
<hr/>	
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 1 January 2016	218,015
Disposal of subsidiaries (note 39)	(218,015)
<hr/>	
At 31 December 2016	–
<hr/>	
CARRYING VALUES	
At 31 December 2016	–
<hr/>	
At 31 December 2015	–
<hr/>	

Particulars regarding impairment testing on goodwill are disclosed in note 20.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

As set out in note 39, the Group has disposed its steel manufacturing and mineral exploration and processing business on 30 December 2016. Prior to the Disposal, the management has performed an impairment testing on steel manufacturing segment and mineral exploration and processing segment, respectively as follows:

### Impairment testing on steel manufacturing segment

For the purposes of impairment testing, the goodwill set out in note 19 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 ("Unit A") and Shouqin ("Unit B"). The carrying amounts of goodwill for these units have been fully impaired prior to year 2015.

The steel manufacturing segment includes CGUs of Units A and B for the purpose of impairment testing of goodwill and property, plant and equipment.

No impairment loss on property, plant and equipment was recognised for the period ended 30 December 2016 and the year ended 31 December 2015 for the CGUs as the recoverable amounts of CGUs were higher than the respective carrying amounts.

The recoverable amount is the higher of fair value less costs of disposal 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% (2015: 13.50%) for both Units A and B. Both the cash flow of Unit A and Unit B beyond the five years period (2015: five years) are extrapolated with zero growth rate. The key assumptions for the value in use calculations are those regarding the estimated average useful life of identifiable assets, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## **20. IMPAIRMENT TESTING ON GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND MINING ASSETS** (continued)

### **Impairment testing on mineral exploration and processing segment**

Prior to the disposal date on 30 December 2016 and year ended 31 December 2015, as the result of the unfavourable performance of mineral exploration and processing segment, the management conducted an impairment assessment of individual segment asset. The segment assets mainly include the property, plant and equipment and mining assets. The carrying amount of mining assets was fully impaired in 2013. As it is not possible to estimate the recoverable amount of the property, plant and equipment individually, the management determines the recoverable amount of Unit C, as defined in note 18 to which such assets belong. The management considers that the recoverable amount of the individual property, plant and equipment cannot be determined when (i) the value in use of the asset cannot be estimated to be close to its fair value less costs of disposal, and (ii) the asset does not generate cash inflows that are largely independent of those from other assets. Unit C is considered as a CGU for the purpose of the impairment test.

No impairment loss on property, plant and equipment was recognised for the period ended 30 December 2016 and the year ended 31 December 2015 for Unit C as the recoverable amount of Unit C was higher than the carrying amount.

The recoverable amount is the higher of fair value less costs of disposal and value in use. The recoverable amounts of mineral exploration and processing 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% (2015: 15%). Cash flows beyond the five years period (2015: five years) are extrapolated 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES

	2016 HK\$'000	2015 HK\$'000
Cost of investment in associates		
Listed in Hong Kong	6,834,092	6,834,092
Unlisted	–	20,448
Share of post-acquisition results and other comprehensive expenses, net of dividends received	(606,738)	(184,702)
	6,227,354	6,669,838
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments (Note)	(364,213)	(364,213)
Impairment loss	(1,208,681)	(951,681)
	4,654,460	5,353,944
Fair value of listed investments	2,403,753	1,607,473

As set out in note 39, the Group has disposed an unlisted associate with investment cost of HK\$20,448,000 due to the disposal of subsidiaries during the current year. The carrying amount of such associate was HK\$31,996,000 upon the Disposal.

Note: The amount represents unrealised gain on disposal of available-for-sale investments to the Group's associate, Shougang Fushan Resources Group Limited ("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 2016 and 2015, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

Included in the cost of investment in associates is goodwill of approximately HK\$1,048,488,000 (2015: HK\$1,305,488,000). The movement of goodwill is set out below:

### Goodwill

	HK\$'000
<hr/>	
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	2,257,169
<hr/>	
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 1 January 2016	951,681
Impairment loss recognised in the year	257,000
<hr/>	
At 31 December 2016	1,208,681
<hr/>	
CARRYING VALUES	
At 31 December 2016	1,048,488
<hr/>	
At 31 December 2015	1,305,488
<hr/>	

During the six months ended 30 June 2016, the estimated cash flows of the CGU was revised due to the slowdown of economy in the PRC. The coal price kept decreasing during this period, thus adversely affecting the gross margin of Shougang Resources. As the re-estimation of the recoverable amount of the CGU is less than the carrying amount (before impairment) of the interest in Shougang Resources as at 30 June 2016 and an additional impairment loss of HK\$257,000,000 on interest in Shougang Resources is recognised for the six months ended 30 June 2016. The management concludes that no additional impairment loss other than this HK\$257,000,000 has been recognised for the year ended 31 December 2016 as the coal price has been rebounded after 30 June 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

### Goodwill (continued)

Impairment loss of HK\$257,000,000 has been recognised for the year ended 31 December 2016 (for the year ended 31 December 2015: HK\$951,681,000) in respect of the interest in Shougang Resources. The recoverable amount of the interest in Shougang Resources has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections of the associate based on the financial budgets attributable to the equity interest of the Group approved by management covering a 5-year period and using a discount rate of 12.87% (for the year ended 31 December 2015: 12.76%), and the cash flows beyond 5 years are extrapolated using a zero growth rate. Another key assumption for the value in use calculation relates to the estimation of cash inflows which include budgeted sales and gross margin, such estimation is based on the associate's past performance and management's expectations for the market development.

The carrying amount of the Group's investment in Shougang Concord Century Holdings Limited ("Shougang Century") is also 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 amount of the Group's investment in Shougang Century has been determined based on value in use calculations. The value in use calculations use cash flow projection of Shougang Century based on financial budgets covering a five-year period at a discount rate of 10.45% to 10.94% (2015: 10.38% to 10.86%). The parameters adopted in Shougang Century's cash flows beyond the five-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 2016 and 2015, the recoverable amount of Shougang Century is higher than the respective carrying amount and thus no impairment loss is recognised regarding to the Group's investment in Shougang Century.

### Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

### Shougang Resources

	2016 HK\$'000	2015 HK\$'000
Current assets	6,357,689	7,159,304
Non-current assets	12,746,767	13,568,365
Current liabilities	1,843,177	1,942,716
Non-current liabilities	1,595,586	1,740,673

	2016 HK\$'000	2015 HK\$'000
Revenue	1,809,885	1,996,629
Profit (loss) for the year	67,656	(711,475)
Profit (loss) for the year attributable to owners of Shougang Resources	111,795	(416,471)
Other comprehensive expense for the year	(385,875)	(815,305)
Total comprehensive expense for the year	(318,219)	(1,526,780)
Dividends received from the associate during the year	292,792	273,761

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

### Summarised financial information of material associates (continued)

#### Shougang Resources (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 HK\$'000	2015 HK\$'000
Net assets of Shougang Resources	15,665,693	17,044,280
Non-controlling interests	(1,146,669)	(1,253,165)
	<b>14,519,024</b>	15,791,115
Proportion of the Group's ownership interest in Shougang Resources	<b>27.61%</b>	27.61%
	<b>4,008,703</b>	4,359,927
Effect of fair value adjustments at acquisition	(304,471)	(279,089)
Goodwill	1,048,488	1,305,488
Share option reserve	–	(148,453)
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments	(364,213)	(364,213)
Other adjustments (Note)	(158,891)	(10,436)
<b>Carrying amount of the Group's interest in Shougang Resources</b>	<b>4,229,616</b>	4,863,224

Note: Other adjustments mainly represent the transfer of share option reserve to retained earnings of Shougang Resources due to the expiry of share option granted by Shougang Resources.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Shougang Century

	2016 HK\$'000	2015 HK\$'000
Current assets	1,658,764	1,436,348
Non-current assets	1,378,278	1,569,799
Current liabilities	1,632,604	1,379,321
Non-current liabilities	82,473	230,956

	2016 HK\$'000	2015 HK\$'000
Revenue	1,703,255	1,480,507
Profit (loss) for the year and attributable to owners of Shougang Century	10,103	(376,985)
Other comprehensive expense for the year	(84,008)	(89,027)
Total comprehensive expense for the year	(73,905)	(466,012)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. INTERESTS IN ASSOCIATES (continued)

### Summarised financial information of material associates (continued)

#### Shougang Century (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 HK\$'000	2015 HK\$'000
Net assets of Shougang Century	1,321,965	1,395,870
Proportion of the Group's ownership interest in Shougang Century	35.71%	35.71%
	472,074	498,465
Share option reserve	(10,671)	(10,986)
Revaluation reserve	(38,019)	(32,092)
Other adjustments	1,460	1,776
Carrying amount of the Group's interest in Shougang Century	424,844	457,163

### Aggregate information of associates that are not individually material

	2016 HK\$'000	2015 HK\$'000
The Group's share of profit and total comprehensive income	645	438
Dividends received from the associate during the year	–	4,106
Aggregate carrying amount of the Group's interests in these associates	–	33,557

Details of the associates are set out in note 47.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 22. EQUITY INVESTMENTS

Equity investments comprise:

	2016 HK\$'000	2015 HK\$'000
Listed investments:		
– Equity securities listed in Australia, at fair value (Note a)	783	790
Unlisted investments:		
– PRC equity securities, at fair value (Note b)	–	55,409
<b>Total</b>	<b>783</b>	<b>56,199</b>

As set out in note 39, the PRC equity securities have been disposed due to the disposal of subsidiaries during the current year.

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.

Notes:

- a. On 1 January 2012, the Group has applied HKFRS 9 and the related consequential amendments in advance of their effective date of 1 January 2018. The shares of Australasian Resources Limited ("ARH") which are the listed equity investments previously recognised as available-for-sale investments and measured at fair value at the end of the reporting period are designated by the Group as at FVTOCI. The fair value loss of HK\$7,000 (2015: HK\$1,520,000) is recognised as other comprehensive expense and is included in security investment reserve of the Group under HKFRS 9 during the year. As at 31 December 2016, the Group held approximately 5.72% (2015: 5.72%) of the enlarged issued share capital of ARH.
- b. The unlisted PRC equity securities represented the investment in 9.47% (2015: 10%) equity interest of a private entity established in the PRC by Shouqin, for which the principal activities are ship building, ship repairing and retrofitting. The fair value loss of HK\$51,808,000 (2015: HK\$72,448,000) is recognised as other comprehensive expenses and is included in security investment reserve of the Group under HKFRS 9 during the year. The fair value of the unlisted equity securities as at 31 December 2015 and 30 December 2016 (Date of disposal) was measured using valuation technique with significant unobservable inputs as set out in note 38(c).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 23. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balances represented deposits paid for acquisition of property, plant and equipment. Included in the amount, approximately HK\$187,000 was paid to the Shougang Group as at 31 December 2015.

As set out in note 39, the deposits for acquisition of property, plant and equipment have been disposed due to the disposal of subsidiaries during the current year.

## 24. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Raw materials	–	915,566
Work in progress	–	355,854
Finished goods	–	260,154
	–	1,531,574

As set out in note 39, the inventories have been disposed due to the disposal of subsidiaries during the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 25. TRADE AND BILLS RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade and bills receivables	397,027	2,125,064
Less: Allowance for doubtful debts	(2,248)	(119,758)
	<b>394,779</b>	2,005,306
Prepayments and deposits	2,675	388,350
Value added tax receivables	–	88,069
Other receivables	2,739	4,409
Less: Allowance for doubtful debts	–	(81,397)
	<b>5,414</b>	399,431
	<b>400,193</b>	2,404,737

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 credit term of trade receivables are normally 90 days as at 31 December 2016 (2015: 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:

	2016 HK\$'000	2015 HK\$'000
Within 60 days	356,854	1,473,375
61 – 90 days	37,925	148,094
91 – 180 days	–	149,918
181 – 365 days	–	233,919
	<b>394,779</b>	2,005,306

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 25. 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.

All trade receivables are within credit period as at 31 December 2016.

In 2015, included in the trade receivables balance were debtors with aggregate carrying amount of HK\$531,931,000 as at 31 December 2015 which were past due at the reporting date but for which the Group had not provided allowance for doubtful debts as continuous repayment was noted subsequent to the end of the reporting period as at 31 December 2015. The Group did not hold any collateral over these balances. The average age of these receivables was 180 days as at 31 December 2015.

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

	2016 HK\$'000	2015 HK\$'000
61 – 90 days	–	148,094
91 – 180 days	–	149,918
181 – 365 days	–	233,919
Total	–	531,931

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 based on historical experience, such receivables that are past due beyond 365 days are generally not recoverable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### Movement in the allowance for doubtful debts for trade and bills receivables

	2016 HK\$'000	2015 HK\$'000
At 1 January	119,758	153,490
Impairment losses recognised on receivables	20,063	958
Amounts written off as uncollectible	(97)	(28,765)
Exchange adjustments	(7,670)	(5,925)
Disposal of subsidiaries	(129,806)	–
At 31 December	2,248	119,758

The entire balance of the allowance for doubtful debts for trade and bills receivables with an aggregate amount of HK\$2,248,000 (2015: HK\$119,758,000) are individually impaired trade receivables, the payers of which are in severe financial difficulties.

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

### Movement in the allowance for doubtful debts for prepayments and deposits

	2016 HK\$'000	2015 HK\$'000
At 1 January	81,397	12,916
Impairment losses recognised on prepayments and deposits	6,503	73,324
Impairment losses reversed	–	(2,074)
Exchange adjustments	(5,565)	(2,769)
Disposal of subsidiaries	(82,335)	–
At 31 December	–	81,397

The entire balance of the allowance for doubtful debts for prepayments and deposits with an aggregate amount of HK\$81,397,000 are individually impaired prepayments and deposits, the payers of which are in severe financial difficulties as at 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 25a. TRANSFERS OF FINANCIAL ASSETS

The following were the bills receivables as at 31 December 2015 that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. The Group has disposed all bills receivables that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis due to the disposal of subsidiaries during the current year. As the Group had not transferred the significant risks and rewards relating to these receivables, it recognised the full carrying amount of the receivables and trade payables and recognised the cash received from the banks as secured borrowings. These financial assets were carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2015

	Bills receivables discounted to banks with full recourse HK\$'000	Bills receivables endorsed to suppliers with full recourse HK\$'000	Total HK\$'000
Carrying amount of bills receivables	195,400	402,172	597,572
Carrying amount of borrowings and trade payables	(195,400)	(402,172)	(597,572)

There were no discounted or endorsed bills receivables as at 31 December 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNTS DUE FROM ASSOCIATES

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. All of these balances under the Disposal Group have been disposed due to the disposal of subsidiaries during the current year as set out in note 39.

The trade receivables from related companies and an aged analysis of such balances 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 are as follows:

	2016 HK\$'000	2015 HK\$'000
Within 60 days	8,704	45,325
61 – 90 days	–	75,728
91 – 180 days	–	3,072
181 – 365 days	–	176
1 – 2 years	–	1,904
	<b>8,704</b>	<b>126,205</b>

The Group allows a range of credit period normally not more than 60 days for sales to its related companies.

All trade receivables from related companies are within the credit period as at 31 December 2016.

In 2015, included in these trade receivables from related companies were receivables with an aggregate carrying amount of HK\$80,880,000 which were past due at the reporting date but for which the Group had not provided allowance for doubtful debts as at 31 December 2015. The Group did not hold any collateral over these balances. The average age of these receivables was 89 days as at 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNTS DUE FROM ASSOCIATES (continued)

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

	2016 HK\$'000	2015 HK\$'000
61 – 90 days	–	75,728
91 – 180 days	–	3,072
181 – 365 days	–	176
1 – 2 years	–	1,904
<b>Total</b>	<b>–</b>	<b>80,880</b>

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 for doubtful debts of trade receivables from related companies

	2016 HK\$'000	2015 HK\$'000
At 1 January	27,494	28,794
Exchange adjustments	(1,786)	(1,300)
Disposal of subsidiaries	(25,708)	–
<b>At 31 December</b>	<b>–</b>	<b>27,494</b>

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 for doubtful debts of trade receivables from related companies.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES, AMOUNTS DUE FROM ASSOCIATES (continued)

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:

	2016 HK\$'000	2015 HK\$'000
Within 90 days	–	506,913
91 – 180 days	–	61,075
181 – 365 days	–	41,537
1 – 2 years	–	34,796
Over 2 years	<b>8,212</b>	8,355
	<b>8,212</b>	652,676

The amounts due from (to) related companies are unsecured, interest-free and repayable on demand as at 31 December 2016 and 2015.

The amounts due from associates are unsecured, interest-free and repayable on demand as at 31 December 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 27. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNT DUE TO ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The trade receivables from/trade payables to ultimate holding company of a shareholder are unsecured, interest-free and repayable within 60 days. The amount due to ultimate holding company of a shareholder is non-trade in nature, unsecured, interest free and are repayable on demand.

The trade receivables from ultimate holding company of a shareholder were all aged between 181 – 365 days based on the invoice date as at 31 December 2015, which approximated the respective revenue recognition dates. As at 31 December 2015, all amount were past due but the Group had not provided any allowance for doubtful debts. The Group did not hold any collateral over these balances. The average age of these receivable was 273 days.

The trade payables to 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:

	2016 HK\$'000	2015 HK\$'000
Within 90 days	–	750,302
91 – 180 days	–	516,119
181 – 365 days	–	1,424,568
1 – 2 years	–	4,383,245
	–	7,074,234

As set out in note 39, the entire trade receivables and trade payables to ultimate holding company of a shareholder have been disposed due to the disposal of subsidiaries during the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. OTHER FINANCIAL ASSETS

	2016 HK\$'000	2015 HK\$'000
Commodity forward contracts with Mount Gibson Iron Limited (Note a)	181,716	312,852
Analysed as:		
Non-current (Note b)	181,716	312,852

Notes:

- a. In November 2008, the Company entered into certain commodity forward contracts with 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 had then been revised to be determined with reference to Platts Iron Ore Price.

At 31 December 2016 and 2015, the major terms of the outstanding commodity forward contracts entered by the Company with MGI are as follows:

### 2016 and 2015

#### 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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. OTHER FINANCIAL ASSETS (continued)

Notes: (continued)

### 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

Note: 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 customer 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.

In 2014, Mine B has run out of iron ore reserve and thus has been closed down.

As at 31 December 2016, 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, an independent qualified professional valuer not connected with the Group and the fair value is approximately HK\$181,716,000 (2015: HK\$312,852,000). For the year ended 31 December 2016, a fair value loss of HK\$131,136,000 (2015: HK\$219,863,000) has been recognised in profit or loss. The management concludes that valuation of other financial assets is fairly stated.

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 3.22% (2015: 3.12%), the forecasted annual production of the mines, the life of the Mine A of 10 years (2015: 10 years), a range of forecasted Platts Iron Ore price, the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China and a discount rate of 19.49% (2015: 19.72%) throughout the contracts period based on management's best estimate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. OTHER FINANCIAL ASSETS (continued)

Notes: (continued)

- b. On 24 October 2014, MGI announced that there was a slump in the Main Pit seawall in Koolan Island and Main Pit was inundated as result of the breach of the seawall. As at 31 December 2016, the management of MGI was still assessing the timing and cost of options to rebuild the Main Pit seawall and resume production and MGI announced that the assessment will be completed in March 2017.

The Directors consider that the production of Main Pit is unlikely to resume during the year 2017, and therefore the entire carrying amount of the commodity forward contracts are classified as non-current asset as at 31 December 2016.

## 29. RESTRICTED AND PLEDGED BANK DEPOSITS

The Group has no restricted bank deposit as at 31 December 2016.

As at 31 December 2015, the restricted bank deposits represented bank deposits restricted by certain banks to secure the issuance of letters of credit and pledged bank deposits represented bank deposits pledged to certain banks to secure bank borrowings. The deposits carried fixed interest in 2015 ranged from 0.30% to 2.50% per annum.

The restricted deposits amounting to HK\$832,537,000 would be released upon the settlement of the letters of credit which would be within twelve months from the end of the reporting period and were therefore classified as current assets as at 31 December 2015.

Included in the restricted bank deposit as at 31 December 2015, RMB24,000, equivalent to approximately HK\$29,000 of bank balances in PRC entitled by the Group had been frozen and were prohibited from withdrawal due to certain litigations in relation to the trade disputes. Details are set out in note 44.

Pledged bank deposits amounting to HK\$23,073,000 (2015: HK\$85,062,000) represent deposits pledged to secure short-term bank borrowings and are therefore classified as current assets.

The remaining pledged bank deposits as at 31 December 2015 amounting to HK\$191,428,000 represented deposits pledged to secure non-current portion of bank borrowings and are classified as non-current as at 31 December 2015.

The pledged bank deposits carry fixed interest of 3.10% (2015: ranged from 0.05% to 4.96%) per annum. The pledged bank deposits will be released upon the increase in market value of the pledged shares of the Group's listed associate or the settlement of relevant bank borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 30. BANK BALANCES AND CASH

The bank balances and time deposits carry interest at market rates which range from 0.05% to 9.00% (2015: 0.05% to 4.96%) per annum.

## 31. 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:

	2016 HK\$'000	2015 HK\$'000
Within 90 days	276,093	1,578,493
91 – 180 days	–	1,505,800
181 – 365 days	–	130,597
1 – 2 years	–	166,137
Over 2 years	–	83,130
	<b>276,093</b>	<b>3,464,157</b>

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.

No trade payables has been paid by endorsed bills as at 31 December 2016.

Included in the trade payables above are HK\$402,172,000 that had been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period as at 31 December 2015.

At 31 December 2016, other payables of the Group mainly included the receipt in advance from customers of approximately HK\$1,918,000 (2015: HK\$431,042,000) and construction payables of nil (2015: approximately HK\$104,509,000). 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 32. BANK BORROWINGS

	2016 HK\$'000	2015 HK\$'000
The carrying amount of bank borrowings are repayable (Note):		
Within one year	<b>616,783</b>	5,871,514
In the second year	–	664,629
In the third to fifth years inclusive	–	154,309
	<b>616,783</b>	6,690,452
The carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	–	115,102
	<b>616,783</b>	6,805,554
Less: Amount due within one year shown under current liabilities	<b>(616,783)</b>	(5,986,616)
Amount shown under non-current liabilities	–	818,938

	2016 HK\$'000	2015 HK\$'000
Secured	<b>501,055</b>	1,045,283
Unsecured	<b>115,728</b>	5,760,271
	<b>616,783</b>	6,805,554

As set out in note 39, bank borrowings under Disposal Group have been disposed due to the disposal of subsidiaries during the current year.

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 32. BANK BORROWINGS (continued)

No advance has been drawn on bills discounted to banks as at 31 December 2016.

Included in bank borrowings as at 31 December 2015 was an amount of HK\$195,400,000 relating to advance drawn on bills discounted to banks.

The exposure of the fixed-rate borrowings are as follows:

	2016 HK\$'000	2015 HK\$'000
Fixed-rate borrowings		
Within one year	–	2,472,212

The exposure of the variable-rate borrowings are as follows:

	2016 HK\$'000	2015 HK\$'000
Variable-rate borrowings		
Within one year or contain a repayment on demand clause	616,783	3,514,404
In the second year	–	664,629
In the third to fifth years inclusive	–	154,309
	<b>616,783</b>	<b>4,333,342</b>

The effective interest rates (which are also equal to contracted interest rates) on the fixed-rate borrowings in 2015 ranged from 4.35% to 6.72% per annum and no fixed-rate bank borrowing outstanding as at 31 December 2016.

The variable-rate bank borrowings of approximately HK\$617 million (2015: HK\$905 million) which carry interest at the London Interbank Offered Rates (“LIBOR”) plus a range of 1.8% to 3.5% (2015: LIBOR plus 1.8% to 3.5%) per annum, which are ranged from 2.16% to 4.27% (2015: ranged from 2.16% to 3.98%) per annum. The remaining variable-rate borrowings in 2015 carried interest at the People’s Bank of China’s lending rate (“Lending Rate”), or with a 5% to 20% addition or reduction on the Lending Rate, which are ranged from 4.35% to 6.04% per annum.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 32. BANK BORROWINGS (continued)

In 2016 and 2015, some borrowings were secured by certain assets and are guaranteed by the ultimate holding company of a shareholder. Details are set out in notes 45 and 46.

The borrowings that were denominated in currency other than the functional currencies of the relevant group entities are set out as below:

	2016 HK\$'000	2015 HK\$'000
USD	616,783	905,283

## 33. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

As set out in note 39, the loans from ultimate holding company of a shareholder have been disposed due to the disposal of subsidiaries during the current year. As at 31 December 2015, the amounts were unsecured, interest bearing at fixed rates from 6% to 6.15% per annum. The carrying amounts of approximately HK\$1,013,135,000 were repayable within twelve months from the end of the reporting period. The carrying amounts of approximately HK\$238,806,000 and HK\$179,104,000 were repayable in the second year and in the third year respectively from 31 December 2015.

## 34. 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:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets	(32,291)	(32,582)
Deferred tax liabilities	–	29,318
	(32,291)	(3,264)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 34. DEFERRED TAX (continued)

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

	Accelerated tax depreciation	Fair value adjustment and revaluation of properties	Unrealised loss of available- for-sale investments	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	10,138	24,724	(36,635)	(563)	(2,336)
Exchange differences	(343)	(156)	4,053	–	3,554
Credit to profit or loss	(3,730)	(752)	–	–	(4,482)
At 31 December 2015	6,065	23,816	(32,582)	(563)	(3,264)
Exchange differences	(244)	(229)	291	–	(182)
Credit to profit or loss	(3,531)	(49)	–	(51)	(3,631)
Disposal of subsidiaries (note 39)	(2,290)	(22,924)	–	–	(25,214)
At 31 December 2016	–	614	(32,291)	(614)	(32,291)

As at 31 December 2016, the Group has unused tax losses of approximately HK\$401 million, of which HK\$310 million is subject to IRD's confirmation and the Group has disposed its PRC subsidiaries which are engaged in steel manufacturing and mineral exploration and processing operations on 30 December 2016 as set out in note 39, thus there is no unused tax loss in relation to the PRC subsidiaries as at 31 December 2016 (2015: HK\$9,940 million of which HK\$373 million was subject to IRD's confirmation and HK\$2,593 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\$4 million (2015: HK\$2 million) of such losses. No deferred tax asset has been recognised in respect of the HK\$397 million (2015: HK\$9,938 million) due to the unpredictability of future profit streams. All tax losses may be carried forward indefinitely (2015: tax losses of HK\$794 million will expire in 2016, HK\$1,985 million will expire in 2017, HK\$1,868 million will expire in 2018, HK\$2,146 million will expire in 2019 and HK\$2,593 million will expire in 2020, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 35. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<b>Ordinary shares issued and fully paid:</b>		
At 1 January 2015, 31 December 2015 and 2016		
– Ordinary shares with no par value	8,957,896,227	5,345,183

## 36. 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.

Under the 2002 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 was determined by the Board of Directors at its absolute discretion and was not 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 shares 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 was 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 are fully vested as at 31 December 2016 and 2015.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, were 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, were 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. SHARE OPTION SCHEMES (continued)

No share option was granted, exercised or cancelled 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.

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 2016 and 2015, 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 shares of the Company in issue 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 number of shares of the Company in issue as at the date of grant. Any further grant of share option 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.

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), in the 12-month period up to and including the date of the offer of such grant shall be subject to the issue of a circular by the Company and shareholders’ approval in a general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. SHARE OPTION SCHEMES (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants under the 2002 Scheme and movements in such holdings during the year ended 31 December 2016:

Grantees	Number of share options				At 31.12.2016	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$
	At 1.1.2016	Granted during 2016	Exercised during 2016	Lapsed during 2016					
Directors	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
	20,000,000	-	-	-	20,000,000				
Exercisable	20,000,000				20,000,000				

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. SHARE OPTION SCHEMES (continued)

The following tables disclose details of the share options held by Directors, employees and other eligible participants under the 2002 Scheme and movements in such holdings during the year ended 31 December 2015:

Grantees	Number of share options				At 31.12.2015	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$
	At 1.1.2015	Granted during 2015	Exercised during 2015	Lapsed during 2015					
Directors	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
	20,000,000	-	-	-	20,000,000				
Exercisable	<u>20,000,000</u>				<u>20,000,000</u>				

During the year ended 31 December 2016 and 2015, no share options under the 2002 Scheme were exercised.

The Group did not recognise expense for the both years in relation to share options granted by the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 37. 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 borrowings disclosed in note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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.

## 38. FINANCIAL INSTRUMENTS

### 38a. Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
<b>Financial assets</b>		
Financial assets at FVTPL	181,716	312,852
Financial assets at amortised cost (including cash and cash equivalents)	967,219	3,986,081
Financial assets at FVTOCI	783	56,199
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	907,289	20,349,015

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies

The major financial instruments include equity investments, trade and bills receivables, other receivables, amounts due from related companies, trade receivables from related companies, trade payables to related companies, pledged bank deposits, bank balances, amount due from associates, trade and bills payables, other payables, bank borrowings and other financial assets.

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 equity instruments. Risk management for the Group's operations is carried out under the guidance of the 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 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. Before the disposal of subsidiaries as set out in note 39, approximately 14% of the Group's sales (2015: approximately 6%) and approximately 13% of the Group's purchases (2015: approximately 4%) are denominated in currencies other than the functional currency of the Group entity making the sale. After the disposal of subsidiaries, no sales and purchases of the Group are denominated in currencies other than the functional currency of the Group entity making the sales.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
USD	617,954	906,179	237,747	268,693
HKD	8,212	8,427	1,022	73,155
RMB	—	—	214,819	—



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies (continued)

#### Market risk (continued)

#### (i) Currency risk (continued)

##### Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of USD and HKD against RMB during the years ended 31 December 2016 and 2015.

The following table details the sensitivity to a 5% increase and decrease in HK\$ (2015: 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 positive/negative number below indicates a decrease/increase in the post-tax loss where HK\$ (2015: RMB) strengthens 5% against the relevant currency. For a 5% weakening of HK\$ (2015: RMB) against the relevant currency, there would be an equal and opposite impact on the profit or loss for the year.

	RMB		USD		HK\$			
	2016	2015	2016	2015	2016	2015		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Impact on the result for the year	(8,542)	-	(i) 15,118	23,906	(ii) -	(2,427)	(iii)	

(i) This is mainly attributable to the exposure of RMB bank balances at the end of reporting date.

(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 HK\$ receivables and payables outstanding at the end of reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies (continued)

#### *Market risk (continued)*

#### (ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed rate time deposits.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings.

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 LIBOR arising from the Group's borrowings.

#### *Sensitivity analysis*

The sensitivity analyses below presents the effects on the Group's post-tax loss 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, 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 post-tax loss for the year ended 31 December 2016 would increase/decrease by HK\$5,150,000 (2015: HK\$33,270,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate debt instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. 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 and commodity forward contracts to purchase iron ore.

#### *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% (2015: 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.

	<b>Increase (decrease) in other comprehensive income</b>	
	<b>35% increase</b>	<b>35% decrease</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
As at 31 December 2016	274	(274)
As at 31 December 2015	277	(277)

In addition, if there is a 5% increase/decrease in HK\$ (2015: RMB) against AUD, security investment reserve would decrease/increase by HK\$39,000 (2015: decrease/increase by HK\$40,000) for the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. 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 is 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 profit or loss and other comprehensive income. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in the forecasted Platts Iron Ore price, the spread between freight rates, market interest rate, market commission saving, forecasted annual production of mines and the exchange rate of HK\$ (2015: RMB) against USD.

If there is a 5% increase/decrease in HK\$ (2015: RMB) against USD and all other variables were held constant, the loss for the year would increase/decrease by HK\$9,562,000 (2015: the loss would increase/decrease by HK\$16,466,000).

The remaining sensitivity analysis based on the exposure to the iron ore market price risks, market interest rate risk, the risk of spread between freight rates, market commission saving and annual production of mines at the reporting date is disclosed in note 38(c)(i).

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 2016, the Group'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.

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 trading business. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies (continued)

#### *Credit risk (continued)*

The Group has 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 does not have significant concentration of credit risk for its trade and other receivables and amounts due from 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 Hong Kong (2015: the PRC), which accounted for 100% (2015: 95%) of the total trade receivables as at 31 December 2016.

#### *Liquidity risk*

The Group manages its liquidity risk by ensuring it has sufficient liquid cash balances and credit facilities to meet its payment obligations as they fall due.

In the management of the liquidity risk, the Group monitors and maintains 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 relies on bank borrowings as significant sources of liquidity. As at 31 December 2016, the Group has available unutilised trade line facilities of approximately HK\$854 million (2015: HK\$1,384 million). In addition, 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 Group is financially supported by the ultimate holding company of the major shareholder of the Company to maintain the Group's liquidity.

The following tables detail the Group'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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

In addition, the following tables detail the Group'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 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.

#### Liquidity tables

	Weighted average interest rate %	Repayable on						Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2016 HK\$'000
		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		
<b>2016</b>									
<b>Non-derivative financial liabilities</b>									
Trade and bills payables	-	276,093	-	-	-	-	-	276,093	
Other payables	-	6,201	-	-	-	-	-	6,201	
Trade payables/amounts due to related companies	-	8,212	-	-	-	-	-	8,212	
Bank borrowings - variable rate	3.50	206,122	3,013	419,941	-	-	-	629,076	
		496,628	3,013	419,941	-	-	-	919,582	
<b>Derivatives - gross settlement</b>									
Commodity forward contracts - outflow (Note b)		-	-	-	-	1,621,759	8,134,896	9,756,655	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

#### Liquidity tables (continued)

	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 31.12.2015 HK\$'000
<b>2015</b>									
<b>Non-derivative financial liabilities</b>									
Trade and bills payables	-	3,464,157	-	-	-	-	-	3,464,157	3,464,157
Other payables	-	655,834	-	-	-	-	-	655,834	655,834
Trade payables/amount due to ultimate holding company of a shareholder	-	7,076,371	-	-	-	-	-	7,076,371	7,076,371
Trade payables/amounts due to related companies	-	916,054	-	-	-	-	-	916,054	916,054
Loans from ultimate holding company of a shareholder	6.13	21,778	174,844	902,877	260,100	187,015	-	1,546,614	1,431,045
Bank borrowings									
- fixed rate	5.85	1,100,700	1,019,855	390,304	-	-	-	2,510,859	2,472,212
- variable rate (Note a)	4.54	1,085,922	923,477	1,608,297	678,357	156,290	-	4,452,343	4,333,342
		14,320,816	2,118,176	2,901,478	938,457	343,305	-	20,622,232	20,349,015
<b>Derivatives - gross settlement</b>									
Commodity forward contracts									
- outflow (Note b)		-	-	-	-	1,530,564	7,539,387	9,069,951	-

Note:

(a) Bank loans with a repayment on demand clause are included in the “on demand or less than 3 month” time band in the above maturity analysis. As at 31 December 2015, the aggregate undiscounted principal amounts of this bank loan amounted to approximately HK\$115,102,000. Taking into account the Group’s financial position, the directors do not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loan will be repaid in two years after the end of the reporting period in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to approximately HK\$124,437,000.

(b) Cash outflow represents purchase of iron ore under the commodity forward contracts.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

#### (i) *Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis*

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements 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); and

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).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

(i) *Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)*

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
1) As at 31 December 2016, listed equity securities classified as equity investments designated as at fair value through other comprehensive income ("FVTOCI") at level 1 category of HK\$783,000 (31 December 2015: HK\$790,000)	Quoted bid prices in an active market	N/A

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

#### (i) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
2) As at 31 December 2016, commodity forward contracts classified as other financial assets at level 3 category of HK\$181,716,000 (31 December 2015: HK\$312,852,000)	Discounted cash flow  The key inputs are: The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of capesize vessel freight rate and panamax vessel freight rate, the forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mines, the lives of mines and the discount rate	<p>The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China taking into account management's estimate with reference to research report published by financial institution (Note 1)</p> <p>The average growth rate of capesize vessel freight rate and panamax vessel freight rate for Australia/China ranging from -4.98% to 11.90% (2015: 14.86% to 25.67%) and from -35.06% to 9.29% (2015: 11.13% to 54.93%) respectively taking into account management's estimate with reference to research report published by financial institution (Note 2)</p> <p>The forecasted Platts Iron Ore price ranging from USD52/DMT to USD55.13/DMT (2015: from USD48/DMT to USD57/DMT) taking into account management's estimate with reference to research report published by financial institution (Note 3)</p> <p>The forecasted marketing commission saving is taking into account management's estimate with reference to 3.25% (2015: 3.25%) on Platts iron ore IODEX 62% Fe CFR North China Price (Note 4)</p> <p>The forecasted annual production of the mines and the lives of the mines taking into account management's estimate with reference to the suppliers' expected annual production and ore mine reserve stated in suppliers' mineral resources and ore reserves statement as at 30 June 2014 less the actual purchase of iron ore by the Group from 1 July 2014 to 31 December 2016 (2015: mineral resources and ore reserves statement as at 30 June 2014 less the actual purchase from 1 July 2014 to 31 December 2015) (Note 5)</p> <p>Discount rate of 19.49% (2015: 19.72%) is determined by expected rate of return of the commodity forward contracts by using a Capital Asset Pricing Model and adjusted by the specific risk premium (Note 6)</p>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

(i) *Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)*

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
<p>3) As at 31 December 2015, unlisted equity securities classified as equity investments designated as at FVTOCI at level 3 category of HK\$55,409,000</p> <p>The unlisted equity securities were disposed during the current year due to the disposal of subsidiaries as set out in note 39</p>	<p>Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies and adjusted by discount on lack of marketability</p>	<p>The ratio of market capital to net book value of 2.82X is determined by the median of comparable companies as at the valuation date (Note 7)</p> <p>Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 35% (Note 8)</p>

Note 1: An increase in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by nil (2015: HK\$13,270,000).

Note 2: An increase in the average growth rate of capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in a decrease (2015: an increase) in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the average growth rate of the capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would decrease/increase the carrying amount of the commodity forward contracts by HK\$138,000 (2015: increase/decrease by HK\$8,661,000).

Note 3: An increase in the Platts iron ore price used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the Platts iron ore price holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$6,707,000 (2015: HK\$6,811,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

#### (i) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

- Note 4: An increase in the market commission saving used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the market commission saving holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$5,770,000 (2015: HK\$6,076,000).
- Note 5: An increase in the forecasted annual production of the mines used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the forecasted annual production of the mines holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$18,171,000 (2015: HK\$17,679,000).
- Note 6: An increase in the discount rate to the valuation model used in isolation would result in a decrease in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the discount rate to the valuation model holding all other variables constant would decrease/increase the carrying amount of the commodity forward contracts by HK\$18,860,000 (2015: HK\$32,590,000).
- Note 7: An increase in the median ratio of market capital to net book value of comparable companies used in isolation would result in an increase in the fair value measurement of the unlisted equity securities, and vice versa. A 10% increase/decrease in the median ratio of market capital to net book value of comparable companies holding all other variables constant would increase/decrease the carrying amount of the unlisted equity securities by HK\$5,540,000 for the year ended 31 December 2015.
- Note 8: An increase in the discount for the lack of marketability to the valuation model used in isolation would result in a decrease in the fair value measurement of the unlisted equity securities, and vice versa. A 10% increase/decrease in the discount for the lack of marketability to the valuation model holding all other variables constant would decrease/increase the carrying amount of the unlisted equity securities by HK\$2,984,000 for the year ended 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

(i) *Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)*

*Fair value hierarchy as at 31 December 2016*

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets at FVTPL</b>				
Derivative financial assets	–	–	181,716	181,716
<b>Financial assets at FVTOCI</b>				
Listed equity securities	783	–	–	783
<b>Total</b>	<b>783</b>	<b>–</b>	<b>181,716</b>	<b>182,499</b>

*Fair value hierarchy as at 31 December 2015*

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets at FVTPL</b>				
Derivative financial assets	–	–	312,852	312,852
<b>Financial assets at FVTOCI</b>				
Listed equity securities	790	–	–	790
Unlisted equity securities	–	–	55,409	55,409
<b>Total</b>	<b>790</b>	<b>–</b>	<b>368,261</b>	<b>369,051</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. FINANCIAL INSTRUMENTS (continued)

### 38c. Fair value measurements of financial instruments (continued)

#### (ii) Reconciliation of level 3 fair value measurements of financial assets

	<b>Unlisted equity securities</b>	<b>Commodity forward contracts</b>
	HK\$'000	HK\$'000
At 1 January 2015	133,902	532,715
Total gains or losses:		
– to profit or loss	–	(219,863)
– to other comprehensive income	(72,448)	–
Exchange difference	(6,045)	–
At 31 December 2015 and 1 January 2016	55,409	312,852
Total gains or losses:		
– to profit or loss	–	(131,136)
– to other comprehensive income	(51,808)	–
Exchange difference	(3,601)	–
At 31 December 2016	–	181,716

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## **38. FINANCIAL INSTRUMENTS** (continued)

### **38c. Fair value measurements of financial instruments** (continued)

#### *(ii) Reconciliation of level 3 fair value measurements of financial assets (continued)*

Of the total gains or losses for the year included in profit or loss, fair value losses of approximately HK\$131,136,000 (2015: HK\$219,863,000) relates to commodity forward contracts held at the end of the current year. Fair value losses on commodity forward contracts are included in “change in fair value of derivative financial instruments” in the consolidated statement of profit or loss and other comprehensive income.

Included in other comprehensive income is an amount of HK\$51,808,000 fair value loss (2015: HK\$72,448,000) and HK\$3,601,000 exchange loss (2015: HK\$6,045,000) related to unlisted equity securities designated as at FVTOCI held prior to the date of the Disposal and are reported as changes of security investment reserve and exchange reserve respectively.

#### *(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

### **38d. Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements**

The Group has no such financial assets or financial liabilities outstanding in the consolidated statement of financial position which are under master netting agreements. No material impact on the amounts reported in the Group’s consolidated financial statements and respective disclosures relating to the Group’s master netting agreements as no such contracts outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS

Ultimate Century Investments Limited, a wholly-owned subsidiary of the Company was incorporated in the British Virgin Islands on 25 August 2016. On 30 September 2016, the Company transferred the entire equity interest of its direct wholly-owned subsidiaries, namely Firstlevel Holdings Limited, Central Pro Investments Limited and Cheer Source Limited to Ultimate Century Investments Limited (Ultimate Century Investments Limited and its subsidiaries are collectively referred to as the "Disposal Group"). The principal activities of the Disposal Group are manufacture and sale of steel and related products and mining, processing and sale of iron ore. On 30 September 2016, the Company waived amounts of approximately HK\$2,080,958,000 due by the Disposal Group. On 3 October 2016, the Company and Shougang Holding Bonds Limited (the "Purchaser"), a wholly-owned subsidiary of a major shareholder of the Company, entered into a sale and purchase agreement pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the entire equity interest in Ultimate Century Investments Limited at consideration of HK\$1 (the "Disposal"). The Disposal has been completed on 30 December 2016 on which the control of the Disposal Group has been passed to the Purchaser. After the Disposal, the Group discontinued the steel manufacturing and mineral exploration and processing operations, the Group treated these operations as discontinued operations and the comparative figures in the consolidated statement of profit or loss and other comprehensive income are re-presented. The consolidated net liabilities of the Disposal Group at the date of the disposal were as follows:

### Analysis of assets and liabilities over which control was lost:

	HK\$'000
Investment properties	31,287
Property, plant and equipment	8,034,429
Prepaid lease rentals	278,788
Interest in an associate	31,996
Deposits for acquisition of property, plant and equipment	7,229
Inventories	1,317,139
Trade and bills receivables	1,950,799
Trade receivables from related companies	81,494
Prepayments, deposits and other receivables	378,673
Amounts due from related companies	130,842
Amount due from ultimate holding company of a shareholder	8,061
Amount due from an associate	2,040
Restricted bank deposits	617,298
Bank balances and cash	131,838
Trade and bills payables	(3,670,348)
Trade payables to related companies	(624,888)
Trade payables to ultimate holding company of a shareholder	(6,715,616)
Other payables, provisions and accrued liabilities	(1,231,409)
Tax payable	(110)
Bank borrowings	(4,687,324)
Deferred tax liabilities	(25,214)
Amounts due to related companies	(216,318)
Amount due to ultimate holding company of a shareholder	(2,466)
Loans from ultimate holding company of a shareholder	(2,043,407)
<b>Net liabilities disposed of</b>	<b>(6,215,187)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Gain on disposal of subsidiaries:

	HK\$'000
Consideration received at HK\$1	–
Net liabilities disposed of	6,215,187
Non-controlling interests	(1,367,154)
<b>Gain on disposal recognised in capital contribution reserve (Note)</b>	<b>4,848,033</b>

Note: Gain from the Disposal has been directly recognised in the reserve as it is deemed as the capital contribution from the Group's major shareholder. The management concludes that the accounting treatment and the current disclosure in relation to the Disposal is proper.

### Net cash outflow arising on disposal:

	HK\$'000
Cash consideration received	–
Less: Bank balances and cash disposed of	(131,838)
	<b>(131,838)</b>

The results of the steel manufacturing and mineral exploration and processing operation for the period/year, were as follows:

	1 January 2016 to 30 December 2016 (date of disposal) HK\$'000	1 January 2015 to 31 December 2015 HK\$'000
Revenue	6,262,980	6,856,574
Cost of sales	(6,590,510)	(8,054,336)
Gross loss	(327,530)	(1,197,762)
Other income	35,646	51,227
Other gains and losses	(22,788)	(76,584)
Distribution and selling expenses	(102,963)	(122,811)
Administrative expenses	(586,414)	(495,021)
Finance costs	(478,100)	(607,638)
Share of results of an associate	645	438
Loss before taxation	(1,481,504)	(2,448,151)
Income tax credit	3,499	4,308
<b>Loss for the period/year</b>	<b>(1,478,005)</b>	<b>(2,443,843)</b>
Loss for the period/year attributable to:		
Owners of the Company	(1,144,947)	(1,903,809)
Non-controlling interests	(333,058)	(540,034)
	<b>(1,478,005)</b>	<b>(2,443,843)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Segment revenue and results

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

For the period from 1 January 2016 to 30 December 2016

	Steel manufacturing HK\$'000	Mineral exploration and processing HK\$'000	Total HK\$'000
Revenue			
External sales	6,262,980	–	6,262,980
Inter-segment sales	–	–	–
Segment revenue from discontinued operations	<u>6,262,980</u>	<u>–</u>	<u>6,262,980</u>
Eliminations			<u>–</u>
Group revenue			<u>6,262,980</u>
Segment loss	<u>(750,330)</u>	<u>(268,413)</u>	<u>(1,018,743)</u>
Interest income			14,694
Finance costs			(478,100)
Share of results of an associate			<u>645</u>
Loss before taxation from discontinued operations			<u>(1,481,504)</u>

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Segment revenue and results (continued)

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

#### For the year ended 31 December 2015

	Steel manufacturing HK\$'000	Mineral exploration and processing HK\$'000	Total HK\$'000
Revenue			
External sales	6,844,690	11,884	6,856,574
Inter-segment sales	281	227,265	227,546
Segment revenue from discontinued operations	<u>6,844,971</u>	<u>239,149</u>	7,084,120
Eliminations			<u>(227,546)</u>
Group revenue			<u>6,856,574</u>
Segment loss	<u>(1,643,616)</u>	<u>(227,677)</u>	(1,871,293)
Interest income			30,342
Finance costs			(607,638)
Share of results of an associate			<u>438</u>
Loss before taxation from discontinued operations			<u>(2,448,151)</u>

Inter-segment sales are charged at prevailing market rates.

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, finance costs and share of results of an associate. This is the measure reported to the Directors for the purposes of resource allocation and performance assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Other segment information

2016

	Steel manufacturing HK\$'000	Mineral exploration and processing HK\$'000	Total HK\$'000
<b>Discontinued operations</b>			
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets (Note)	171,873	25,699	197,572
Amortisation of prepaid lease rentals	6,970	446	7,416
Depreciation of property, plant and equipment	767,598	64,255	831,853
Loss on disposal of property, plant and equipment	18	32	50
Research and development cost recognised as expenses	7,492	–	7,492
Allowance of impairment loss for trade and other receivables, net	20,083	6,503	26,586
(Reversal of allowance) allowance for inventories, net	(253,400)	2,010	(251,390)
Increase in fair value of investment properties	(42)	–	(42)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Other segment information (continued)

2015 (Restated)

	Steel manufacturing HK\$'000	Mineral exploration and processing HK\$'000	Total HK\$'000
<b>Discontinued operations</b>			
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets (Note)	109,943	1,162	111,105
Amortisation of prepaid lease rentals	7,244	471	7,715
Depreciation of property, plant and equipment	843,446	73,809	917,255
Loss on disposal of property, plant and equipment	86	–	86
Research and development cost recognised as expenses	9,973	–	9,973
Allowance of impairment loss for trade and other receivables, net	1,246	70,989	72,235
Allowance for inventories, net	257,825	–	257,825
Increase in fair value of investment properties	(107)	–	(107)

Note: Non-current assets excluded equity investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

	1 January 2016 to 30 December 2016 (date of disposal) HK\$'000	1 January 2015 to 31 December 2015 HK\$'000
Loss for the period/year has been arrived at after charging (crediting):		
Interest income on bank deposits, included in other income	(14,694)	(30,342)
Allowance for trade and other receivables, net (included in other gains and losses)	26,586	72,235
Staff costs		
– basic salaries and allowances	327,839	484,419
– retirement benefits scheme contributions	52,644	67,948
	<b>380,483</b>	552,367
Amortisation of prepaid lease rentals	7,416	7,715
Depreciation of property, plant and equipment	831,853	917,255
Total depreciation and amortisation	<b>839,269</b>	924,970
Cost of inventories recognised as expenses (included reversal of allowance for inventories of HK\$251,390,000 (2015: allowance for inventories of HK\$257,825,000)) included in cost of sales	<b>6,590,510</b>	8,054,336
Research and development cost recognised as expenses	7,492	9,973
Interest on:		
Bank borrowings	259,854	369,219
Loans from ultimate holding company of a shareholder	80,857	66,908
Other	17,144	–
Total borrowing cost	<b>357,855</b>	436,127
Add: Factoring cost for discount receivables	<b>120,245</b>	171,511
	<b>478,100</b>	607,638
Gross rental income from investment properties, net of direct operation expense nil (2015: nil)	<b>1,200</b>	1,513

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

### Information about major customers

During the year ended 31 December 2016, one of the customers accounted for 10% or more of the Group's revenue from discontinued operations. Sales to this customer under the segment of steel manufacturing contributed 10.6% (approximately HK\$661,879,000) to the Disposal Group's revenue.

During the year ended 31 December 2015, the customer which accounted for 10% or more of the Group's revenue from discontinued operations is Shougang Group. Sales to Shougang Group under the segments of steel manufacturing, mineral exploration and processing contributed 11.7% (approximately HK\$802,698,000) to the Disposal Group's revenue.

## 40. MAJOR NON-CASH TRANSACTIONS

During the current year, advances drawn on bills receivables of HK\$521,728,000 (2015: HK\$910,087,000) are settled by the bills receivables discounted with banks.

## 41. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

	2016 HK\$'000	2015 HK\$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	4,565	3,730

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:

	Land and buildings	
	2016 HK\$'000	2015 HK\$'000
Within one year	4,532	4,679
In the second to fifth years inclusive	9,065	–
	13,597	4,679

The Group leases certain of its office premises in Hong Kong under operating lease arrangements. As at 31 December 2016, leases for properties are negotiated for three years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 41. OPERATING LEASE ARRANGEMENTS (continued)

### The Group as lessor

	2016 HK\$'000	2015 HK\$'000
Minimum lease payments received under operating leases during the year are as follows:		
Investment properties	1,223	1,729

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	Investment properties	
	2016 HK\$'000	2015 HK\$'000
Within one year	193	907
In the second to fifth years inclusive (Note)	–	2,796
	193	3,703

Note: The entire future minimum lease payments in year 2015 represented the future rental from the investment properties located in the PRC. As disclosed in note 15, all investment properties located in the PRC have been disposed due to the disposal of subsidiaries during the current year.

## 42. CAPITAL COMMITMENTS

	2016 HK\$'000	2015 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	–	101,833



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 43. 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.

## 44. CONTINGENT LIABILITIES

During the ordinary course of business in December 2013, a subsidiary of the Group engaged a charterer of a vessel to transport a cargo of iron ores to its customer in China and issued a letter of indemnity ("LOI") to the charterer for delivering the cargo to the Group's customer without production of the original bill of lading (the "Bill of Lading"). The provision of the LOI was the prevailing market practice in the trading of iron ore. The goods were subsequently sold to a final buyer after several sales and purchases not in relation to the Group afterwards. The issuing bank for the letter of credit issued for the final buyer ("Issuing Bank") honoured the payment to the seller under the letter of credit. The final buyer went into bankruptcy afterwards. The Issuing Bank was therefore not reimbursed. As the final buyer has not paid the cargo proceeds to the Issuing Bank, the Issuing Bank was the lawful holder of the Bill of Lading. However, the Issuing Bank found that the goods were taken by the final buyer without presenting the Bill of Lading. The Issuing Bank appealed to the Qingdao Maritime Court to arrest the vessel. The vessel owner paid approximately USD10.3 million to secure the release of the vessel. The vessel owner in turn sued the charterer for the security deposit paid and the charterer reimbursed to the vessel owner. In turn, the charterer sued the Group's subsidiary which had engaged it to carry on the transportation services. This legal case has been presented to the High Court of Justice Queen's Bench Division Commercial Court, England and the hearing was scheduled in December 2016. At the same time, the Group sued its customer for the same amount for the disbursement claim. As at 31 December 2016 and up to the date of this report, this legal case is still under proceeding and no final judgement has been received by the Group. The Directors are of the opinion that it is unlikely the Group would have any liability on this case and in addition, the Group is entitled to an indemnity from its customer pursuant to the LOI issued by the customer, thus no provision for this legal case (other than legal costs) has been provided for.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 44. CONTINGENT LIABILITIES (continued)

As at 31 December 2015, there were certain trade disputes between the Group's PRC subsidiary and other third parties and therefore certain PRC bank accounts entitled by the Group were frozen. As at 31 December 2015, RMB24,000 (equivalent to approximately HK\$29,000) of bank balances were frozen and classified as restricted bank deposit as disclosed in note 29. In addition, prepaid lease rentals and property, plant and equipment of approximately RMB10,752,000 (equivalent to approximately HK\$12,838,000) and approximately RMB1,405,000 (equivalent to approximately HK\$1,678,000), respectively were sealed up by the court in the PRC as at 31 December 2015. In 2016, such PRC subsidiary has been disposed as set out in note 39.

## 45. PLEDGE OF ASSETS

As at 31 December 2016, the following items were used to secure banking facilities granted to the Group:

- (a) Pledged bank deposits of HK\$23,073,000 (2015: HK\$276,490,000).
- (b) Pledge of 863,000,000 shares (2015: 1,093,500,000 shares) of the Group's listed associate, Shougang Resources with the market value of approximately HK\$1,311,760,000 (2015: HK\$1,093,500,000).
- (c) Pledged bills receivables of nil (2015: HK\$59,701,000).

## 46. 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 a government related entity in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in note 46(I) to 46(III).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 46. RELATED PARTY DISCLOSURES (continued)

### (I) Transactions with related parties

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Continuing operations</b>			
<b>Shougang Group</b>			
Sales by the Group	(a)	30,059	2,256
Purchases by the Group	(b)	380,409	4,690
<b>Associate of the Group</b>			
Services provided by the Group	(d)	1,560	1,560
<b>Discontinued operations</b>			
<b>Shougang Group</b>			
Sales by the Group	(a)	323,960	802,699
Purchases by the Group	(b)	2,068,757	2,706,748
Interest charged to the Group	(c)	80,857	66,908

Notes:

- (a) The Group provides raw materials, scrap materials, steel products, leasing and services to Shougang Corporation and/or its associates.
- (b) Shougang Corporation and/or its associates provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and management services to the Group.
- (c) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates ranging from 4.35% to 6% (2015: 6% to 6.15%) per annum.
- (d) The Group provides company secretarial and administrative services to its associate.

In addition, details of share options held by Directors as at 31 December 2016 were disclosed in note 36.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 46. RELATED PARTY DISCLOSURES (continued)

### (II) Balances with Shougang Group

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 23.

Details of balances with the Group's related companies are set out in note 26.

Details of balances with the ultimate holding company of Shougang HK are set out in notes 27 and 33.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Disposal Group for nil consideration. At 31 December 2016, the Group has no bank loans guaranteed by Shougang Corporation (2015: approximately HK\$5,467,379,000).

### (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) Transaction/balance with non-PRC government-related entities

During the year ended 31 December 2016, the Group sold the goods amounting to approximately HK\$20,878,000 (for the year ended 31 December 2015: HK\$26,275,000) to an associate, Qinhuangdao Shouqin K. Wah Construction Materials Company Limited.

The amounts due from associates are unsecured, interest-free and is repayable on demand.

### (V) Compensation of key management personnel

The remuneration of key management personnel, which represent the Directors during the year was as follows:

	2016 HK\$'000	2015 HK\$'000
Short-term employee benefits	3,869	4,600
Post employment benefits	18	76
	<b>3,887</b>	4,676

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2015 and 2016 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		
			2016	2015	2016	2015	
			%	%	%	%	
Central Pro Investments Limited**	Samoa/Hong Kong	US\$1 Ordinary share	–	100	–	–	Investment holding
Cheer Source Limited**	Samoa/Hong Kong	US\$1 Ordinary share	–	100	–	–	Investment holding
Equity Dragon Assets Limited**	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	–	–	100	Investment holding
Standnew Limited**	British Virgin Islands/ Hong Kong	US\$100 Ordinary shares	–	–	–	100	Investment holding
Profit News Investments Limited**	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	–	–	100	Investment holding
Shougang Concord Steel Holdings Limited***	British Virgin Islands/ Hong Kong	US\$1,000 Ordinary shares	–	100	–	–	Investment holding
Shougang Concord Steel Group Limited***	Hong Kong	HK\$30,596,538 Ordinary shares	–	–	–	100	Investment holding
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	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100	–	–	100	Inactive
Shougang Concord Shipping Holdings Limited	British Virgin Islands/ Hong Kong	US\$641,025 Ordinary shares	100	100	–	–	Investment holding

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ or operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2016	2015	2016	2015	
			%	%	%	%	
Shougang Concord International Transport Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	–	100	100	Investment holding and chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK\$2 Ordinary shares	–	–	100	100	Provision of management services
SCIT Services Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	–	–	100	100	Chartering of vessels
SCIT Trading Limited	Hong Kong	HK\$1 Ordinary share	–	–	100	100	Trading of iron ore, steel and related products
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	–	–	Investment holding
秦皇島首鋼板材有限公司** Qinhuangdao Shougang Plate Mill Co., Ltd. <sup>Δ</sup>	PRC	US\$86,000,000 Registered capital	–	–	–	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司** Shouqin <sup>ΔΔ</sup>	PRC	RMB2,700,000,000 Registered capital	–	–	–	76	Manufacture and sale of steel and related products

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. 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		
			2016	2015	2016	2015	
			%	%	%	%	
Pointer Investments Limited**	Samoa/Hong Kong	US\$1 Ordinary share	–	–	–	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	Investment holding
Froxy Investments Limited**	Hong Kong	HK\$1 Ordinary share	–	–	–	100	Investment holding
Host Sun Investments Limited**	Hong Kong	HK\$1 Ordinary share	–	–	–	100	Investment holding
Shine Tone Group Limited**	Hong Kong	HK\$100 Ordinary shares	–	–	–	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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ or operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2016	2015	2016	2015	
			%	%	%	%	
Fine Power Group Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100	100	–	–	Investment holding
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. <sup>△△</sup>	PRC	RMB300,000,000 Registered capital	–	–	–	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. ("Shouqin Longhui") <sup>*△△△</sup>	PRC	RMB500,000,000 Registered capital	–	–	–	67.84	Mining, processing and sale of iron ore

<sup>△</sup> Foreign investment enterprise established in the PRC.

<sup>△△</sup> Sino-foreign equity joint venture established in the PRC.

<sup>△△△</sup> Limited company established in the PRC.

\* For identification purpose only

\*\* Entities have been disposed during the year ended 31 December 2016 (note 39).

\*\*\* Entities have been voluntarily dissolved during the year ended 31 December 2016.

None of the subsidiaries had issued any debt securities at the end of the year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal place of business and activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		As at 31 December 2016	As at 31 December 2015
Investment holding	Hong Kong	3	5
Provision of logistic services	PRC	–	2
		<b>3</b>	<b>7</b>

Details of the Company's principal associates at 31 December 2015 and 2016 are as follows:

Name of entity	Form of business structure	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of issued share/ registered capital held by the Group		Proportion of voting power held		Principal activities
					2016	2015	2016	2015	
Shougang Resources	Incorporated	Hong Kong	PRC	Ordinary	27.61%	27.61%	27.61%	27.61%	Coking coal mining, production and sale of coking coal products and side products
Shougang Century	Incorporated	Hong Kong	PRC	Ordinary	35.71%	35.71%	35.71%	35.71%	Manufacturing and sales 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%	Production and sales of slag powder

\* Entity has been disposed during the year ended 31 December 2016 (note 39).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of registration and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Shouqin and its subsidiary	PRC	-	24%	(239,324)	(459,382)	-	(916,148)
Shouqin Longhui	PRC	-	32.16%	(91,833)	(80,348)	-	(235,360)
Individually immaterial subsidiaries with non-controlling interests				(1,901)	(599)	-	35,134
				<b>(333,058)</b>	<b>(540,329)</b>	<b>-</b>	<b>(1,116,374)</b>

Summarised financial information in respect of each of the Group's subsidiaries which are disposed on 30 December 2016 as set out in note 39 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

### Shouqin and its subsidiary

	As at 30 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
Current assets	<b>5,407,238</b>	5,515,582
Non-current assets	<b>6,942,925</b>	8,104,749
Current liabilities	<b>(16,735,189)</b>	(16,784,757)
Non-current liabilities	<b>(186,964)</b>	(652,863)
Deficit attributable to owners of the Company	<b>(3,474,712)</b>	(2,901,141)
Non-controlling interests	<b>(1,097,278)</b>	(916,148)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued) Shouqin and its subsidiary (continued)

	1 January 2016 to 30 December 2016 HK\$'000	1 January 2015 to 31 December 2015 HK\$'000
Revenue	6,206,556	6,418,103
Expenses	(7,203,739)	(8,332,194)
Loss for the period/year	(997,183)	(1,914,091)
Loss attributable to owners of the Company	(757,859)	(1,454,709)
Loss attributable to the non-controlling interests	(239,324)	(459,382)
Loss for the period/year	(997,183)	(1,914,091)
Other comprehensive income attributable to owners of the Company	145,585	44,143
Other comprehensive income attributable to the non-controlling interests	45,974	13,940
Other comprehensive income for the period/year	191,559	58,083
Total comprehensive expense attributable to owners of the Company	(612,274)	(1,410,566)
Total comprehensive expense attributable to the non-controlling interests	(193,350)	(445,442)
Total comprehensive expense for the period/year	(805,624)	(1,856,008)
Dividends paid to non-controlling interests	–	–
Net cash outflow from operating activities	(89,918)	(287,104)
Net cash inflow from investing activities	64,900	38,235
Net cash inflow from financing activities	53,227	286,479
Net cash inflow	28,209	37,610

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued) Shouqin Longhui

	As at 30 December 2016	As at 31 December 2015
	HK\$'000	HK\$'000
Current assets	217,091	254,793
Non-current assets	1,063,621	1,180,524
Current liabilities	(2,214,327)	(2,167,154)
Non-current liabilities	–	–
Deficit attributable to owners of the Company	(633,364)	(496,477)
Non-controlling interests	(300,251)	(235,360)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued) Shouqin Longhui (continued)

	1 January 2016 to 30 December 2016 HK\$'000	1 January 2015 to 31 December 2015 HK\$'000
Revenue	3,246	239,150
Expenses	(288,794)	(488,992)
Loss for the period/year	(285,548)	(249,842)
Loss attributable to owners of the Company	(193,715)	(169,494)
Loss attributable to the non-controlling interests	(91,833)	(80,348)
Loss for the period/year	(285,548)	(249,842)
Other comprehensive income (expense) attributable to owners of the Company	42,779	(2,555)
Other comprehensive income (expense) attributable to the non-controlling interests	20,280	(1,211)
Other comprehensive income (expense) for the period/year	63,059	(3,766)
Total comprehensive expense attributable to owners of the Company	(150,936)	(172,049)
Total comprehensive expense attributable to the non-controlling interests	(71,553)	(81,559)
Total comprehensive expense for the period/year	(222,489)	(253,608)
Dividends paid to non-controlling interests	–	–
Net cash (outflow) inflow from operating activities	(46)	73,779
Net cash inflow from investing activities	22	152,051
Net cash outflow from financing activities	–	(231,866)
Net cash outflow	(24)	(6,036)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 48. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>		
Interests in subsidiaries	2,299,581	2,407,677
Interest in an associate	4,876	4,876
Amounts due from subsidiaries	3,153,158	1,999,794
Other financial assets	181,716	312,852
Pledged bank deposits	–	191,428
	<b>5,639,331</b>	4,916,627
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables	2,214	2,239
Amounts due from related companies	53	–
Amounts due from associates	26	–
Pledged bank deposits	23,073	85,062
Bank balances and cash	464,138	183,264
	<b>489,504</b>	270,565

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 48. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
<b>CURRENT LIABILITIES</b>		
Other payables and accrued liabilities	5,368	3,185
Amounts due to subsidiaries	919,880	1,033,281
Bank borrowings – due within one year	616,783	301,270
Other financial liabilities	75	783
	<b>1,542,106</b>	<b>1,338,519</b>
<b>NET CURRENT LIABILITIES</b>	<b>(1,052,602)</b>	<b>(1,067,954)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>4,586,729</b>	<b>3,848,673</b>
<b>NON-CURRENT LIABILITY</b>		
Bank borrowings – due after one year	–	604,013
	<b>4,586,729</b>	<b>3,244,660</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	5,345,183	5,345,183
Reserves (Note (a))	(758,454)	(2,100,523)
	<b>4,586,729</b>	<b>3,244,660</b>

The statement of financial position of the Company was approved by the Board of Directors on 23 March 2017 and was signed on its behalf by:

**Li Shaofeng**  
DIRECTOR

**Ding Rucai**  
DIRECTOR

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 48. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

Note a:

	<b>Share option reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>			
At 1 January 2015	289,560	(1,170,068)	(880,508)
Loss for the year and total comprehensive expense	–	(1,220,015)	(1,220,015)
At 31 December 2015	289,560	(2,390,083)	(2,100,523)
Profit for the year and total comprehensive income	–	1,342,069	1,342,069
At 31 December 2016	289,560	(1,048,014)	(758,454)



# FIVE-YEAR FINANCIAL SUMMARY

## RESULTS

	Year ended 31 December				
	2012	2013	2014	2015	2016
	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000
Turnover	4,339,933	4,430,439	1,906,787	416,121	<b>1,035,606</b>
Profit (loss) for the year from continuing operations	188,330	375,205	(360,731)	(1,445,796)	<b>(476,215)</b>
Loss for the year from discontinued operations	(2,734,098)	(2,319,961)	(1,677,641)	(2,443,843)	<b>(1,478,005)</b>
Loss for the year	(2,545,768)	(1,944,756)	(2,038,372)	(3,889,639)	<b>(1,954,220)</b>
Attributable to:					
Owners of the Company	(1,947,206)	(1,395,502)	(1,640,708)	(3,349,310)	<b>(1,621,162)</b>
Non-controlling interests	(598,562)	(549,254)	(397,664)	(540,329)	<b>(333,058)</b>
	(2,545,768)	(1,944,756)	(2,038,372)	(3,889,639)	<b>(1,954,220)</b>

## ASSETS AND LIABILITIES

	At 31 December				
	2012	2013	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	29,386,120	28,568,892	25,887,668	21,262,373	<b>5,847,436</b>
Total liabilities	(20,923,316)	(21,949,741)	(21,644,268)	(21,042,435)	<b>(1,142,226)</b>
	8,462,804	6,619,151	4,243,400	219,938	<b>4,705,210</b>
Equity attributable to owners of the Company	8,093,220	6,801,786	4,825,802	1,336,312	<b>4,705,210</b>
Non-controlling interests	369,584	(182,635)	(582,402)	(1,116,374)	<b>–</b>
	8,462,804	6,619,151	4,243,400	219,938	<b>4,705,210</b>

# SUMMARY OF INVESTMENT PROPERTIES

Particulars of major investment properties held by the Group as at 31 December 2016 are as follows:

<b>Property</b>	<b>Use</b>	<b>Group interest</b>	<b>Category of the lease</b>
Flat A2 on 8th Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong	Residential	100%	Long-term lease