Annual Report 2011

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

Stock Code : 697

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE

Li Shaofeng *(Chairman)*
Zhang Wenhui
Chen Zhouping

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRARS

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

697

WEBSITE

www.shougang-intl.com.hk

Mr. Wang Qinghai, aged 53, senior engineer. Mr. Wang was appointed a Non-executive Director and the Chairman of the Company in April 2001. He is also the chairman of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Wang is the vice chairman and general manager of Shougang Corporation, the ultimate holding company of Shougang Holding. He was the chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand") from April 2001 to May 2010 and the chairman of Shougang Fushan Resources Group Limited (formerly Fushan International Energy Group Limited) ("Shougang Resources") from January 2010 to May 2010. Mr. Wang has extensive experience in management and operation.

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

Mr. Cao Zhong, aged 52, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed an Executive Director and the Managing Director of the Company in November 2001 and has been re-designated to a Non-executive Director and the Vice Chairman of the Company from 10 May 2010. He is the chairman of China Resources and Transportation Group Limited (formerly China Timber Resources Group Limited) ("China Resources Transportation"), a Hong Kong listed company and was concurrently the chief executive officer of China Resources Transportation from November 2010 to November 2011. Mr. Cao was the vice chairman and managing director of Shougang Resources, the chairman of each of Shougang Concord Century Holdings Limited ("Shougang Century") and Shougang Concord Technology Holdings Limited ("Shougang Technology"), the vice chairman and managing director of Shougang Grand and the chairman of Global Digital Creations Holdings Limited ("GDC") and he resigned from all his directorships in such companies from 10 May 2010. He was also an executive director of APAC Resources Limited ("APAC") from April 2007 to October 2009 and was concurrently the chairman of APAC since May 2007. Mr. Cao was a director of Mount Gibson Iron Limited ("Mount Gibson"), a company listed on the Australian Securities Exchange, from December 2008 to February 2012. Mr. Cao has extensive experience in corporate management and operation.

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

DIRECTORS' BIOGRAPHY

Mr. Li Shaofeng, aged 45, 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 each of the Executive Committee and the Nomination Committee and the vice chairman of the Remuneration Committee of the Company. He joined Shougang Corporation in 1989 and is the vice chairman and managing director of Shougang Holding and a director of each of Grand Invest International Limited ("Grand Invest") and China Gate Investments Limited ("China Gate"). Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Li is the chairman of each of Shougang Resources, Shougang Century, Shougang Technology, Shougang Grand and GDC. He is also a non-executive director of Sinocop Resources (Holdings) Limited, a Hong Kong listed company. Mr. Li is a director of Mount Gibson and was an alternate director to Mr. Cao Zhong, an ex-director of Mount Gibson, from November 2011 to February 2012. Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Li is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Li's monthly salary is HK$350,000 and his discretionary bonus is HK$4,900,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance.

Mr. Zhang Wenhui, aged 56, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed an Executive Director and a Deputy Managing Director of the Company in September 2006 and is a member of the Executive Committee of the Company. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate. Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang is a non-executive director of Shougang Resources. He joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. Mr. Zhang has extensive experience in management and company operations.

A service contract was entered into between Mr. Zhang and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Zhang is entitled to a monthly salary of HK$260,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Zhang's monthly salary is HK$260,000 and his discretionary bonus is HK$3,380,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Zhang's individual performance.

Mr. Chen Zhouping, aged 46, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed an Executive Director and a Deputy Managing Director of the Company in November 2002 and is a member of the Executive Committee of the Company. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate. Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is the vice chairman and managing director of Shougang Resources. He is also a non-executive director of Mount Gibson. Mr. Chen has extensive experience in steel industry, engineering design, human resources and management.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Chen's monthly salary is HK$250,000 and his discretionary bonus is HK$1,250,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Ip Tak Chuen, Edmond, aged 59, holds a bachelor of arts degree in economics and a master of science degree in business administration. Mr. Ip was appointed a Non-executive Director of the Company in 1993. He is also a deputy managing director of Cheung Kong (Holdings) Limited, an executive director and deputy chairman of Cheung Kong Infrastructure Holdings Limited, the senior vice president and chief investment officer of CK Life Sciences Int'l., (Holdings) Inc. and a non-executive director of each of TOM Group Limited, ARA Asset Management Limited, AVIC International Holding (HK) Limited, Excel Technology International Holdings Limited and Real Nutriceutical Group Limited (formerly known as Ruinian International Limited). All the companies mentioned above are listed companies in Hong Kong or overseas. Mr. Ip is also a non-executive director of ARA Asset Management (Fortune) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on The Stock Exchange of Hong Kong Limited ("SEHK") and the Singapore Exchange Securities Trading Limited ("SGX-ST"). Mr. Ip is also a director of ARA Trust Management (Suntec) Limited, which manages Suntec Real Estate Investment Trust, a real estate investment trust listed on SGX-ST. Mr. Ip is also a non-executive director of Hui Xian Asset Management Limited, which manages Hui Xian Real Estate Investment Trust, a real estate investment trust listed on SEHK. He is also a director of certain substantial shareholders of the Company within the meaning of Part XV of the SFO. He also holds directorships in certain companies controlled by a substantial shareholder of the Company.

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

Mr. Leung Shun Sang, Tony, aged 69, holds 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 the chairman of the Remuneration Committee and the vice chairman of the Nomination Committee of the Company. He is also a non-executive director of each of Shougang Resources, Shougang Century, Shougang Technology, Shougang Grand and GDC. Mr. Leung is the managing director of CEF Group. He has over 40 years of experience in finance, investment and corporate management.

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

Ms. Kan Lai Kuen, Alice, aged 57, 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 a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. She was also an independent non-executive director of Shougang Technology from September 2004 to June 2010. Ms. Kan held various senior positions in international and local banks and financial institutions and is currently a controlling shareholder and the managing director of each of Asia Investment Management Limited and Asia Investment Research Limited, both companies are licensed corporations under the SFO. Ms. Kan is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. She is also an independent non-executive director of each of Regal Hotels International Holdings Limited, Sunway International Holdings Limited, Shimao Property Holdings Limited and China Energine International (Holdings) Limited, all of which are listed companies in Hong Kong. Ms. Kan is an independent director of AVIC International Investments Limited, a company listed on SGX-ST. She was an independent non-executive director of G-Vision International (Holdings) Limited from September 2004 to August 2011 and an independent non-executive director of Sunac China Holdings Limited from August 2009 to June 2011. Ms. Kan has over 15 years of experience in corporate finance and is well experienced in both the equity and debt markets.

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

Mr. Wong Kun Kim, aged 67, 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 Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Wong is licensed as a responsible officer of each of Asia Investment Management Limited and Asia Investment Research Limited under the SFO. He has over 35 years of experience working as senior executives for various multinational corporations engaged in trading, manufacturing, finance and real estates. Mr. Wong had served as consultants and directors for different listed companies in Mainland China, Hong Kong, Taiwan and United States of America and is currently an independent non-executive director of Sunway International Holdings Limited, a Hong Kong listed company.

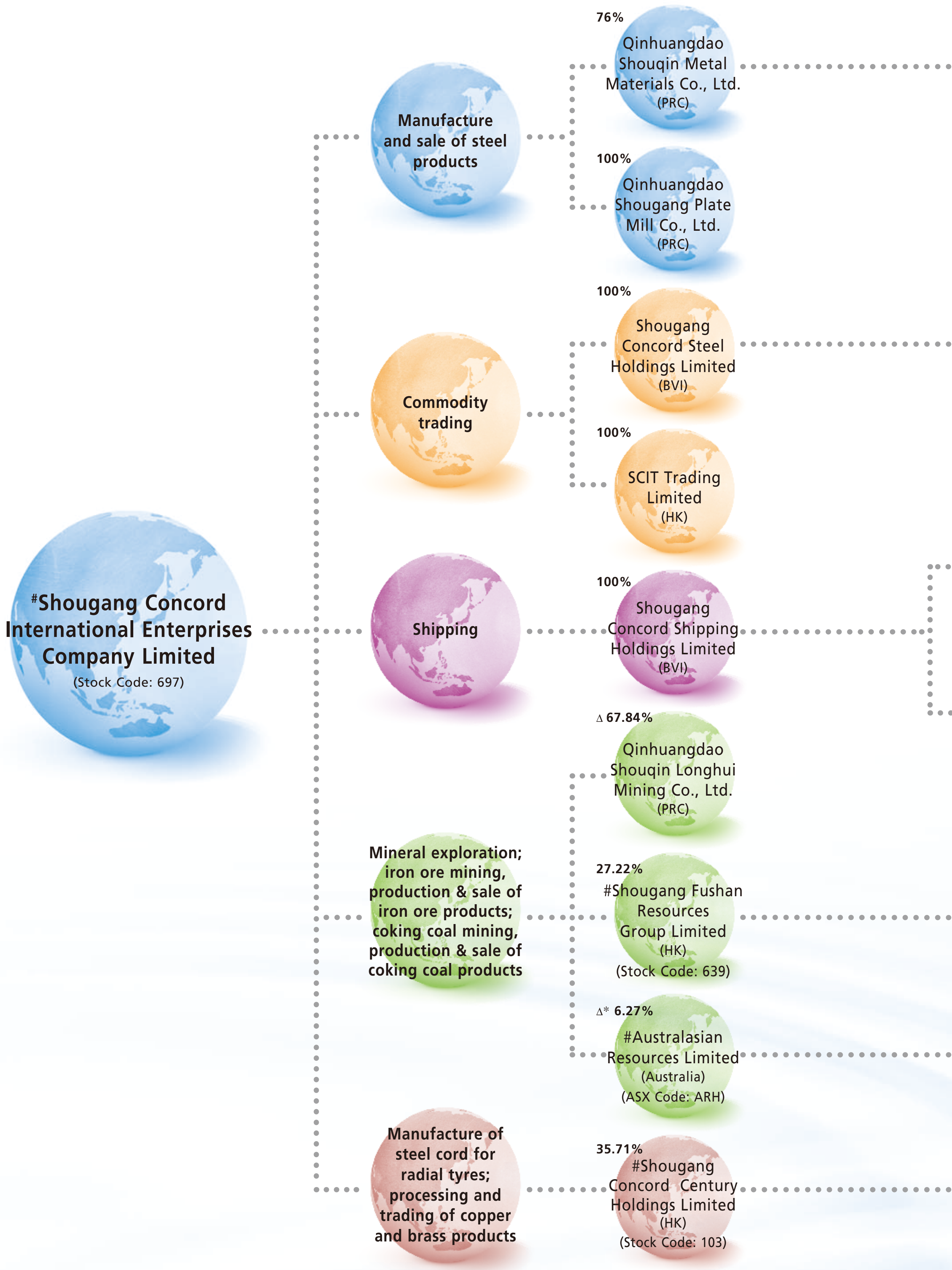
An engagement letter was entered into with Mr. Wong for a term of three years commencing on 1 January 2011. Under the engagement letter, Mr. Wong is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr.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

Mr. Leung Kai Cheung, aged 66, graduated from the Chinese University of Hong Kong with a bachelor degree in business. Mr. Leung was appointed an Independent Non-executive Director of the Company in June 2006 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Leung had been a senior executive of Citibank, N.A. and the general manager of Barclays Bank PLC in charge of Kowloon and New Territories districts. He is currently the chairman of each of Star International Enterprises Limited and Shinon Technologies Limited. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

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

MAIN OPERATIONAL STRUCTURE

As at 31 December 2011



Δ 87.76% Qinhuangdao Shouqin Steels Machining & Delivery Co., Ltd. (PRC)

100% Shougang Concord Steel International Trading Co. Ltd. (BVI)
100% Shougang Concord Godown Limited (HK)
100% Shougang Concord Management Company Limited (HK)
100% 深圳市首康國際貿易有限公司 (PRC)

100% Shougang Concord International Transport Limited (BVI)
100% Shougang Concord Shipping Services Limited (HK)
100% Ryegar Limited (UK)
70% Centralink International Limited (BVI)
Δ 63% Zhoushan Shouhe Centra-link Co., Ltd. (PRC)

100% SCIT Services Limited (BVI)

Δ 3.80% # APAC Resources Limited (Bermuda) (Stock Code: 1104)
Δ* 5.13% # Mount Gibson Iron Limited (Australia) (ASX Code: MGX)

Δ* 6.27% International Minerals Pty Ltd (Australia)
Δ* 6.27% International Exploration Ltd (Australia)

Δ 35.71% Jiaxing Eastern Steel Cord Co., Ltd. (PRC)
Δ 35.71% Tengzhou Eastern Steel Cord Co., Ltd. (PRC)
Δ 35.71% Hing Cheong Metals (China & Hong Kong) Limited (HK)
Δ 35.71% Rise Boom International Limited (BVI)

Notes:

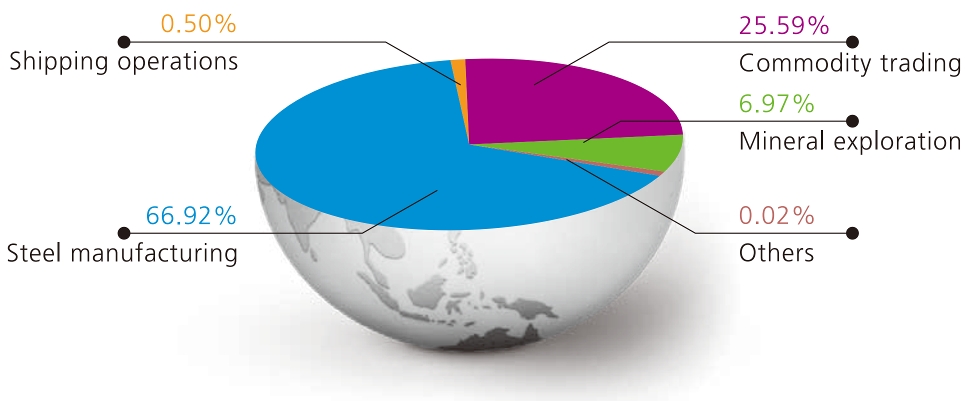
\# Listed company

Δ Attributable interest held by Shougang Concord International Enterprises Company Limited

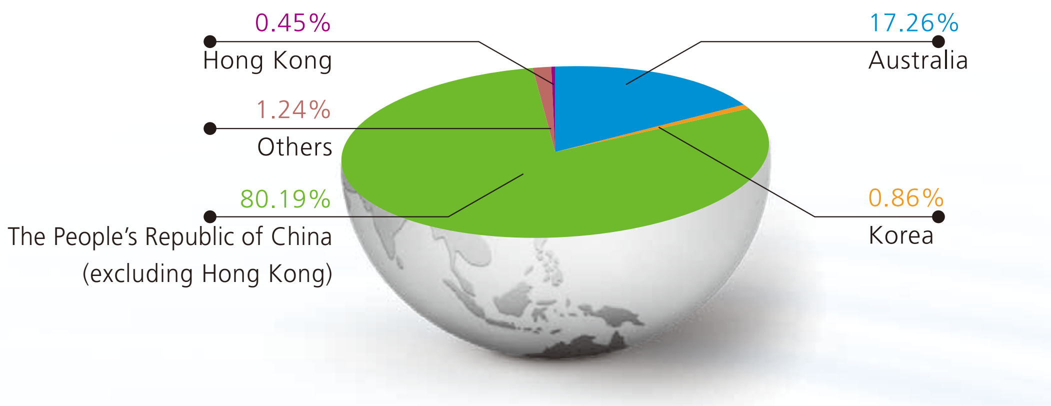
* Including the interests held through Shougang Fushan Resources Group Limited and APAC Resources Limited

FINANCIAL HIGHLIGHTS

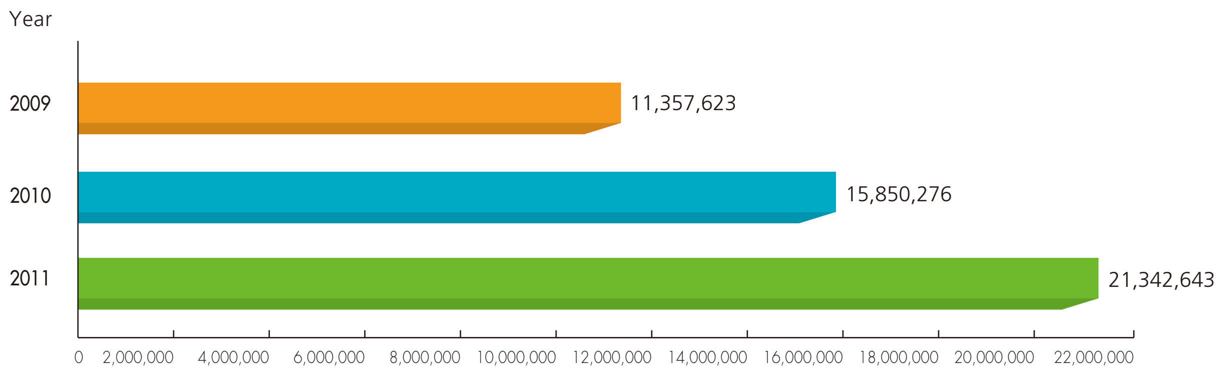
TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2011



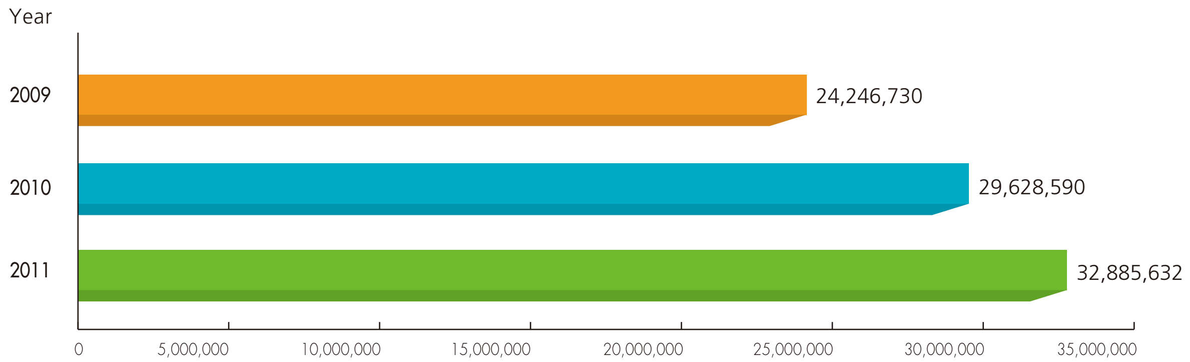
TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2011



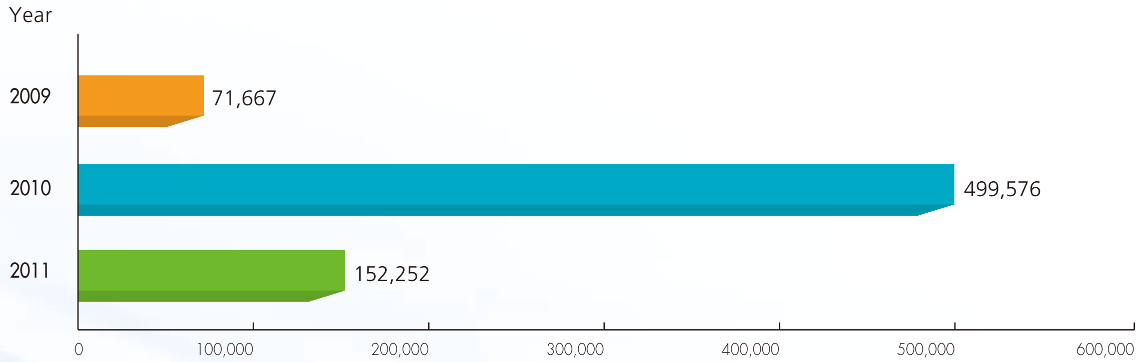
TURNOVER (in HK$'000)



TOTAL ASSETS (in HK$'000)



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



CHAIRMAN'S STATEMENT

Even with the challenges around us, I believe we are in a stronger position than last year to deal with what's still a massively challenging environment. We have been concentrating our efforts in going upstream, making vast investments in iron ore and coking coal, which are core to our long term strategy. We are in a much forefront position than most of our peers because of these choices.

Currently, the steel industry has entered into a structural turmoil, where slack demand has driven steel price lower, but the downward adjustment in upstream raw materials such as iron ore is fairly limited, this squeeze in two ends has left the industry players in pain. As we progress to the 2nd year of the 12th Five Year Plan, initiatives for all industries are being implemented; investments in businesses such as infrastructure, housing and manufacturing should maintain relatively high growth, hopefully it will enhance the inelastic demand for steel and the selling prices.

Our mineral exploration segment continues to perform well, thanks to profit contribution of our associate Shougang Fushan (hard coking coal producer). Consolidated revenue for the year ended 31 December 2011 was HK$21.3 billion, an increase of 35% from that of last; while net profit attributable to shareholders was HK$0.15 billion; lower by 70% comparing to that of last. Your Board did not recommend a final dividend on prudence sake.

I have strong faith in our vertical integration strategy and we shall thrive despite the challenges ahead. Finally, I would like to take this opportunity to express my gratitude to all our shareholders and business partners. In the meantime, I would also like to thank our Board of Directors, management and staff for their diligence and contributions to the Group. I am honored to lead the Group towards a better future.

Wang Qinghai
Chairman

22 March 2012

COMPANY OVERVIEW

We are a heavy plate manufacturer in the PRC with various interests in upstream resources. Currently, our operations are mainly segregated into four segments, namely, steel manufacturing, mineral exploration, commodity trading and shipping. Principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei, PRC. Currently, we hold approximately 27.2 % (31 December 2010: 24.4%) equity stake of Shougang Fushan Resources Group Limited ("Fushan"), a Hong Kong-listed hard coking coal producer based in the PRC, in addition to 68% stake in a Chinese iron ore miner. We also have long-term iron ore offtake agreements with Australia-listed Mount Gibson Iron Limited ("Mt. Gibson") to enhance our investments in upstream resources. In addition, we own a deep processing centre on steel products to extend our operation to the downstream value chain. Such vertical integration strategy is advantageous in enhancing the heavy plate manufacturing operation of the Group.

PERFORMANCE REVIEW

In 2011, the steel market has showed characteristics of sharp and frequent volatilities. Increase in steel price has failed to catch up with that of rising raw material cost, coupled with slowing downstream demand growth and overcapacity, this conundrum cannot be solved quickly. In the meantime, many companies are facing severe operating and liquidity risks amidst tightening monetary policy, the industry is currently at its darkest before dawn. Our steel manufacturing segment has focused on serving petrochemical and wind power segments with premium thick plate products, which helps drive average selling price ("ASP") and thus turnover. Strong positive contributions by our mineral exploration segment also help compensate the overall results.

Net profit attributable to shareholders of the Group amounted to HK$152 million in 2011, comparing to HK$500 million last year. The Group recorded a consolidated turnover of HK$21,343 million in this year, representing an increase of 35% comparing to that of last. Basic earnings per share was HK1.8 cents.

FINANCIAL REVIEW

Year ended 31 December 2011 compared to the year ended 31 December 2010

Turnover and Cost of Sales

The Group recorded consolidated turnover of HK$21,343 million during the year under review, higher by 35% when comparing to that of last. Higher turnover comes from increase in quantities sold and ASP and hence turnover of the steel manufacturing segment, turnover from steel and iron ore trading also climbed.

FINANCIAL REVIEW (continued)

Turnover and Cost of Sales (continued)

Cost of sales for the year was HK$21,225 million, including transfer in HK$179 million fair value of iron ore offtake contracts, resulting in gross profit of HK$117 million, comparing to HK$713 million in the last.

EBITDA and Core Operating (Loss)/Profit

For the year under review, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK$1,599 million, comparing to HK$1,597 million in the last.

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

	For the year ended 31 December	
In HK$ million	**2011**	2010
Profit attributable to shareholders of the Group	**152**	500
Adjusted by: Non-cash items		
Fair value (gain) on iron ore offtake contracts, net	**(324)**	(147)
Fair value (gain) on acquisition of Fushan during the year	**(108)**	–
Impairment in Available for sale investment	**53**	–
Goodwill impairment	**22**	–
Employee share option expenses	**19**	35
Core operating (loss)/profit	**(186)**	388

Change in fair value of derivative financial instruments

This item comprises mainly change in fair value of the long term iron ore offtake agreement with Mt. Gibson. This offtake agreement is classified as financial asset, the value of which is calculated by independent valuer in accordance with factors such as iron ore purchase quantity and its annual forecasted prices, resulting in book gain or loss. Since both iron ore purchase quantity and its forecasted prices are higher than that of 2010, fair value of this asset has net increased by HK$324 million in the year under review.

FINANCIAL REVIEW (continued)

Other gains and losses

This item comprises recurring items such as exchange differences, and also includes the following significant non-recurring items:

(i) The Company has made a full provision of HK$53 million on the value of the equity investment in Australasian Resources Limited which is classified as Available for sale investment, owing to lower share price;

(ii) The Group has made a provision for onerous contract of HK$47 million for its Shipping segment;

(iii) The Group has made a provision of HK$22 million for the goodwill arising from our investment in Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"); and

(iv) The Group has recorded a fair value adjustment gain of HK$108 million on acquisition of additional interest in Fushan during the year.

Finance costs

For the year, finance costs amounted to HK$568 million, 28% higher than that of last year. The Group maintains a higher leverage currently to take advantage of the low interest environment.

Share of results of associates

In the year under review, we have recognized profit contribution of HK$554 million and HK$1 million from each of Fushan and Shougang Concord Century Holdings Limited ("Shougang Century").

Taxation

In the year under review, taxation expenses amounted to HK$48 million which mainly represented by under-recognized tax expenses of Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") in prior years at HK$32 million, in addition to reversal of deferred tax asset recognized.

REVIEW OF OPERATIONS

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

HK$'000 **Operation/Entity**		**Attributable interest**	**For the year ended 31 December 2011**	2010
1.	**Steel manufacturing**			
	Shouqin	76%	**(560,172)**	(322,697)
	Qinhuangdao Plate Mill	100%	**(56,645)**	(125,646)
	Sub-total		**(616,817)**	(448,343)
2.	**Mineral exploration**			
	Fushan	27.2%[1]	**553,679**	412,119
	Fair value adjustment on acquisition of additional interest	–	**108,142**	–
	Shouqin Longhui	67.8%	**(32,134)**	70,943
	Sub-total		**629,687**	483,062
3.	**Commodity trading**			
	Trading Group	100%	**79,555**	340,027
4.	**Shipping operations**			
	Shougang Shipping Group	100%	**(96,869)**	47,569
5.	**Others**			
	Shougang Century	35.7%	**1,161**	62,466
	Fair value gain on offtake contracts, net		**323,703**	147,000
	Impairment on Available for sale investment		**(53,425)**	–
	Goodwill impairment		**(22,000)**	–
	Corporate	100%	**(92,743)**	(132,205)
	Sub-total		**156,696**	77,261
	Total		**152,252**	499,576

Note 1: Since July 2011, the attributable interest increased from 24.4% to 27.2%

REVIEW OF OPERATIONS (continued)

Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") and Qinhuangdao Plate Mill. In this year under review, we have boosted our operations; there was also major leap forward in research and marketing. Production of pipeline steel plates was 332,000 tonnes, representing a 20% market share, taking up No. 2 spot in the PRC, our utilization rate also averaged over 90%, yet we were unable to fully offset the impact of elevated raw material cost, especially in the fourth quarter. This core segment recorded net loss of HK$617million during the current year, while that of last was net loss HK$448 million. Summary of production and sales quantities of the two manufacturing plants in the current and last year under this segment is as follows:

In '000 mt.	Slabs		Heavy Plates	
For the year ended 31 December	**2011**	2010	**2011**	2010
(i) **Production**				
Shouqin	**2,553**	2,394	**1,759**	1,313
Qinhuangdao Plate Mill	**–**	–	**609**	639
Total	**2,553**	2,394	**2,368**	1,952
Change		+7%		+21%
(ii) **Sales**				
Shouqin#	**571**	927	**1,753**	1,283
Qinhuangdao Plate Mill	**–**	–	**566**	576
Total	**571**	927	**2,319**	1,859
Change		–38%		+25%

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

Shouqin

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

REVIEW OF OPERATIONS (continued)

Steel Manufacturing (continued)

Shouqin (continued)

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to 4300mm wide hot rolling plate production line imported from Germany, focusing on serving industries such as heavy machinery, shipping, infrastructure and petrochemical. Currently, annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current year, Shouqin reported a turnover of HK$12,687 million before elimination, recording a 28% rise on the comparative year. Reasons for such change are two-fold:

(i) Sales volume of heavy plates increased by 37%, while ASP (net of VAT) was HK$5,945 (RmB 4,927), about 12% higher than that of last year; but,

(ii) Sales volume of slabs decreased by 38%, with it using more of the slabs being produced itself. We scheduled a medium overhaul of the entire plant for two weeks in the first half of the year, resulting in lower overall utilization. We also made for HK$48 million in provision of impairment of inventory on prudence, comparing to HK$5 million last year.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. This entity recorded HK$688 million in turnover, increased by 40% from that of last, and contributed an attributable profit of HK$3 million in the year.

For the year ended 31 December 2011, Shouqin recorded a gross loss of HK$18 million, comparing to gross profit of HK$130 million in the last year, and thus contributed a net loss of HK$560 million to the Group.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK$3,792 million before elimination for the year ended 31 December 2011, a rise of 13% comparing with that of last. Slightly lower sales volume is offset by higher ASP (net of VAT) of HK$5,523 (RmB 4,577), about 12% higher than that of last year. As a result, the Group's share of loss of Qinhuangdao Plate Mill was HK$57 million, comparing to loss of HK$126 million last year.

We see near-term earnings remain sluggish for both plants under the high-cost environment, but the long term fundamentals remain positive.

Mineral exploration

Production and sale of coking coal

Fushan is a 27.2% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover from continuing operations for the current year was HK$7,139 million; net profit attributable to shareholders was HK$2,256 million, a rise of 29% and 25% respectively over that of last. Profit attributable to the Group was HK$554 million this year. Besides, the Group recorded a fair value adjustment gain of HK$108 million on acquisition of additional interest in Fushan during the year.

REVIEW OF OPERATIONS (continued)

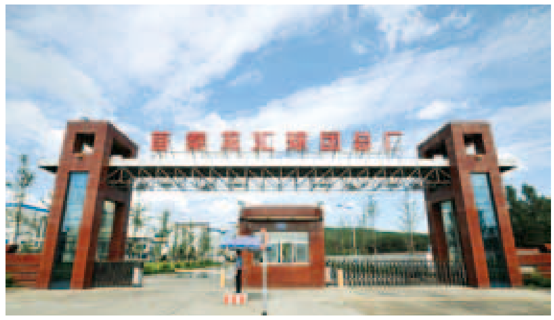
Mineral exploration (continued)

Production and sale of coking coal (continued)

Demand towards quality coking coal is expected to be strong with higher steel production. Given the constrained supply outlook in the coking coal market in China, we are confident towards its future operations, expecting this upstream business to provide a sustainable profit base for the Group.

Production of iron ore products

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



During the year under review, Shouqin Longhui sold approximately 1.6 million tonnes of iron ore pellets, a decrease of 4% from that of last, while ASP has increased by 12% to HK$1,578 (RmB1,308). It recorded a turnover HK$2,550 million for the year before elimination, loss attributable to the group was about HK$32 million, comparing to an attributable profit of HK$71 million in the last.

Commodity trading ("Trading")

Our Trading operations are jointly conducted by SCIT Trading Limited and Shougang Concord Steel Holdings Limited and its subsidiaries (The "Trading Group"), both of which are wholly owned by the Group. The Trading Group reported a turnover of HK$5,463 million in the year ended 31 December 2011, which was HK$3,593 million in the last year. The Trading Group sold approximately 2.9 million tonnes of iron ore to external parties, which was similar comparing to last, through long term offtake arrangements with Mt. Gibson covering its Koolan Island and Tallering Peak mines. Significant rainfall and an extremely wet season caused flooding in Mt. Gibson's facilities in the first quarter of the year, adversely affecting its output. Lower profit was also due to a collapse in iron ore price from US$171 per tonne on 30 September 2011 to US$119 per tonne on 31 October, a drop of 30%, resulting in selling losses in the fourth quarter. We were forced to warehouse a cargo of 70,000 tons of iron ore, which was sold at a loss after year-end, thereby recording an inventory impairment provision of HK$23 million. We usually do not bear inventory risk by best-efforts sales to spot market once the goods are bought. Management has already actively taken steps to mitigate similar inventory risk in the future. Trading of other steel products still recorded a small gain. The resulting net gain was HK$79 million in the current year, comparing to a net gain of HK$340 million in the last. The Trading Group has already strengthened its business development in the PRC and is prepared to cover more varieties and quantities, including higher offtake volume from Mt. Gibson; results from this operation are expected to recover in the future.

REVIEW OF OPERATIONS (continued)

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net loss of HK$97 million (including a provision for onerous contract of HK$47 million) for the current year under review, compared to a net gain of HK$48 million last year. This operating segment mainly conducts chartering services of two capsized vessels; the leases of which shall expire in 2012. Should global economy recover, we should see improvement in transaction volume and prices in the charter market.

Other business

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

Shougang Century, a 35.7% associate of the Group, recorded net profit of HK$3 million in the current year. The Group's share of its net results was a profit of HK$1 million, comparing to share of profit of HK$62 million in the last.

Lower profit from Shougang Century is mainly the result of a competitive operating environment in the steel cord sector from a price war that started in the second half of 2011. Rising auto ownership and road traffic in China should be beneficial for the overall business in the long term.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

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

1. Leverage

The financial leverage of the Group as at 31 December 2011 as compared to 31 December 2010 is summarized below:

HK$ million	**31 December 2011**	31 December 2010
Total Debt		
– from banks	**12,188**	10,734
– from parent company	**1,010**	969
sub-total	**13,198**	11,703
Cash and bank deposits	**2,940**	1,984
Net debt	**10,258**	9,719
Total capital (Equity and debt)	**23,346**	21,270
Financial leverage		
– Net debt to total capital	**43.9%**	45.7%
– Net debt to total assets	**31.2%**	32.8%

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 via borrowings. For the year ended 31 December 2011, approximately 80% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements. The Group also enters into certain interest rate swaps to mitigate interest rate risks. Notional amounts of such derivative instruments amounted to approximately HK$195 million as at end of this year.

3. Financing activities

The Company has concluded four new bank financings during the year, totaling HK$1,400 million (US$180 million), of tenors between 36 to 42 months.

MATERIAL ACQUISITIONS & DISPOSALS

On 5 May 2011, the Company entered into an acquisition agreement with its major shareholder Shougang HK to acquire additional shares in Fushan, increasing our equity interest from 24.4% to 27.2%. The Company issued approximately 778 million new shares as consideration of the acquisition. This acquisition was completed on 18 July 2011. Details can be found in our announcements.

CAPITAL STRUCTURE

During the year, the Company issued 778 million new shares for the acquisition described above. The issued share capital of the Company was HK$1,791 million (represented by 8,953 million ordinary shares).

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,700 employees as at 31 December 2011.

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

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

PROSPECTS

With the complicated and difficult situations in the world, slowdown in global economy looks inevitable. Inflation control remains a major target in China' s economic cycle. Stricter loan-to-deposit ratio for banks and tighter monetary policy has restricted growth in downstream demand. At the same time, China's stimulation in construction in areas such as social housing, water works and environmental protection shall persist, steel demand looks set to bounce back. However, steel manufacturers continue to be squeezed by upstream and downstream pressures, which remain a major challenge ahead.

We continue to seek opportunities to strengthen our value chain integration, increasing upstream exposure through investments in iron ore and coking coal, whilst increasing competitiveness from improving product mix. We are confident in getting past this storm and eventually bringing sweet fruits to our shareholders.

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 on Corporate Governance Practices (the "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 2011, except for the following deviation:

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

  The Chairman of the Board did not attend the annual general meeting of the Company held on 19 May 2011 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with the chairmen and majority of members of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

BOARD OF DIRECTORS

Composition

The Board currently comprises three Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

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

The Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;

- taking the lead where potential conflicts of interests arise;

BOARD OF DIRECTORS (continued)

Composition (continued)

- serving on Board committees if invited; and
- scrutinising the Company's performance.

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

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' 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 such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

BOARD OF DIRECTORS (continued)

Board meetings (continued)

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

Attendance records

During the financial year ended 31 December 2011, the Directors have made active contribution to the affairs of the Group and four 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 Directors' attendance records in 2011 were as follows:

	Meetings attended/Eligible to attend
Chairman	
Wang Qinghai	0/4
Vice Chairman	
Cao Zhong	3/4
Executive Directors	
Li Shaofeng	4/4
Zhang Wenhui	4/4
Chen Zhouping	4/4
Non-executive Directors	
Ip Tak Chuen, Edmond	1/4
Leung Shun Sang, Tony	4/4
Independent Non-executive Directors	
Kan Lai Kuen, Alice	4/4
Wong Kun Kim	4/4
Leung Kai Cheung	4/4

BOARD OF DIRECTORS (continued)

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. 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 review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

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.

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.

BOARD OF DIRECTORS (continued)

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.

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Li Shaofeng serves as the Managing Director of the Company. The Chairman provides leadership for the Board. 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.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

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 and comprises all Executive Directors of the Company.

The members of the Executive Committee during the year were as follows:

- Li Shaofeng *(Chairman)*
- Zhang Wenhui
- Chen Zhouping

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. During the year, thirty four meetings of the Executive Committee were held.

BOARD COMMITTEES (continued)

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 available on request and are posted on the Company's website.

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

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

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 if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprises three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Wong Kun Kim *(Chairman)*	2/2
Kan Lai Kuen, Alice	2/2
Leung Kai Cheung	2/2

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2010; and
- reviewing the interim results of the Group for the six months ended 30 June 2011.

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.

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 available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:

	Meeting attended/Eligible to attend
Li Shaofeng *(Chairman)*	1/1
Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung	1/1

BOARD COMMITTEES (continued)

Nomination Committee (continued)

The Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, one meeting of the Nomination Committee was held for reviewing the structure of the Board.

Remuneration Committee

A Remuneration Committee of the Board was established in February 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

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 performance-based remuneration;

- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;

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

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

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of 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 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.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The members of the Remuneration Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	1/1
Li Shaofeng *(Vice Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung	1/1

The Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, one meeting of the Remuneration Committee was held for, amongst other things:

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

- determining the bonuses of the Executive Directors of the Company for the year 2011; and

- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2012.

INTERNAL CONTROL

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

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

INTERNAL CONTROL (continued)

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

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

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

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

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems, including financial, operational and compliance controls as well as risk management.

INTERNAL CONTROL (continued)

Internal control system

Division Head / Management

- Identify & evaluate potential risks when preparing the annual business plan & budget
- Put measures in place for managing, controlling or lessening risks
- Implement business plan
- Prepare monthly management report
- Revise business plan from time to time

Executive Committee

- Review & approve business plan & budget
- Review monthly management report for:
  (1) measuring actual performance against business plan & budget &
  (2) reviewing & assessing effectiveness of all material controls

Audit Committee

- Review & evaluate the effectiveness of overall internal control systems
- Make recommendations on internal control system

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2011.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

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

Services rendered	**Fee paid/payable** *HK$'000*
Audit services	1,459
Non-audit services:	
Interim review	591
Professional services rendered for connected transactions	87
Review preliminary results announcement for 2010	31
	2,168

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 53 to 54 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

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

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 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 48 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the financial statements on pages 55 to 172 of this annual report.

The Board does not recommend the payment of any dividend in respect of the year (2010: HK1 cent per share).

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 173 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 15 to the financial statements.

Particulars of the major investment properties of the Group as at 31 December 2011 are set out on page 174 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 36 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 60 to 61 of this annual report and in note 38 to the financial statements, respectively.

DONATIONS

No charitable donation was made by the Group during the year (2010: Nil).

DIRECTORS

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

Wang Qinghai
Cao Zhong
Li Shaofeng
Zhang Wenhui
Chen Zhouping
Ip Tak Chuen, Edmond
Leung Shun Sang, Tony
Kan Lai Kuen, Alice*
Wong Kun Kim*
Leung Kai Cheung*

* *Independent Non-executive Directors*

In accordance with clause 103(A) of the Company's articles of association, Messrs. Cao Zhong, Zhang Wenhui, Ip Tak Chuen, Edmond and Wong Kun Kim will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

The Directors of the Company who held office at 31 December 2011 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2011 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

		Number of shares/underlying shares in the Company			
Name of Director	Capacity in which interests were held	Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of the Company as at 31.12.2011
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.83%
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.39%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.50%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.14%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.01%

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

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

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

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Century: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Shougang Century as at 31.12.2011
Cao Zhong	Beneficial owner	7,652,000	74,350,000	82,002,000	4.26%
Li Shaofeng	Beneficial owner	7,652,000	44,414,000	52,066,000	2.70%
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	16,592,000	24,244,000	1.26%

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

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

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

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Shougang Resources as at 31.12.2011
Cao Zhong	Beneficial owner	3,000,000	–	3,000,000	0.05%
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%

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

Save as disclosed above, as at 31 December 2011, 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 Scheme" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2011, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2011	*Note(s)*
Shougang Holding	Beneficial owner, interests of controlled corporations	4,214,625,699	47.07%	*1*
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.80%	*1*
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.58%	*1*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*

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

Long positions in the shares of the Company (continued)

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2011, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

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

SHARE OPTION SCHEME

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the 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 Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the 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 Scheme is 245,140,000 which represents approximately 2.74% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 687,894,321, representing approximately 7.68% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to 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, 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$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. 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.

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

SHARE OPTION SCHEME (continued)

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the 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 the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

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

Category or name of grantees	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
Directors of the Company				
Cao Zhong	65,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Li Shaofeng	20,000,000[1]	14.12.2010	14.12.2010 – 13.12.2017	HK$1.180
Zhang Wenhui	35,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Chen Zhouping	45,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Ip Tak Chuen, Edmond	8,000,000	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK$0.280
	12,590,000			
Kan Lai Kuen, Alice	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Wong Kun Kim	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Leung Kai Cheung	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	182,090,000			

SHARE OPTION SCHEME (continued)

Category or name of grantees	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
Employees of the Group	13,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	13,000,000			
Other participants	50,000	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	50,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	50,050,000			
	245,140,000			

Note:

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

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

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

DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$439,270,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 24.4% of the total sales for the year and sales to the largest customer included therein amounted to approximately 11.1%. Purchases from the Group's five largest suppliers accounted for approximately 65.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 27.9%. The holding company of the controlling shareholder of the Company had interests in 2 of the Group's five largest customers and 2 of the Group's five largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

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

(a) Connected transaction

On 5 May 2011, the Company and Shougang Holding entered into an agreement (the "Agreement") pursuant to which Shougang Holding conditionally agreed to sell 1 share of US$1.00 in the capital of Fair Gain Investments Limited ("Fair Gain"), representing the entire issued share capital of Fair Gain, to the Company (the "Acquisition") at a consideration of HK$785,704,263, which would be satisfied in full by the allotment and issue of 777,925,013 new ordinary shares of the Company (the "Consideration Shares") to Shougang Holding or its nominee at an issue price of HK$1.01 per Consideration Share.

As at the date of the Agreement, Shougang Holding and its associates held an aggregate of approximately 41.90% of the issued share capital of the Company. Shougang Holding was therefore a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constituted a connected transaction for the Company under the Listing Rules. Fair Gain was an investment holding company and its sole asset was the holding of 149,089,993 shares of Shougang Resources, representing approximately 2.77% of the then issued share capital of Shougang Resources at that time. Shougang Resources and its subsidiaries are principally engaged in coking coal mining, production and sales of coking coal products and side products. The Acquisition further increased the Company's interest in Shougang Resources from 24.44% to 27.21%, which would reinforce the Group's relationship with Shougang Resources. Details of the transaction were disclosed in the announcement of the Company dated 6 May 2011 and a circular to shareholders dated 24 June 2011 in accordance with Chapter 14 and Chapter 14A of the Listing Rules. The Agreement was confirmed, approved and ratified by the independent shareholders of the Company on 13 July 2011 and the Acquisition was completed on 18 July 2011.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

(b) Continuing Connected Transactions

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

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

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

Details of the continuing connected transactions as mentioned above have been included in the Company's previous annual report in compliance with the Listing Rules.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

(b) Continuing Connected Transactions (continued)

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

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

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

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

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

The transactions took place during the year as set out in notes 47(I) (a), (b), (e), (i), (j) and (k) to the financial statements under the heading of "Related Party Disclosures" were continuing connected transactions which had been approved by the independent shareholders of the Company. The transactions as set out in notes 47(I) (c), (d), (f), (g) and (h) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions took place during the year as set out in note 47(II) to the financial statements under the heading of "Related Party Disclosures" are concerned, for those transactions with Shougang Corporation and/or its associates mentioned in notes 24, 27 and 28 to the 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 34 to the 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.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

As far as the transactions set out in note 47(IV) to the financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

(a) Under the loan agreement dated 22 November 2007 (the "Loan Agreement") entered into between Bank of China (Hong Kong) Limited ("BOC") and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a 76% indirectly owned subsidiary of the Company, in relation to a loan in an amount not exceeding RMB1,500,000,000, breach of any of the following undertakings (the "Undertakings") by Shougang Corporation during the term of the Loan Agreement will constitute an event of default upon which the loan will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loan shall be repaid by Shouqin by instalments with the last instalment due on the date falling 36 months after the date of first drawdown of the loan (i.e. 23 November 2007).

Subsequent to the entering into of the Loan Agreement, BOC had novated the rights and obligations of part of the loan under the Loan Agreement in an amount of RMB300,000,000 (the "Outstanding Loan") to Nanyang Commercial Bank (China) Limited ("Nanyang Commercial Bank"). A supplemental loan agreement dated 22 November 2010 (the "Supplemental Loan Agreement") was entered into between Shouqin and Nanyang Commercial Bank. Pursuant to the Supplemental Loan Agreement, the parties agreed to extend the due date in respect of the Outstanding Loan for one year to 23 November 2011. The Undertakings made by Shougang Corporation under the Loan Agreement shall continue to be applicable to the Supplemental Loan Agreement and breach of any of the Undertakings by Shougang Corporation will constitute an event of default upon which the Outstanding Loan will become immediately due and payable. The Outstanding Loan was fully repaid on 23 November 2011.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

(b) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to a term loan facility of US$200,000,000 and a revolving loan facility up to an amount of US$120,000,000 made available by the banks to the Company, each of the following will constitute an event of default upon which the facilities will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation; and (iii) Shougang Corporation ceases to have management control in Shougang Holding. The term loan facility shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. The revolving loan facility may be re-borrowed by the Company and the final maturity day is the date falling 48 months after the date of the facility agreement. The loans under the facility agreement were fully repaid on 28 February 2012.

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

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 23 to 35 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, 22 March 2012

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 172, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Revenue	6	**21,342,643**	15,850,276
Cost of sales		**(21,225,495)**	(15,137,603)
Gross profit		**117,148**	712,673
Other income	7	**63,713**	61,796
Other gains and losses	8	**897**	(27,214)
Change in fair value of derivative financial instruments		**498,024**	286,387
Distribution and selling expenses		**(153,594)**	(191,742)
Administrative expenses		**(521,128)**	(474,436)
Finance costs	9	**(568,223)**	(444,527)
Share of results of associates		**563,938**	476,629
Profit before taxation		**775**	399,566
Income tax (expense) credit	10	**(48,288)**	33,617
(Loss) profit for the year	11	**(47,513)**	433,183
Other comprehensive (expense) income			
Exchange differences arising on translation		**170,220**	187,208
Available-for-sale financial assets			
Fair value (losses) gains arising during the year		**(80,024)**	24,609
Reclassification adjustment upon impairment		**53,425**	–
Release on deemed disposal of partial interest in associates		**(20)**	(108)
Share of other comprehensive income of associates			
Exchange differences arising on translation		**163,334**	125,442
Fair value (losses) gains on available-for-sale financial assets		**(328,085)**	157,528
Other comprehensive (expense) income for the year (net of tax)		**(21,150)**	494,679
Total comprehensive (expense) income for the year		**(68,663)**	927,862

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**152,252**	499,576
Non-controlling interests		**(199,765)**	(66,393)
		(47,513)	433,183
Total comprehensive income and expense attributable to:			
Owners of the Company		**91,479**	950,476
Non-controlling interests		**(160,142)**	(22,614)
		(68,663)	927,862
Earnings per share	14		
– Basic		**1.78 HK cents**	6.11 HK cents
– Diluted		**1.78 HK cents**	6.05 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Investment properties	15	**41,835**	34,234
Property, plant and equipment	16	**12,179,608**	12,096,114
Prepaid lease rentals	17	**359,937**	357,078
Intangible asset	19	**–**	–
Mining assets	18	**184,825**	179,593
Goodwill	19	**146,015**	168,015
Interests in associates	22	**7,573,677**	6,742,974
Available-for-sale investments	23	**187,836**	261,931
Deferred tax assets	35	**45,822**	46,827
Other financial assets	29	**585,738**	367,942
Deposits for acquisition of property, plant and equipment	24	**84,268**	178,396
Pledged bank deposits	30	**467,547**	–
		21,857,108	20,433,104
CURRENT ASSETS			
Inventories	25	**4,068,485**	3,491,190
Trade and bill receivables	26	**2,221,527**	1,622,373
Trade receivables from related companies	27	**966,230**	749,972
Prepayments, deposits and other receivables	26	**908,807**	1,006,681
Prepaid lease rentals	17	**7,912**	7,680
Amounts due from related companies	27	**55,476**	108,044
Amount due from an associate	27	**10,750**	17,756
Amount due from a non-controlling shareholder of a subsidiary	27	**3,702**	3,526
Amount due from ultimate holding company of a shareholder	28	**4,610**	1,887
Other financial assets	29	**308,102**	202,195
Restricted and pledged bank deposits	30	**625,996**	281,486
Bank balances and cash	31	**1,846,927**	1,702,696
		11,028,524	9,195,486
CURRENT LIABILITIES			
Trade and bill payables	32	**3,172,522**	2,966,135
Trade payables to related companies	27	**296,968**	760,045
Trade payables to ultimate holding company of a shareholder	28	**2,849,955**	1,074,108
Other payables, provision and accrued liabilities	32	**1,522,858**	1,802,613
Tax payable		**208,484**	218,457
Amounts due to related companies	27	**380,685**	296,140
Amount due to ultimate holding company of a shareholder	28	**103,069**	98,873
Bank borrowings – due within one year	33	**9,823,661**	8,845,339
Other financial liabilities	29	**5,173**	–
Loans from ultimate holding company of a shareholder	34	**1,009,995**	968,868
		19,373,370	17,030,578
NET CURRENT LIABILITIES		**(8,344,846)**	(7,835,092)
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,512,262**	12,598,012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	33	**2,363,941**	1,888,612
Deferred tax liabilities	35	**33,034**	12,139
		2,396,975	1,900,751
		11,115,287	10,697,261
CAPITAL AND RESERVES			
Share capital	36	**1,790,661**	1,635,076
Share premium and reserves		**8,357,720**	7,932,018
Equity attributable to owners of the Company		**10,148,381**	9,567,094
Non-controlling interests		**966,906**	1,130,167
		11,115,287	10,697,261

The consolidated financial statements on pages 55 to 172 were approved and authorised for issue by the Board of Directors on 22 March 2012 and are signed on its behalf by:

Li Shaofeng
DIRECTOR

Zhang Wenhui
DIRECTOR

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**3,631,419**	2,859,179
Investment in an associate	22	**4,876**	4,876
Amounts due from subsidiaries	21	**4,869,738**	4,905,784
Pledged bank deposits	30	**375,000**	–
Other financial assets	29	**585,738**	367,942
		9,466,771	8,137,781
CURRENT ASSETS			
Other receivables	26	**1,323**	1,105
Amounts due from related companies	27	**200**	8
Amount due from a subsidiary	21	**80,000**	–
Other financial assets	29	**308,102**	202,195
Bank balances and cash	31	**598,587**	426,090
		988,212	629,398
CURRENT LIABILITIES			
Other payables and accrued liabilities	32	**7,606**	3,217
Amounts due to subsidiaries	21	**266,201**	151,193
Bank borrowings – due within one year	33	**1,441,754**	2,444,652
Other financial liabilities	29	**147,050**	162,518
		1,862,611	2,761,580
NET CURRENT LIABILITIES		**(874,399)**	(2,132,182)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,592,372**	6,005,599
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	33	**1,455,130**	–
		7,137,242	6,005,599
CAPITAL AND RESERVES			
Share capital	36	**1,790,661**	1,635,076
Share premium and reserves	38	**5,346,581**	4,370,523
		7,137,242	6,005,599

Li Shaofeng
DIRECTOR

Zhang Wenhui
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note a)	Exchange reserve HK$'000	Share option reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	1,635,076	3,133,915	22,611	33,326	564,805	229,975	729,477	8,391	51,979	2,171,681	8,581,236	1,159,582	9,740,818
Profit for the year	–	–	–	–	–	–	–	–	–	499,576	499,576	(66,393)	433,183
Exchange differences arising on translation	–	–	–	–	143,429	–	–	–	–	–	143,429	43,779	187,208
Fair value gains on available-for-sale investments	–	–	–	–	–	–	–	24,609	–	–	24,609	–	24,609
Share of other comprehensive income of associates	–	–	–	–	125,442	–	–	157,528	–	–	282,970	–	282,970
Release on deemed disposal of partial interest in associates	–	–	–	–	(26)	–	–	(82)	–	–	(108)	–	(108)
Total comprehensive income and expense for the year	–	–	–	–	268,845	–	–	182,055	–	499,576	950,476	(22,614)	927,862
Release on deemed disposal of partial interest in associates	–	–	–	(1)	–	–	(3)	–	–	4	–	–	–
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	212	–	–	(212)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(6,801)	(6,801)
Recognition of equity-settled share based payment	–	–	–	–	–	35,382	–	–	–	–	35,382	–	35,382
At 31 December 2010	1,635,076	3,133,915	22,611	33,325	833,650	265,357	729,686	190,446	51,979	2,671,049	9,567,094	1,130,167	10,697,261
Loss for the year	–	–	–	–	–	–	–	–	–	152,252	152,252	(199,765)	(47,513)
Exchange differences arising on translation	–	–	–	–	130,597	–	–	–	–	–	130,597	39,623	170,220
Fair value losses on available-for-sale investments	–	–	–	–	–	–	–	(80,024)	–	–	(80,024)	–	(80,024)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	–	53,425	–	–	53,425	–	53,425
Share of other comprehensive income of associates	–	–	–	–	163,334	–	–	(328,085)	–	–	(164,751)	–	(164,751)
Release on deemed disposal of partial interest in associates	–	–	–	–	(20)	–	–	–	–	–	(20)	–	(20)
Total comprehensive income and expense for the year	–	–	–	–	293,911	–	–	(354,684)	–	152,252	91,479	(160,142)	(68,663)
Release on deemed disposal of partial interest in associates	–	–	–	–	–	–	(3)	–	–	3	–	–	–
Reversal of enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	(3,311)	–	–	3,311	–	–	–
Shares issue at premium	155,585	396,741	–	–	–	–	–	–	–	–	552,326	–	552,326
Shares issue expenses	–	(30)	–	–	–	–	–	–	–	–	(30)	–	(30)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	(81,754)	(81,754)	–	(81,754)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(3,119)	(3,119)
Recognition of equity-settled share based payment	–	–	–	–	–	19,266	–	–	–	–	19,266	–	19,266
At 31 December 2011	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(164,238)	51,979	2,744,861	10,148,381	966,906	11,115,287

Notes:

(a) Revaluation reserve mainly 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.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	775	399,566
Adjustments for:		
Interest income	(33,664)	(26,966)
Interest expenses	568,223	444,527
Share of results of associates	(563,938)	(476,629)
Share-based payments	19,266	35,382
Loss on deemed acquisition/dilution of interests in associates	420	1,680
Gain from changes in fair value of investment properties	(6,576)	(1,910)
Gain arising from fair value adjustment on acquisition of additional interest in an associate	(108,142)	–
Loss (gain) on disposal of property, plant and equipment	1,355	(131)
Depreciation of property, plant and equipment	828,336	684,567
Amortisation of mining assets	2,339	1,888
Amortisation of prepaid lease rentals	8,364	7,871
Change in fair value of derivative financial instruments	(498,024)	(286,196)
Impairment loss on goodwill	22,000	–
Impairment loss recognised in respect of available-for-sale investments	53,425	–
Provision for onerous contracts	47,200	–
Allowance (reversal of allowance) for inventories	66,659	(201,751)
Reversal of allowance of trade and other receivables and trade receivables from related companies, net	(100)	(5,641)
Operating cash flows before movements in working capital	407,918	576,257
Increase in inventories	(451,135)	(1,453,559)
Increase in trade and bill receivables	(591,122)	(798,882)
Decrease (increase) in prepayments, deposits and other receivables	188,579	(652,745)
(Increase) decrease in trade receivables and amounts due from related companies	(166,452)	50,384
(Increase) decrease in amount due from ultimate holding company of a shareholder	(2,643)	191,704
Increase in amount due from an associate	(5,424)	–
Decrease in other financial assets/liabilities	–	1,610
Increase in trade and bill payables	314,186	1,747,166
(Decrease) increase in other payables, provision and accrued liabilities	(418,067)	356,103
Increase in trade payables to ultimate holding company of a shareholder	1,770,773	1,069,817
(Decrease) increase in trade payables to related companies	(490,413)	462,888
Cash generated from operations	556,200	1,550,743
Interest paid	(631,239)	(531,575)
Income taxes paid	(39,189)	(4,180)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(114,228)	1,014,988

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES		
(Increase) decrease in restricted bank deposits	**(209,166)**	11,153
Placement of pledged bank deposits	**(590,943)**	–
Purchase of property, plant and equipment	**(170,062)**	(1,262,035)
Advance of entrusted loan receivables	**(86,144)**	–
Deposits paid for acquisition of property, plant and equipment	**(84,268)**	(145,911)
Dividends received from an associate	**229,625**	227,531
Interest received	**33,664**	26,966
Repayment from (advance to) an associate	**13,184**	(17,756)
Proceeds from disposal of property, plant and equipment	**136**	847
Decrease in amount due to a shareholder	**–**	(191,750)
Addition of prepaid lease rentals	**–**	(28,909)
NET CASH USED IN INVESTING ACTIVITIES	**(863,974)**	(1,379,864)
FINANCING ACTIVITIES		
New borrowings raised	**10,841,309**	6,976,776
Advance from related companies	**84,545**	26,344
Advance from (repayment to) ultimate holding company of a shareholder	**4,196**	(39)
Repayment of bank borrowings	**(9,742,065)**	(6,467,342)
Payment of dividends	**(81,754)**	–
Dividends paid to non-controlling shareholders of a subsidiary	**(3,119)**	(6,801)
Expenses on issue of shares	**(30)**	–
Loans from ultimate holding company of a shareholder	**–**	142,046
NET CASH FROM FINANCING ACTIVITIES	**1,103,082**	670,984
NET INCREASE IN CASH AND CASH EQUIVALENTS	**124,880**	306,108
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,702,696**	1,372,258
Effect of foreign exchange rate changes	**19,351**	24,330
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**1,846,927**	1,702,696

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 2011, and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). Shougang Corporation, together with its associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange) other than the Company and its subsidiaries (collectively referred to as the "Group"), will hereinafter be referred to as the "Shougang Group". The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information of the annual report.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in note 48.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group had net current liabilities of approximately HK$8,344,846,000 as at 31 December 2011 of which current liabilities of approximately HK$9,823,661,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group, including the Group's unutilised banking facilities, the Group's ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the Directors of the Company are of the opinion that the Group has sufficient working capital to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these consolidated financial statements have been prepared on a going concern basis.

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

New and revised HKFRSs applied in the current year

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures, except for partial exemption of paragraph 25-27
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, 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.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are government-related entities. In its annual consolidated financial statements for the year ended 31 December 2010, the Group had applied early the partial exemption from the disclosure requirements for government-related entities. In the current year, the Group has applied for the first time the revised definition of a related party as set out in HKAS 24 (as revised in 2009) which has had no impact on the identification of related parties of the Group.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions and the disclosure set out in these consolidated financial statements for the current and prior years.

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

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 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Based on the Group's financial assets and financial liabilities as at 31 December 2011, the Directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group's available-for-sale investments and is not likely to have significant impact on the amounts of the Group's other financial assets and financial liabilities. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

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

Key requirements of these five standards are described below.

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

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

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

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

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

Amendments to HKAS 12 Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The Directors anticipate that the adoption of the amendments to HKAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised regarding the Group's investment properties of which the measurement of deferred tax currently reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover the carrying amount. Upon application of the amendments to HKAS 12, the carrying amounts of investment properties are presumed to be recovered through sales unless the presumption is rebutted. The Directors are still in the process of assessing the impact of the amendments to the Group.

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

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

HK(IFRIC) – Int 20 is effective for annual periods beginning on or after 1 January 2013 with transitional provisions. The Directors anticipate that the Interpretation will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Directors are still in the process of assessing the impact of the adoption of the interpretation to the Group.

The Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisition on or after 1 January 2005

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in subsidiaries

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

Interests in associates

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

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.

Acquisition of additional interest in an associate

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

Property, plant and equipment

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

Depreciation is recognised so as to write off the costs of items of property, plant and equipment, other than properties under construction less their residual values, over their estimated useful lives, using the straight line method, at the following rates per annum. 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.

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%

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Mining Assets

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

Investment properties

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire base 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.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease rentals" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Borrowing costs

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

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

Retirement benefits costs

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

Taxation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible asset

Deferred product design fees

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

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

Inventories

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

Financial instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 29.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in security investment reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the security investment reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in security investment reserve.

Financial liabilities and equity instruments

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

Equity instruments

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are held for trading.

A financial liability is classified as held for trading if:

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

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

Other financial liabilities

Other financial liabilities including trade and bill 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.

Derivative financial instruments

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

Forward contracts to acquire an associate or additional interests in an existing associate at a future acquisition date are accounted 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial guarantee contracts

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

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

Derecognition

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 neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 in its entirety, 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 is recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

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

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

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

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

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

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

5. 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.

Renewal of mining assets

As at 31 December 2011, the carrying amount of the Group's mining assets is approximately HK$184,825,000 (2010: HK$179,593,000). Mining assets with a carrying amount of approximately HK$128,001,000 (2010: HK$125,083,000) which the related mining right expired in December 2011 and the renewal of the mining right is in progress as confirmed by the relevant government authority. The Directors are of the opinion that the renewal will be completed in mid 2012 and with minimal cost. Where the mining right cannot be renewed, an impairment loss may arise.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The movement in the allowance for doubtful debts recognised during the year is set out in note 26.

Allowance for inventories

As at 31 December 2011, the carrying amount of the Group's inventories is HK$4,068,485,000 (2010: HK$3,491,190,000). The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions. If the conditions of inventory of the Group become no longer suitable for use in production, an additional allowance may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$2,754 million, of which HK$332 million is subject to confirmation by Hong Kong Inland Revenue Department ("IRD") and HK$774 million is subject to confirmation by the State Administration of Taxation of the PRC ("SAT") (2010: HK$1,819 million, of which HK$285 million was subject to IRD's confirmation and HK$479 million is subject to SAT's confirmation) due to the unpredictability of future profit streams. In cases where probable taxable profit will be available against which the deductible temporary differences can be utilised, a deferred tax asset may be recognised.

Fair value of commodity forward contracts to purchase iron ore

The fair value for the commodity forward contracts to purchase iron ore is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of those that developed the valuation techniques. However, it should be noted that some inputs, such as forecasted Platts Iron Ore Index, the forecasted annual production of the mines and the lives of the mines, the spread between Australia – capesize vessel freight rate and Australia – China panamax vessel freight rate and a discount rate of 17% (2010: 21%), 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$893,840,000 (2010: HK$570,137,000). Details of the commodity forward contracts are disclosed in note 29.

Depreciation

The carry value of the Group's property, plant and equipment as at 31 December 2011 was approximately HK$12,179,608,000 (2010: HK$12,096,114,000). The Group depreciates the property, plant and equipment on a straight-line basis over their estimated useful lives of 3 to 50 years, after taking into account their estimated residual value, commencing from the date the property, plant and equipment is available for use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. If the estimated useful life of property, plant and equipment did not reflect its actual useful life, additional depreciation may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is HK$146,015,000, net of accumulated impairment loss of HK$72,000,000 (2010: HK$168,015,000, net of accumulated impairment loss of HK$50,000,000). Details of the value in use calculation are disclosed in note 20.

6. REVENUE AND SEGMENT INFORMATION

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

	2011	2010
	HK$'000	HK$'000
Sale of steel products	**14,761,402**	11,143,193
Vessel chartering and floating cranes leasing income	**105,874**	207,142
Sale of iron ore	**5,430,330**	4,494,866
Sale of coal and coke	**1,040,300**	–
Management services income	**4,737**	5,075
	21,342,643	15,850,276

Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

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

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

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results

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

For the year ended 31 December 2011

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	14,281,937	105,874	5,461,776	1,488,319	4,737	21,342,643
Inter-segment sales	7,476	34,692	–	1,061,584	–	1,103,752
Segment revenue	14,289,413	140,566	5,461,776	2,549,903	4,737	22,446,395
Eliminations						(1,103,752)
Group revenue						21,342,643

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Segment (loss) profit	(338,197)	(59,424)	377,399	19,447	4,980	4,205
Interest income						33,664
Central administration costs						(81,933)
Finance costs						(568,223)
Loss from change in fair value of derivative financial instruments						(5,173)
Impairment loss on available-for-sale investments						(53,425)
Loss on deemed acquisition/dilution of interests in associates						(420)
Gain arising from fair value adjustment on acquisition of additional interest in an associate						108,142
Share of results of associates						563,938
Profit before taxation						775

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31 December 2010

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	10,512,275	207,142	3,591,992	1,533,792	5,075	15,850,276
Inter-segment sales	113,335	–	–	822,843	–	936,178
Segment revenue	10,625,610	207,142	3,591,992	2,356,635	5,075	16,786,454
Eliminations						(936,178)
Group revenue						15,850,276

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Segment (loss) profit	(227,444)	45,365	484,396	152,523	792	455,632
Interest income						26,966
Central administration costs						(113,528)
Finance costs						(444,527)
Gain from change in fair value of derivative financial instruments						74
Loss on dilution of interests in an associate						(1,680)
Share of results of associates						476,629
Profit before taxation						399,566

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

Segment assets and liabilities

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

	2011 HK$'000	2010 HK$'000
Segment assets		
Steel manufacturing	18,069,890	17,051,386
Shipping operations	46,174	25,630
Commodity trading	1,841,738	1,311,422
Mineral exploration	2,169,882	2,180,773
Others	5,571	5,709
Total segment assets	22,133,255	20,574,920
Interests in associates	7,573,677	6,742,974
Available-for-sale investments	187,836	261,931
Deferred tax assets	45,822	46,827
Amount due from an associate – non-trade	4,572	17,756
Restricted and pledged bank deposits	1,093,543	281,486
Bank balances and cash	1,846,927	1,702,696
Consolidated assets	32,885,632	29,628,590

6. REVENUE AND SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

	2011 HK$'000	2010 HK$'000
Segment liabilities		
Steel manufacturing	**6,399,279**	5,406,163
Shipping operations	**79,798**	44,456
Commodity trading	**431,180**	698,587
Mineral exploration	**921,193**	447,663
Others	**10,853**	6,032
Total segment liabilities	**7,842,303**	6,602,901
Amounts due to related companies – non-trade	**380,685**	296,140
Amount due to ultimate holding company of a shareholder – non-trade	**103,069**	98,873
Bank borrowings	**12,187,602**	10,733,951
Tax payable	**208,484**	218,457
Deferred tax liabilities	**33,034**	12,139
Other financial liabilities	**5,173**	–
Loans from ultimate holding company of a shareholder	**1,009,995**	968,868
Consolidated liabilities	**21,770,345**	18,931,329

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

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

6. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information

2011

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

2010

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets (Note)	1,131,931	222	366	390,630	235	1,523,384
Depreciation of property, plant and equipment	626,258	1,756	145	55,989	419	684,567
Amortisation of mining assets	–	–	–	1,888	–	1,888
Amortisation of prepaid lease rentals	7,733	–	89	49	–	7,871
(Gain) loss on disposal of property, plant and equipment	(164)	–	–	–	33	(131)
Reversal of allowance for inventories	(201,751)	–	–	–	–	(201,751)
Change in fair value of commodity forward contracts	–	–	(286,313)	–	–	(286,313)
Fair value of commodity forward contracts upon delivery	–	–	139,313	–	–	139,313

Note: Non-current assets excluded financial instruments and deferred tax assets.

6. REVENUE AND SEGMENT INFORMATION (continued)

Revenue from major products and services

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

	2011 HK$'000	2010 HK$'000
Steel plates	**14,654,581**	10,324,234
Iron ore	**5,430,330**	4,494,866
Coal and coke	**1,040,300**	–
Steel slabs	**106,821**	818,959
Vessel chartering and floating cranes leasing	**105,874**	207,142
Management services	**4,737**	5,075
	21,342,643	15,850,276

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
PRC, excluding Hong Kong (country of domicile)	**17,115,584**	12,744,884	**13,007,636**	13,016,467
Hong Kong	**95,224**	200,564	**7,562,529**	6,739,937
Australia	**3,683,649**	2,837,647	**–**	–
Korea	**182,600**	67,074	**–**	–
Others	**265,586**	107	**–**	–
	21,342,643	15,850,276	**20,570,165**	19,756,404

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2011 and 2010, the customer which accounted for 10% or more of the Group's revenue is Shougang Group. Sales to Shougang Group under the segments of steel manufacturing, commodity trading and mineral exploration contributed HK$4,997,146,000 (2010: HK$3,642,508,000) to the Group's revenue.

7. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Interest income on bank deposits	**33,664**	26,966
Scrap sales income	**4,476**	3,288
Refund of value added tax	**4,141**	18,028
Recovery of trade receivables previously written off	**2,103**	–
Compensation income	**439**	679
Sundry income	**18,890**	12,835
	63,713	61,796

8. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	HK$'000
Impairment loss on available-for-sale investments	**(53,425)**	–
Provision for onerous contracts (note 32)	**(47,200)**	–
Impairment loss on goodwill	**(22,000)**	–
(Loss) gain on disposal of property, plant and equipment	**(1,355)**	131
Loss on deemed acquisition/dilution of interests in associates	**(420)**	(1,680)
Gain arising from fair value adjustment on acquisition of additional interest in an associate (note 22)	**108,142**	–
Net foreign exchange gain (loss)	**10,479**	(33,216)
Gain from changes in fair value of investment properties	**6,576**	1,910
Reversal of allowance of trade and other receivables and trade receivables from related companies, net	**100**	5,641
	897	(27,214)

9. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**517,526**	468,304
Other borrowings wholly repayable within five years	**54,906**	43,540
Total borrowing costs	**572,432**	511,844
Add: Factoring cost for discounted receivables without recourse	**65,802**	19,212
Less: Amounts capitalised	**(70,011)**	(86,529)
	568,223	444,527

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate of 6.01% (2010: 5.06%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE (CREDIT)

	2011 HK$'000	2010 HK$'000
Current tax:		
– Hong Kong	**140**	–
– PRC Enterprise Income Tax	**7,958**	3,883
	8,098	3,883
Underprovision in prior year:		
– PRC Enterprise Income Tax (Note)	**18,308**	–
Deferred tax (note 35):		
Current year	**21,882**	(37,500)
Income tax expense (credit)	**48,288**	(33,617)

10. INCOME TAX EXPENSE (CREDIT) (continued)

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

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

	2011 HK$'000	2010 HK$'000
Profit before taxation	**775**	399,566
Taxation at the income tax rate of 25% (2010: 25%) (Note)	**194**	99,891
Tax effect of share of results of associates	**(140,985)**	(119,157)
Tax effect of expenses not deductible for tax purpose	**84,064**	31,507
Tax effect of income not taxable for tax purpose	**(155,237)**	(140,006)
Tax effect of tax loss not recognised	**236,519**	155,627
Tax effect of deductible temporary differences not recognised	**11,993**	689
Tax effect of utilisation of tax losses previously not recognised	**(2,458)**	(8,244)
Tax effect of utilisation of deductible temporary differences previously not recognised	**(4,037)**	(53,924)
Underprovision in respect of prior year	**18,308**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(73)**	–
Tax expense (credit) for the year	**48,288**	(33,617)

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

11. (LOSS) PROFIT FOR THE YEAR

	2011 HK$'000	2010 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**474,019**	359,886
– retirement benefits scheme contributions	**57,976**	44,229
– share-based payments	**19,266**	35,382
	551,261	439,497
Amortisation of mining assets, included in cost of sales	**2,339**	1,888
Amortisation of prepaid lease rentals	**8,364**	7,871
Depreciation of property, plant and equipment	**828,336**	684,567
Total depreciation and amortisation	**839,039**	694,326
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	**787**	(191)
– change in fair value of interest rate swap contracts	**4,386**	–
– change in fair value of option to subscribe for shares of a listed company in Australia	**–**	117
– change in fair value of commodity forward contracts	**(503,197)**	(286,313)
	(498,024)	(286,387)
Auditor's remuneration	**3,226**	2,652
Cost of inventories recognised as expenses	**21,075,802**	14,982,753
Fair value of commodity forward contracts upon delivery, included in cost of sales	**179,494**	139,313
Allowance (reversal of allowance) for inventories, net, included in cost of sales (Note)	**66,659**	(201,751)
Non-profit tax expenses included in administrative expenses	**33,950**	27,353
Research and development cost recognised as expenses	**6,143**	4,971
Minimum lease payments under operating leases in respect of land and buildings	**3,451**	3,267
Rental income from investment properties under operating leases, less outgoings of HK$194,000 (2010: HK$209,000)	**(1,653)**	(1,147)

Note: During the year ended 31 December 2010, there was significant increase in net realisable value of finished goods because the market price of certain finished goods increased. As a result, a reversal of allowance for inventories of HK$201,751,000 related to inventories sold had been recognised in cost of sales in that year.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2010: eleven) Directors were as follows:

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

	Wang Qinghai HK$'000	Cao Zhong HK$'000 (Note b)	Li Shaofeng HK$'000 (Note c)	Zhang Wenhui HK$'000	Chen Zhouping HK$'000	Luo Zhenyu HK$'000 (Note c)	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Wong Kun Kim HK$'000	Leung Kai Cheung HK$'000	Total 2010 HK$'000
2010												
Fees	150	100	–	–	–	–	150	230	330	330	330	1,620
Other emoluments												
Salaries and other benefits	–	1,858	2,854	2,411	3,173	796	–	–	–	–	–	11,092
Contributions to retirement benefits schemes	–	93	318	263	283	40	–	–	–	–	–	997
Performance related incentive payments (Note a)	–	–	3,500	2,850	2,500	–	–	–	–	–	–	8,850
Share-based payments	–	10,115	2,920	5,447	7,003	3,890	–	–	–	–	–	29,375
Total emoluments	150	12,166	9,592	10,971	12,959	4,726	150	230	330	330	330	51,934

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Notes:

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

(b) According to the announcement of the Company, Mr. Cao Zhong has ceased to act as an Executive Director and the Managing Director of the Company effective from 10 May 2010, and has been redesignated as a Non-executive Director and the Vice Chairman of the Company on the same date.

(c) According to the announcement of the Company, Mr. Li Shaofeng has been appointed as an Executive Director and Managing Director of the Company effective from 10 May 2010; and Mr. Luo Zhenyu has resigned as an Executive Director and the Deputy Managing Director of the Company on the same date.

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 2011 and 2010.

No Directors waived any emoluments in the years ended 31 December 2011 and 2010.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2010: five) were Directors of the Company whose emoluments are included in the disclosures in note 12(a) above. The emolument of the remaining one (2010: nil) individual is as follows:

	2011	2010
	HK$'000	HK$'000
Salaries and other benefits	**1,325**	–
Contributions to retirement benefits scheme	**112**	–
Performance related incentive payments (Note)	**920**	–
Share-based payments	**333**	–
	2,690	–

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

13. DIVIDENDS

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

The Board of Directors did not declare final dividend for the year ended 31 December 2011 (2010: final dividend of HK1 cent per ordinary share in respect of the year ended 31 December 2010).

14. EARNINGS PER SHARE

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

	2011	2010
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**152,252**	499,576
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	**(439)**	(4,250)
Earnings for the purpose of diluted earnings per share	**151,813**	495,326

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**8,531,308,549**	8,175,381,214
Effect of dilutive potential ordinary shares on share options	**8,012,370**	10,029,480
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**8,539,320,919**	8,185,410,694

The computation of diluted earnings per share does not assume the exercise of certain options as the relevant exercise price was higher than the average market price for shares for both 2011 and 2010.

15. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2010	31,477
Exchange adjustments	847
Changes in fair value recognised in profit or loss	1,910
At 31 December 2010	34,234
Exchange adjustments	1,025
Changes in fair value recognised in profit or loss	6,576
At 31 December 2011	41,835

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been determined by the Directors with reference to valuation carried out on that date by independent qualified professional valuers not connected with the Group.

The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions and where appropriate by the capitalization of the rental income from the properties.

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

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

	2011	2010
	HK$'000	HK$'000
Hong Kong and held under long lease	**14,376**	12,690
The PRC and held under medium-term lease	**27,459**	21,544
	41,835	34,234

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2010	3,396,273	60,784	98,070	7,444,794	292,683	30,961	1,681,357	13,004,922
Exchange adjustments	138,443	2,334	3,998	312,838	12,128	858	70,892	541,491
Additions	1,704	94	8,795	17,802	6,463	–	2,086,746	2,121,604
Transfer from construction in progress	28,399	–	17,110	1,562,181	5,554	–	(1,613,244)	–
Disposals	–	–	(253)	(69)	(1,264)	–	–	(1,586)
At 31 December 2010	3,564,819	63,212	127,720	9,337,546	315,564	31,819	2,225,751	15,666,431
Exchange adjustments	151,332	2,456	5,317	396,376	13,209	1,278	94,761	664,729
Additions	2,699	491	3,707	9,835	1,190	–	400,547	418,469
Transfer from construction in progress	388,159	–	1,747	305,954	3,482	–	(699,342)	–
Disposals	(1,383)	–	(6,510)	(15)	(736)	–	–	(8,644)
At 31 December 2011	4,105,626	66,159	131,981	10,049,696	332,709	33,097	2,021,717	16,740,985
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2010	388,684	38,491	48,271	2,140,671	111,671	25,342	–	2,753,130
Exchange adjustments	18,653	1,564	2,221	104,641	5,747	664	–	133,490
Provided for the year	87,145	394	10,075	541,066	44,607	1,280	–	684,567
Eliminated on disposals	–	–	(182)	(58)	(630)	–	–	(870)
At 31 December 2010	494,482	40,449	60,385	2,786,320	161,395	27,286	–	3,570,317
Exchange adjustments	23,882	1,649	2,824	132,653	7,753	1,116	–	169,877
Provided for the year	128,773	432	15,221	635,497	47,132	1,281	–	828,336
Eliminated on disposals	–	–	(6,467)	(6)	(680)	–	–	(7,153)
At 31 December 2011	647,137	42,530	71,963	3,554,464	215,600	29,683	–	4,561,377
CARRYING VALUES								
At 31 December 2011	3,458,489	23,629	60,018	6,495,232	117,109	3,414	2,021,717	12,179,608
At 31 December 2010	3,070,337	22,763	67,335	6,551,226	154,169	4,533	2,225,751	12,096,114

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

17. PREPAID LEASE RENTALS

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	**367,006**	363,825
Long-term leasehold land in Hong Kong	**843**	933
	367,849	364,758
Analysed for reporting purposes as:		
Current asset	**7,912**	7,680
Non-current asset	**359,937**	357,078
	367,849	364,758

18. MINING ASSETS

	THE GROUP
	HK$'000
COST	
At 1 January 2010	177,178
Exchange adjustments	7,321
At 31 December 2010	184,499
Exchange adjustments	7,962
At 31 December 2011	192,461
AMORTISATION	
At 1 January 2010	2,966
Exchange adjustments	52
Charge for the year	1,888
At 31 December 2010	4,906
Exchange adjustments	391
Charge for the year	2,339
At 31 December 2011	7,636
CARRYING VALUES	
At 31 December 2011	184,825
At 31 December 2010	179,593

18. MINING ASSETS (continued)

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

Mine	Location	Expiry date
Hongda Iron Ore Mine	Qinglong Manchu Autonomous County, Hebei Province	December 2011 (note)
Chagou Iron Ore Mine	Qinglong Manchu Autonomous County, Hebei Province	December 2013

The mining activities of Hongda Iron Ore Mine commenced in September 2009 and amortisation was charged by using the units of production method, while Chagou Iron Ore Mine is in the development stage as the construction of infrastructure for mining is in progress and the Directors are of the opinion that mining activities will commence in mid 2012.

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

Note: The Group is in the process of renewing the mining right of Hongda Iron Ore Mine and the renewal of the mining right is in progress as confirmed by the relevant government authority. The Directors are of the opinion that the renewal will be completed in mid 2012.

19. GOODWILL/INTANGIBLE ASSET

Goodwill

	THE GROUP HK$'000
COST	
At 1 January 2010, 31 December 2010 and 31 December 2011	218,015
IMPAIRMENT	
At 1 January 2010 and 31 December 2010	50,000
Impairment loss recognised in the year	22,000
At 31 December 2011	72,000
CARRYING VALUES	
At 31 December 2011	146,015
At 31 December 2010	168,015

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

19. GOODWILL/INTANGIBLE ASSET (continued)

Intangible Asset

The Group's intangible asset represents deferred product design fees which had been fully amortised as at 31 December 2011 and 2010.

20. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, the goodwill set out in note 19 has been allocated to two individual cash generating units (CGUs) in the steel manufacturing business operating segment, which includes the Group's subsidiaries – Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and Shouqin. The carrying amounts of goodwill as at 31 December 2011 allocated to these units are as follows:

	Goodwill	
	2011	2010
	HK$'000	HK$'000
Steel manufacturing – Qinhuangdao Plate Mill (Unit A)	**144,489**	144,489
Steel manufacturing – Shouqin (Unit B)	**1,526**	23,526
	146,015	168,015

During the year ended 31 December 2011, based on the recoverable amounts of the Units A and B, the management of the Group determined that approximately HK$22,000,000 (2010: nil) of goodwill allocated to Unit B was impaired.

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 11.63% for both units A and B. Both sets of cash flows beyond the five-year period are extrapolated with zero growth rate. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period which have been determined based on past performance and management's expectations for the market development.

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

	THE COMPANY	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**3,086,800**	2,534,483
Deemed capital contribution (Note)	**1,268,371**	978,863
Less: Impairment loss recognised	**(723,752)**	(654,167)
	3,631,419	2,859,179
Amounts due from subsidiaries	**5,287,627**	5,243,673
Less: Impairment losses recognised	**(337,889)**	(337,889)
	4,949,738	4,905,784
Analysed for reporting purpose as:		
Current asset	**80,000**	–
Non-current asset	**4,869,738**	4,905,784
	4,949,738	4,905,784
Amounts due to subsidiaries	**266,201**	151,193

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

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

Amount due from a subsidiary classified as current represents dividend receivable from a subsidiary and is unsecured, interest-free and repayable on demand.

Amount due to a subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 December 2011 are set out in note 48.

22. INTERESTS/INVESTMENT IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of investment in associates				
Listed in Hong Kong	**6,834,092**	6,173,623	**4,876**	4,876
Unlisted	**20,448**	20,448	**–**	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	**1,083,350**	913,116	**–**	–
	7,937,890	7,107,187	**4,876**	4,876
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments (note)	**(364,213)**	(364,213)	**–**	–
	7,573,677	6,742,974	**4,876**	4,876
Fair value of listed investments	**4,076,817**	7,646,860	**2,509**	5,085

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

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

22. INTERESTS/INVESTMENT IN ASSOCIATES (continued)

During the year ended 31 December 2011, the Group's interest in an associate, Shougang Resources has been increased by 0.01% as Shougang Resources has repurchased its own shares and deemed acquisition resulted (2010: diluted by 0.04% upon exercise of share options by the options holders).

During the year ended 31 December 2011, the Group's interest in an associate, Shougang Concord Century Holdings Limited ("Shougang Century"), has been diluted by 0.01% (2010: diluted by 0.01%) upon exercise of share options of Shougang Century by the options holders and dilution resulted.

Note: The amount represents unrealised gain on disposal of available-for-sale investments to the Group's associate, Shougang Resources, which is determined by the equity interest of Shougang Resources held by the Group upon completion of the disposal of available-for-sale investments to the associate in 2009. As at 31 December 2011, the available-for-sale investments are continuously held by Shougang Resources.

Included in the cost of investment in associates is goodwill of approximately HK$2,257,169,000 (2010: HK$2,092,382,000), of which approximately HK$164,787,000 arising on acquisition of an associate during the year ended 31 December 2011. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2010 and 31 December 2010	2,092,382
Arising on acquisition of additional interest in an associate	164,787
At 31 December 2011	2,257,169

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

	2011 HK$'000	2010 HK$'000
Total assets	**33,613,153**	32,523,609
Total liabilities	**(9,172,864)**	(9,046,614)
Net assets	**24,440,289**	23,476,995
Group's share of net assets of associates	**5,680,721**	5,014,805
Revenue	**9,006,108**	7,222,752
Profit for the year	**2,196,364**	1,894,340
Other comprehensive income	**(634,630)**	1,111,105
Group's share of profits and other comprehensive income of associates for the year	**399,187**	759,599

Details of the associates are set out in note 48.

22. INTERESTS/INVESTMENT IN ASSOCIATES (continued)

The respective carrying amounts of the Group's investment in the listed associates are tested for impairment in entirety in accordance with HKAS 36 Impairment of Assets as a single asset by comparing the respective recoverable amount (higher of value in use and fair value less costs to sell) with carrying amounts. As at 31 December 2011 and 2010, the recoverable amounts of the Group's listed associates are higher than the respective carrying amounts and thus no impairment loss is recognised.

23. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2011	2010
	HK$'000	HK$'000
Equity securities listed in Australia, at fair value (Note a)	**42,228**	122,252
Unlisted equity securities, at cost (Note b)	**145,608**	139,679
Total	**187,836**	261,931

Notes:

a. On 20 March 2007, Timefull Investments Limited ("Timefull"), a subsidiary of the Company entered into a share and option subscription agreement with Australasian Resources Limited ("ARH"), a company listed in Australia, whereby Timefull subscribed 28,000,000 newly-issued shares of ARH ("ARH Shares") at AUD1 each, representing approximately 6.1% (2010: 6.4%) of the enlarged issued share capital of ARH and 14 million call options were granted to Timefull at an exercise price of AUD1.5 ("ARH Option") at a consideration of AUD28 million (equivalent to approximately HK$187 million). The ARH Shares acquired was recognised as available-for-sale investments and the ARH Option was recognised as other financial asset and expired in 2010.

   As at 31 December 2011, based on the decline in the fair value of ARH shares below the initial cost of investment, an impairment loss of HK$53,425,000 has been provided as disclosed in note 8.

b. The above unlisted investments represent the Group's investment in 10% equity interest of unlisted equity securities issued by a private entity incorporated in the PRC, for which the principal activities are ship building, ship repairing and retrofitting. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

24. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balances represent deposits paid for acquisition of property, plant and equipment. Included in the amount, approximately HK$65,639,000 (2010: HK$108,513,000) was paid to the Shougang Group.

25. INVENTORIES

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Raw materials	**2,378,270**	2,146,671
Work in progress	**918,532**	627,754
Finished goods	**771,683**	716,765
	4,068,485	3,491,190

26. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Trade and bill receivables	**2,382,016**	1,783,474
Less: Allowance for doubtful debts	**(160,489)**	(161,101)
	2,221,527	1,622,373
Prepayments and deposits	**235,574**	415,069
Other receivables	**595,218**	599,631
Entrusted loan receivables (note)	**86,144**	–
Less: Allowance for doubtful debts	**(8,129)**	(8,019)
	908,807	1,006,681
	3,130,334	2,629,054

26. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Within 60 days	**2,059,263**	1,514,457
61 – 90 days	**43,712**	10,127
91 – 180 days	**44,630**	64,368
181 – 365 days	**73,922**	33,421
	2,221,527	1,622,373

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 bill receivables that are not past due nor impaired were of good credit quality at the end of the reporting period.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$162,264,000 (2010: HK$107,916,000) which are past due at the reporting date but for which the Group has not provided for allowance for doubtful debts as continuous repayment was noted subsequent to the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables is 182 days (2010: 172 days).

26. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
61 – 90 days	**43,712**	10,127
91 – 180 days	**44,630**	64,368
181 – 365 days	**73,922**	33,421
Total	**162,264**	107,916

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
At 1 January	**161,101**	166,228
Impairment losses recognised on receivables	**382**	41
Amounts written off as uncollectible	**(1,614)**	–
Impairment losses reversed	**(256)**	(6,029)
Exchange adjustments	**876**	861
At 31 December	**160,489**	161,101

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$160,489,000 (2010: HK$161,101,000) which have either been placed under liquidation or in severe financial difficulties.

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

26. TRADE AND BILL RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

The entrusted loan receivables are secured by certain assets of the specified borrowers, interest bearing at fixed-rates from 8% to 9% per annum. The amounts are repayable within twelve months from the end of the reporting period. As at 31 December 2011, no entrusted loan receivables have been past due but not impaired. The Directors considered that the entrusted loan borrowers have good credit quality.

All the Group's entrusted loan receivables are denominated in Renminbi, the functional currency of the relevant group entities.

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

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

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Within 60 days	**599,655**	734,527
61 – 90 days	**113,680**	1,198
91 – 180 days	**229,068**	1,104
181 – 365 days	**19,367**	7,601
1 – 2 years	**4,460**	5,542
	966,230	749,972

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

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

Included in these trade receivables from related companies are receivables with an aggregate carrying amount of HK$366,575,000 (2010: HK$15,445,000) which are past due at the reporting date but for which the Group has not provided allowance for doubtful debts. The Group does not hold any collateral over these balances. The average age of these receivables is 129 days (2010: 346 days).

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
61 – 90 days	**113,680**	1,198
91 – 180 days	**229,068**	1,104
181 – 365 days	**19,367**	7,601
1 – 2 years	**4,460**	5,542
Total	**366,575**	15,445

The Group has provided fully for all receivables with related companies over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable.

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

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
At 1 January	**27,280**	26,012
Impairment losses recognised on receivables	**–**	130
Exchange adjustments	**1,115**	1,138
At 31 December	**28,395**	27,280

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

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Within 90 days	**202,232**	694,076
91 – 180 days	**18,765**	8,276
181 – 365 days	**12,111**	836
1 – 2 years	**43,718**	18,541
Over 2 years	**20,142**	38,316
	296,968	760,045

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

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

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

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

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

As at 31 December 2011 and 2010, the amount due from the ultimate holding company of a shareholder is non-trade in nature, unsecured, interest free and repayable on demand.

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

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Within 90 days	**2,731,018**	1,074,108
91 – 180 days	**118,797**	–
181 – 365 days	**–**	–
1 – 2 years	**140**	–
	2,849,955	1,074,108

29. OTHER FINANCIAL ASSETS/LIABILITIES

Other financial assets

	THE GROUP AND THE COMPANY 2011 HK$'000	2010 HK$'000
Commodity forward contracts with Mount Gibson Iron Limited (Note a)	**893,840**	570,137
Analysed as:		
Non-current	**585,738**	367,942
Current	**308,102**	202,195
	893,840	570,137

Notes:

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

At 31 December 2011 and 2010, the major terms of the outstanding commodity forward contracts entered by the Company with MGI are as follows:

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

29. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial assets (continued)

Notes: (continued)

a. (continued)

2010

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

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

As at 31 December 2011, the fair value of the commodity forward contracts were determined by the Directors with reference to a valuation report carried out by Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group and the fair value is approximately HK$893,840,000 (2010: HK$570,137,000). For the year ended 31 December 2011, a fair value gain of HK$503,197,000 (2010: HK$286,313,000) has been recognised in profit or loss and a fair value of approximately HK$179,494,000 (2010: HK$139,313,000), representing the fair value attributable to purchases during the year, has been included in cost of inventories upon delivery.

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 3.483% (2010: 5.582%), the forecasted annual production of the mines, the life of the Mine A of 9 years and life of Mine B of 2 years, a range of forecasted Platts Iron Ore Index, the spread between Australia – capesize vessel freight rate and Australia – China panamax vessel freight rate and a discount rate of 17% (2010: 21%) throughout the contracts period based on management's best estimate.

29. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Other financial liabilities

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial guarantee contracts (Note b)	**–**	–	**141,877**	162,518
Foreign currency forward contracts (Note c)	**787**	–	**787**	–
Interest rate swap contracts (Note d)	**4,386**	–	**4,386**	–
	5,173	–	**147,050**	162,518

b. As at 31 December 2011, the carrying value of the Company's financial guarantee contracts amounted to HK$141,877,000 (2010: HK$162,518,000) represented the amount initially recognised at its fair value less cumulative amortisation recognised in accordance with the Company's revenue recognition policy.

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

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

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

THE GROUP AND THE COMPANY

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

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

At 31 December 2010, the Group and the Company did not have any outstanding foreign currency forward contract.

29. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

Notes: (continued)

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

THE GROUP AND THE COMPANY

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

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

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

At 31 December 2010, the Group and the Company did not have any outstanding interest rate swap contract.

30. RESTRICTED AND PLEDGED BANK DEPOSITS

THE GROUP

The restricted bank deposits represent bank deposits restricted by certain banks to secure the issuance of letters of credit and pledged bank deposits represent bank deposits pledged to certain banks to secure bank borrowings. The deposits carry fixed interest ranged from 0.40% to 4.38% (2010: 0.36% to 1.17%) per annum.

The restricted deposits amounting to HK$502,600,000 (2010: HK$281,486,000) will be released upon the settlement of the letters of credit within twelve months from the end of the reporting period and are therefore classified as current assets.

Pledged bank deposits amounting to HK$123,396,000 (2010: nil) represent deposits pledged to secure short-term bank borrowings and are therefore classified as current assets.

The remaining pledged bank deposits amounting to HK$467,547,000 (2010: nil) represent deposits pledged to secure long-term bank borrowings and are therefore classified as non-current.

THE COMPANY

The pledged bank deposits amounting to HK$375,000,000 (2010: nil) carry fixed interest rate ranged from 0.40% to 4.38% per annum and represent deposits pledged to secure long-term bank borrowings and are therefore classified as non-current.

31. BANK BALANCES AND CASH

Bank balances and time deposits carry interest at market rates which range from 0.01% to 4.62% (2010: 0.05% to 4.92%) per annum.

32. TRADE AND BILL PAYABLES, OTHER PAYABLES, PROVISION AND ACCRUED LIABILITIES

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Within 90 days	**2,413,327**	2,456,267
91 – 180 days	**426,896**	447,981
181 – 365 days	**275,657**	57,217
1 – 2 years	**46,038**	1,551
Over 2 years	**10,604**	3,119
	3,172,522	2,966,135

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.

Other payables are unsecured, interest-free and are repayable on demand.

As at 31 December 2011, provision for onerous contracts of approximately HK$47,200,000 (2010: nil) represents management's best estimate of the Group's leasing cost of vessels through two time charter hires, as disclosed in note 42, exceed the charter hire income of vessels expected to be received.

33. BANK BORROWINGS

Bank borrowings are repayable as follows (Note):

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**9,823,661**	6,400,687	**1,441,754**	–
In the second year	**617,956**	1,009,706	**309,466**	–
In the third to fifth years inclusive	**1,745,985**	878,906	**1,145,664**	–
	12,187,602	8,289,299	**2,896,884**	–
Carrying amount of bank loans that are repayable on demand (shown under current liabilities)	**–**	2,444,652	**–**	2,444,652
	12,187,602	10,733,951	**2,896,884**	2,444,652
Less: Amount due within one year shown under current liabilities	**(9,823,661)**	(8,845,339)	**(1,441,754)**	(2,444,652)
Amount shown under non-current liabilities	**2,363,941**	1,888,612	**1,455,130**	–
Secured	**3,455,871**	2,655,355	**2,896,884**	2,444,652
Unsecured	**8,731,731**	8,078,596	**–**	–
	12,187,602	10,733,951	**2,896,884**	2,444,652

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

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

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fixed-rate borrowings				
Within one year	**1,366,708**	1,670,810	**–**	–

33. BANK BORROWINGS (continued)

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

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Variable-rate borrowings				
Within one year	**8,456,953**	7,174,529	**1,441,754**	2,444,652
In more than one year but not more than two years	**617,956**	1,009,706	**309,466**	–
In more than two years but not more than five years	**1,745,985**	878,906	**1,145,664**	–
	10,820,894	9,063,141	**2,896,884**	2,444,652

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 4.418% to 10% (2010: from 4.779% to 5.56%) per annum.

The variable-rate bank borrowings of approximately HK$2,684 million (2010: HK$2,098 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus a range of 0.52% to 2.2% (2010: LIBOR plus 0.52%) per annum, which are ranged from 0.80% to 2.48% (2010: 0.90%) per annum. Approximately HK$348 million (2010: HK$347 million) of the variable-rate borrowings carry interest at the Hong Kong Interbank Offered Rates ("HIBOR") plus 1.2% (2010: HIBOR plus 0.8%) per annum, which is 1.48% (2010: 1.23%) per annum. The remaining variable-rate borrowings carry interest at the People's Bank of China's lending rate ("Lending Rate"), or with a 5% to 30% addition or reduction on the Lending Rate, which are ranged from 5.18% to 7.93% (2010: from 4.78% to 5.81%) per annum.

In 2011 and 2010, the Group's borrowings were secured by certain assets and are guaranteed by the ultimate holding company of a shareholder. Details are set out in notes 46 and 47 respectively.

In 2011 and 2010, the Company's borrowings were secured by certain assets of subsidiaries or bank deposits (details are set out in note 46), and certain loans are guaranteed by a wholly-owned subsidiary.

33. BANK BORROWINGS (continued)

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

	THE GROUP HK$'000	THE COMPANY HK$'000
As at 31 December 2011	2,696,370	2,548,847
As at 31 December 2010	2,098,088	2,098,088

34. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at fixed-rates ranged from 6.31% to 6.56% (2010: 5.31% to 5.56%) per annum, except for HK$148,075,000 which are non-interest bearing as at 31 December 2011 (2010: HK$142,045,000). The amounts are repayable within twelve months from the end of the reporting period.

35. 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:

	2011 HK$'000	2010 HK$'000
Deferred tax assets	**(45,822)**	(46,827)
Deferred tax liabilities	**33,034**	12,139
	(12,788)	(34,688)

35. 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 HK$'000	Fair value adjustment and revaluation of properties HK$'000	Fair value adjustment of available-for-sale investments HK$'000	Tax losses HK$'000	Total HK$'000
THE GROUP					
At 1 January 2010	25,080	23,434	(38,639)	(247)	9,628
Exchange differences	1,308	–	(7,187)	(937)	(6,816)
Credit to profit or loss (note 10)	(2,348)	(463)	–	(34,689)	(37,500)
At 31 December 2010	24,040	22,971	(45,826)	(35,873)	(34,688)
Exchange differences	933	44	4	(963)	18
(Credit) charge to profit or loss (note 10)	(3,652)	1,447	–	24,087	21,882
At 31 December 2011	21,321	24,462	(45,822)	(12,749)	(12,788)

At the end of the reporting period, the Group has unused tax losses of approximately HK$2,805 million, of which HK$332 million is subject to IRD's confirmation and HK$774 million is subject to SAT's confirmation (2010: HK$1,962 million of which HK$285 million was subject to IRD's confirmation and HK$479 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$51 million (2010: HK$143 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$2,754 million (2010: HK$1,819 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of which HK$755 million will expire in 2014, HK$840 million will expire in 2015 and HK$780 million will expire in 2016, (2010: losses of HK$959 million will expire in 2014 and $479 million will expire in 2015), 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.

35. DEFERRED TAX (continued)

At the end of the reporting period, the Group has deductible temporary differences, which mainly represents allowance for trade receivables and allowance for inventories of approximately HK$145 million (2010: HK$114 million) and tax credit of approximately HK$200 million (2010: HK$390 million), which represents tax credit granted by the PRC Tax Authority for purchase of plants and machineries manufactured domestically in the PRC and will expire in various dates before 31 December 2014. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2011, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$14 million (2010: HK$2 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

THE COMPANY

At the end of the reporting period, the Company has unused tax losses of approximately HK$91 million of which HK$90 million was subject to IRD's confirmation (2010: HK$58 million of which HK$57 million was subject to IRD's confirmation) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

36. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2010 and 31 December 2010	8,175,381,214	1,635,076
Issue for the acquisition of additional interest in an associate (Note)	777,925,013	155,585
At 31 December 2011	8,953,306,227	1,790,661

Note:

During the year ended 31 December 2011, 777,925,013 shares were issued as consideration for the Acquisition as disclosed in note 22 at HK$0.71 per share, which is based on the market price on the Completion Date.

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

37. SHARE OPTION SCHEME

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

The purpose of the 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 Scheme). The Scheme will remain in force for a period of 10 years commencing 7 June 2002.

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

The exercise price in relation to each share option will be determined by the Directors at their discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the 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 is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer. All share options, except for 12,000,000 share options granted during the year ended 31 December 2010, are fully vested as at 31 December 2011. (2010: all share options except for 41,600,000 share options granted during the year ended 31 December 2007 and 16,000,000 share options granted during the year ended 31 December 2010 are fully vested).

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

37. SHARE OPTION SCHEME (continued)

During the year ended 31 December 2011, there was no movements of the share options held by Directors, employees and other eligible participants, except some of the share options became exercisable as at 31 December 2011. The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2010:

	Number of share options								
Grantees	At 1.1.2010	Granted during 2010 (Note 1)	Transferred to other category during 2010 (Note 2)	Lapsed during 2010 due to resignation (Note 3)	At 31.12.2010 and 31.12.2011	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$
Directors of the Company	8,000,000	–	–	–	8,000,000	23.8.2002	–	23.8.2002 to 22.8.2012	0.295
	4,590,000	–	–	–	4,590,000	12.3.2003	–	12.3.2003 to 11.3.2013	0.280
	38,500,000	–	(5,000,000)	–	33,500,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	–	4,000,000	–	–	4,000,000	14.12.2010	–	14.12.2010 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2011	14.12.2011 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2012	14.12.2012 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2013	14.12.2013 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2010 to 13.12.2014	14.12.2014 to 13.12.2017	1.180
	187,090,000	20,000,000	(25,000,000)	–	182,090,000				

37. SHARE OPTION SCHEME (continued)

Grantees	Number of share options					Date of grant	Vesting period	Exercisable period	Exercise price per share
	At 1.1.2010	Granted during 2010 (Note 1)	Transferred to other category during 2010 (Note 2)	Lapsed during 2010 due to resignation (Note 3)	At 31.12.2010 and 31.12.2011				HK$
Other employees of the Group	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	12,500,000	–	1,000,000	(500,000)	13,000,000				
Other eligible participants (Note 4)	50,000	–	–	–	50,000	23.8.2002	–	23.8.2002 to 22.8.2012	0.295
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	–	20.12.2007 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2007 to 19.12.2008	20.12.2008 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2007 to 19.12.2009	20.12.2009 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2007 to 19.12.2010	20.12.2010 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2007 to 19.12.2011	20.12.2011 to 19.12.2014	2.944
	26,050,000	–	24,000,000	–	50,050,000				
	225,640,000	20,000,000	–	(500,000)	245,140,000				
Exercisable at 31 December 2010					187,540,000				
Exercisable at 31 December 2011					233,140,000				

37. SHARE OPTION SCHEME (continued)

Notes:

1. The Company granted 20,000,000 new share options to a Director of the Company on 14 December 2010 and these options will expire on 13 December 2017.

2. The 25,000,000 shares options were held by a Director of the Company who resigned as a Director of the Company during the year of 2010. In accordance with the Scheme, the 25,000,000 share options should lapse on the date of cessation as a Director of the Company, the Board of Directors of the Company approved the share options held by this Director remain exercisable up to the original expiring date, 19 December 2014 and such share options were reclassified from the category of "Directors of the company" to "Other eligible participants" during the year of 2010. The other 1,000,000 shares option were held by grantees who were employed by the Group during the year of 2010 and such share options were reclassified from the category of "Other eligible participants" to "Other employees of the Group". The above share options will be lapsed upon the expiration of the exercise period on 19 December 2014.

3. The share options were held by a grantee who ceased to be an employee of the Group. Pursuant to the Scheme, the share options were lapsed due to the cessation of the employment.

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

During the years ended 31 December 2011 and 2010, no share options were exercised.

During the year ended 31 December 2010, options were granted on 14 December 2010. The estimated fair values of the options granted on this date is approximately HK$13,272,000 and was calculated using the Binominal Option Pricing Model. The inputs into the model were as follows:

	2010
Share price on grant date	HK$1.18
Exercise price	HK$1.18
Expected volatility	68.325%
Contractual life	7 years
Risk-free rate	2.692%
Expected dividend yield	2.54%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years.

The Group recognised the total expense of HK$19,266,000 for the year ended 31 December 2011 (2010: HK$35,382,000) in relation to share options granted by the Company.

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

38. RESERVES

	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE COMPANY					
At 1 January 2010	3,133,915	229,975	22,611	793,324	4,179,825
Profit for the year and total comprehensive income	–	–	–	155,316	155,316
Recognition of equity-settled share based payments	–	35,382	–	–	35,382
At 31 December 2010	3,133,915	265,357	22,611	948,640	4,370,523
Profit for the year and total comprehensive income	–	–	–	641,835	641,835
Shares issued at premium	396,741	–	–	–	396,741
Shares issue expenses	(30)	–	–	–	(30)
Recognition of equity-settled share based payments	–	19,266	–	–	19,266
Dividend recognised as distribution	–	–	–	(81,754)	(81,754)
At 31 December 2011	3,530,626	284,623	22,611	1,508,721	5,346,581

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes the borrowings disclosed in note 33, loans from ultimate holding company of a shareholder disclosed in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Directors of the Company review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. 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.

40. FINANCIAL INSTRUMENTS

40a. Categories of financial instruments

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Financial assets		
Financial assets at FVTPL	**893,840**	570,137
Loans and receivables (including cash and cash equivalents)	**6,884,127**	5,087,371
Available-for-sale financial assets	**187,836**	261,931
Financial liabilities		
Financial liabilities at FVTPL	**5,173**	–
Amortised cost	**20,665,298**	17,514,863

	THE COMPANY	
	2011	2010
	HK$'000	HK$'000
Financial assets		
Financial assets at FVTPL	**893,840**	570,137
Loans and receivables (including cash and cash equivalents)	**5,924,135**	5,332,068
Financial liabilities		
Financial liabilities at FVTPL	**5,173**	–
Amortised cost	**3,168,522**	2,596,506
Financial guarantee contracts	**141,877**	162,518

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, restricted and pledged bank deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, trade receivables from related companies, trade payables to related companies, loans from ultimate holding company of a shareholder, bank balances, trade payables to ultimate holding company of a shareholder, amount due from (to) ultimate holding company of a shareholder, amount due from a non-controlling shareholder of a subsidiary, amount due from an associate, trade and bill payables, other payables, bank borrowings and derivative financial instruments.

The Company's major financial instruments include amounts due from (to) subsidiaries, other receivables, pledged bank deposits, bank balances, other payables, amounts due from related companies, bank borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate and interest rate fluctuations on the Group's financial performance and price fluctuations on the Group's available-for-sale investments. Risk management for the Group's operations is carried out under the guidance of the Executive Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. Certain trade receivables, amount due from (to) related companies, bank balances, trade payables and bank borrowings of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities, which expose the Group to foreign currency risk. Approximately 20% (2010: 22%) of the Group's sales and 21% (2010: 21%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sale.

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

	THE GROUP			
	Liabilities		Assets	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
AUD	–	–	26,312	25,094
USD	2,734,560	2,742,145	1,001,375	584,899
HKD	519,582	357,120	239,574	323,738

	THE COMPANY			
	Liabilities		Assets	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
AUD	–	–	26,312	25,094
USD	2,554,066	2,098,320	624,176	78,452
HKD	348,254	346,992	238,720	322,739

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group and the Company are mainly exposed to exchange rate fluctuations of AUD, USD and HKD against RMB.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The negative/positive number below indicates an increase/decrease in the Group's post-tax loss and a decrease/increase in the Company's post-tax profit (2010: decrease/increase in the Group's and the Company's post-tax profit) where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss for the year.

	THE GROUP								
	AUD			USD			HKD		
	2011	2010		**2011**	2010		**2011**	2010	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
Impact on the result of the year	**(1,098)**	(1,048)	(i)	**72,360**	90,065	(ii)	**11,690**	1,394	(iii)

	THE COMPANY								
	AUD			USD			HKD		
	2011	2010		**2011**	2010		**2011**	2010	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
Impact on the result of the year	**(1,098)**	(1,048)	(i)	**80,573**	84,329	(ii)	**4,573**	1,013	(iii)

(i) This is mainly attributable to the exposure outstanding on AUD receivables and payables at the end of reporting period.

(ii) This is mainly attributable to the exposure outstanding on USD receivables, payables and bank borrowings at the end of reporting period.

(iii) This is mainly attributable to the exposure outstanding HKD receivables and payables at the end of reporting period.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate bank balances, entrusted loan receivable (see note 26 for details of these loans), bank borrowings (see note 33 for details of these borrowings) and loans from ultimate holding company of a shareholder (see note 34 for details of these loans).

The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. As at 31 December 2011, the Group entered into interest rate swaps to convert floating rate to fixed rate obligations. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimise the cash flow interest rate risk. The management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR and Lending Rate arising from the Group's borrowings.

Sensitivity analysis

The sensitivity analyses below presents the effects on the Group's post-tax loss and the Company's post-tax profit for the year as a result of change in interest expense on variable-rate borrowings, restricted and pledged bank deposits and bank balances. 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, restricted and pledged bank deposits and bank balances at the end of the reporting period only as the Directors of the Company consider that the interest rate swap contracts and other non-derivative instruments may not have significant exposure to change in interest rates. For variable-rate bank borrowings, restricted and pledged bank deposits and bank balances, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point 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.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis (continued)

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2011 would increase/decrease by HK$60,332,000 (2010: post-tax profit would decrease/increase by HK$54,115,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings, restricted and pledged bank deposits and bank balances.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's post-tax profit for the year ended 31 December 2011 would decrease/increase by HK$16,060,000 (2010: HK$16,855,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings and bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments net of variable rate bank balances. The Company's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate debt instruments net of variable rate bank balances.

(iii) Other price risk

The Group is exposed to foreign currency risk, equity and commodity prices risk through its investments in listed equity securities, commodity forward contracts to purchase iron ore and foreign currency forward contracts. The Directors considered that the exposure to foreign currency risk on foreign currency forward contracts as at 31 December 2011 are insignificant.

Sensitivity analysis

The sensitivity analysis (including listed equity securities and commodity forward contracts) have been determined based on the exposure to equity and commodity prices risk by reference to the movements of the share price and commodity price quoted up till the reporting date.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk (continued)

Sensitivity analysis of listed equity securities

If the price had been 35% (2010: 35%) higher, security investment reserve would increase by HK$14,780,000 (2010: increase by HK$42,789,000, however, if the price had been 35% (2010: 35%) lower, post-tax loss for the year ended 31 December 2011 would increase by HK$14,780,000 (2010: post-tax profit would decrease by HK$42,789,000) for the Group as a result of the changes in fair value of available-for-sale investments which have been impaired.

In addition, if there is a 5% increase/decrease in RMB against AUD, security investment reserve would decrease/increase by HK$2,111,000 (2010: decrease/increase by HK$6,113,000) for the Group.

Sensitivity analysis of commodity forward contracts

In addition, the Group and the Company are required to estimate the fair value of commodity forward contracts to purchase iron ore at the end of the reporting period with change in fair value to be recognised in consolidated statement of comprehensive income. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the forecasted Platts Iron Ore Index and the spread between freight rates.

The sensitivity analysis below have been determined based on the exposure to the iron ore market price risks, market interest rate risk and the risk of spread between freight rates at the reporting date.

Based on discounted cash flow analysis, if the Platts Iron Ore Index had been 5% higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$31,459,000 and the Company's profit would increase/decrease by HK$31,459,000 (2010: the Group's and the Company's profit would increase/decrease by HK$12,253,000) as a result of the change in fair value of commodity forward contracts to purchase iron ore.

If the spread between the freight rates had been 5% higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$25,994,000 and the Company's profit would increase/decrease by HK$25,994,000 (2010: the Group's and the Company's profit would increase/decrease by HK$17,944,000) as a result of the change in fair value of commodity forward contracts.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk (continued)

Sensitivity analysis of commodity forward contracts (continued)

If market interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would increase/decrease by HK$20,237,000 and the Company's profit would decrease/increase by HK$20,237,000 (2010: the Group's and the Company's profit would decrease/increase by HK$9,842,000) as a result of the change in fair value of commodity forward contracts.

In addition, if there is a 5% increase/decrease in RMB against USD and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$50,405,000 and the Company's profit would decrease/increase by HK$50,405,000 (2010: the Group's and the Company's profit would decrease/increase by HK$29,298,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent risk as the analysis does not reflect the interdependence of variables.

Credit risk

As at 31 December 2011, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 45.

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 of the Company consider that the Group's credit risk is significantly reduced. Besides, the Group has reduced credit risk on trade receivables by requesting trade deposits to be made or settlement by bank bills before delivery, especially in the steel manufacturing. The Group mainly deals with companies with a good track record and reputation and also has policies in place to assess the credit worthiness of customers.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Credit risk (continued)

Before accepting any new entrusted loan borrower, the Group assesses the credit quality of each entrusted loan borrower. The Group also demands the entrusted loan borrowers to pledge certain assets with banks to secure the loans at the time the entrusted loan arrangement is entered into. Therefore, the Group has limited credit risk on entrusted loan receivables.

The Company has limited credit risk on amounts due from subsidiaries and other financial liabilities recognised for financial guarantee contracts. Management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company and the banking facilities drawn from financial institutions. Adequate impairment losses are made for irrecoverable amounts.

The Group and the Company have limited credit risk on liquid funds as the counterparties are banks and financial institutions which are reputable and/or with high credit ratings assigned by international credit-rating agencies.

The Group and the Company do not have significant concentration of credit risk for its trade and other receivables and amounts due from subsidiaries and related companies, with exposure spread over a large number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 84% (2010: 86%) of the total trade receivables as at 31 December 2011.

As at 31 December 2011, the Group has concentration of credit risk from entrusted loan as the Group has only two entrusted loan borrowers. The Group had no credit risk as there was no entrusted loan as at 31 December 2010.

Liquidity risk

The Group and the Company manage its liquidity risk by ensuring it has sufficient liquid cash balances and credit facilities to meet its payment obligations as they fall due. The Group and the Company believe it has a good working relationship with its lending banks and ensures compliance with the covenants as stipulated in the loan agreements.

In the management of the liquidity risk, the Group and the Company 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 and ensures compliance with loan covenants.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The Group and the Company rely on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK$2,757 million (2010: HK$1,786 million). The Directors of the Company are of the view that the banking facilities could be renewed as the Group is in compliance with the respective loan covenants and historical experience is such that the Group has no difficulty to obtain the renewal. In addition, the Group is financially supported by the ultimate holding company of the major shareholder of the Company to maintain the Group's and the Company's liquidity.

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following tables detail the Group's and the Company's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash (inflows) and outflows on those derivatives that require net settlement and gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been derived from interest rate and foreign currency exchange rates at the end of the reporting period. The liquidity analysis for the Group's and the Company's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	THE GROUP								
	Weighted average interest rate %	Repayable on demand or less than 3 months HK$'000	3 – 6 months HK$'000	6 months to 1 year HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011									
Non-derivative financial liabilities									
Trade and bill payables		3,172,522	–	–	–	–	–	3,172,522	3,172,522
Other payables		664,502	–	–	–	–	–	664,502	664,502
Trade payables/amount due to ultimate holding company of a shareholder		2,953,024	–	–	–	–	–	2,953,024	2,953,024
Trade payables/amounts due to related companies		677,653	–	–	–	–	–	677,653	677,653
Loans from ultimate holding company of a shareholder	6.53	14,036	172,211	870,562	–	–	–	1,056,809	1,009,995
Bank borrowings									
– fixed rate	6.81	398,253	258,669	763,029	–	–	–	1,419,951	1,366,708
– variable rate	4.85	3,543,574	2,189,674	3,074,214	849,463	1,786,506	–	11,443,431	10,820,894
		11,423,564	2,620,554	4,707,805	849,463	1,786,506	–	21,387,892	20,665,298
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		588	588	1,175	2,350	1,464	–	6,165	4,386
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		1,332,759	1,332,759	2,665,518	4,884,947	9,396,894	7,706,555	27,319,432	–
Foreign currency forward contracts									
– inflow		(141,294)	–	–	–	–	–	(141,294)	(70,647)
– outflow		142,868	–	–	–	–	–	142,868	71,434
		1,574	–	–	–	–	–	1,574	787

Note: Cash outflow represents purchase of iron ore under the commodity forward contracts.

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	THE GROUP								
	Weighted average interest rate	Repayable on demand or less than 3 months	3 – 6 months	6 months to 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010									
Non-derivative financial liabilities									
Trade and bill payables		2,966,135	–	–	–	–	–	2,966,135	2,966,135
Other payables		616,743	–	–	–	–	–	616,743	616,743
Trade payables/amount due to ultimate holding company of a shareholder		1,172,981	–	–	–	–	–	1,172,981	1,172,981
Trade payables/amounts due to related companies		1,056,185	–	–	–	–	–	1,056,185	1,056,185
Loans from ultimate holding company of a shareholder	5.56	11,493	163,271	832,211	–	–	–	1,006,975	968,868
Bank borrowings									
– fixed rate	5.20	195,359	337,384	1,202,118	–	–	–	1,734,861	1,670,810
– variable rate	3.78	3,902,007	1,503,811	1,994,301	1,079,008	940,544	–	9,419,671	9,063,141
		9,920,903	2,004,466	4,028,630	1,079,008	940,544	–	17,973,551	17,514,863
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		904,023	904,023	1,808,137	3,269,889	4,091,105	1,994,260	12,971,437	–

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	THE COMPANY								
	Weighted average interest rate	Repayable on demand or less than 3 months	3 – 6 months	6 months to 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011									
Non-derivative financial liabilities									
Other payables		5,437	–	–	–	–	–	5,437	5,437
Amount due to subsidiaries		266,201	–	–	–	–	–	266,201	266,201
Bank borrowings									
– variable rate	1.61	1,330,016	7,390	142,982	437,394	1,164,916	–	3,082,698	2,896,884
Financial guarantee contracts		3,035,544	–	–	–	–	–	3,035,544	141,877
		4,637,198	7,390	142,982	437,394	1,164,916	–	6,389,880	3,310,399
Derivatives – net settlement									
Interest rate swap contracts									
– outflow		588	588	1,175	2,350	1,464	–	6,165	4,386
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		1,332,759	1,332,759	2,665,518	4,884,947	9,396,894	7,706,555	27,319,432	–
Foreign currency forward contracts									
– inflow		(141,294)	–	–	–	–	–	(141,294)	(70,647)
– outflow		142,868	–	–	–	–	–	142,868	71,434
		1,574	–	–	–	–	–	1,574	787

40. FINANCIAL INSTRUMENTS (continued)

40b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

		THE COMPANY							
	Weighted average interest rate	Repayable on demand or less than 3 months	3 – 6 months	6 months to 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010									
Non-derivative financial liabilities									
Other payables		661	–	–	–	–	–	661	661
Amount due to a subsidiary		151,193	–	–	–	–	–	151,193	151,193
Bank borrowings – variable rate	0.87	2,444,652	–	–	–	–	–	2,444,652	2,444,652
Financial guarantee contracts		1,930,991	–	–	–	–	–	1,930,991	162,518
		4,527,497	–	–	–	–	–	4,527,497	2,759,024
Derivatives – gross settlement									
Commodity forward contracts – outflow (Note)		904,023	904,023	1,808,137	3,269,889	4,091,105	1,994,260	12,971,437	–

Note: Cash outflow represents purchase of iron ore under the commodity forward contracts.

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

40. FINANCIAL INSTRUMENTS (continued)

40c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of commodity forward contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and market risk premium;

- the fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and

- interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

40. FINANCIAL INSTRUMENTS (continued)

40c. Fair value (continued)

Fair value measurements recognised in the statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THE GROUP

	As at 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	893,840	893,840
Available-for-sale financial assets				
Listed equity securities	42,228	–	–	42,228
Total	42,228	–	893,840	936,068
Financial liabilities at FVTPL				
Derivative financial liabilities	–	5,173	–	5,173

40. FINANCIAL INSTRUMENTS (continued)

40c. Fair value (continued)

Fair value measurements recognised in the statements of financial position (continued)

THE COMPANY

	As at 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	893,840	893,840
Financial liabilities at FVTPL				
Derivative financial liabilities	–	5,173	–	5,173

THE GROUP

	As at 31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	570,137	570,137
Available-for-sale financial assets				
Listed equity securities	122,252	–	–	122,252
Total	122,252	–	570,137	692,389

THE COMPANY

	As at 31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	–	570,137	570,137

There were no transfers between Level 1 and 2 during the years ended 31 December 2011 and 2010.

40. FINANCIAL INSTRUMENTS (continued)

40c. Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	THE GROUP		THE COMPANY
	ARH Option	Commodity forward contracts	Commodity forward contracts
	HK$'000	HK$'000	HK$'000
At 1 January 2010	117	423,137	423,137
Total gains or losses:			
– to profit or loss	(117)	286,313	286,313
Fair value of commodity forward contracts upon delivery	–	(139,313)	(139,313)
At 31 December 2010	–	570,137	570,137
Total gains or losses:			
– to profit or loss	–	503,197	503,197
Fair value of commodity forward contracts upon delivery	–	(179,494)	(179,494)
At 31 December 2011	–	893,840	893,840

Of the total gains or losses for the year included in profit or loss, loss of approximately HK$nil (2010: HK$117,000) relates to ARH Option and profit of approximately HK$503,197,000 (2010: HK$286,313,000) relates to commodity forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

As at 31 December 2010, included in other comprehensive income is an amount of HK$26,599,000 gain related to listed equity securities held at the end of the reporting period and is included in "Security Investment Reserve". As at 31 December 2011, there is no unrealised profit related to this listed equity securities.

41. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2011, the Company issued 777,925,013 shares at the market price on the Completion Date, which was HK$0.71 per share, as consideration for the Acquisition as disclosed in note 22.

(b) During the year ended 31 December 2010, an amount due to a shareholder of HK$350,000,000 was partially setoff against an amount due from a related company, being a subsidiary of that shareholder, amounted to HK$158,250,000, while the remaining HK$191,750,000 was settled in cash.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**3,451**	3,267
Vessels time charter hire	**149,381**	147,957
	152,832	151,224

42. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessee (continued)

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and vessels time charter hire which fall due as follows:

	Vessels time charter hire		Land and buildings		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**113,085**	149,379	**3,180**	3,323	**116,265**	152,702
In the second to fifth years inclusive	**–**	137,980	**432**	3,664	**432**	141,644
	113,085	287,359	**3,612**	6,987	**116,697**	294,346

The Group leases vessels through two time charter hires. The time charter hires commenced on 26 September 1997 and with a lease period of 15 years, plus two months more or less at the Group's option. The daily rates of the time charter hires increase by USD250 every half year until December 2007, and thereafter the daily rates will increase by USD125 every half year.

The Group leases certain of its office premises and staff quarters in Hong Kong under operating lease arrangements. As at 31 December 2011, leases for properties are negotiated for terms ranging from one to two years.

The Company had no non-cancellable operating lease commitments at the end of the reporting period.

42. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

	THE GROUP 2011 HK$'000	2010 HK$'000
Minimum lease payments received under operating leases during the year are as follows:		
Land and buildings	**1,847**	1,356
Vessels time charter hire	**93,979**	199,033
	95,826	200,389

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

	Vessels time charter hire		Land and buildings		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Within one year	**1,685**	6,378	**1,034**	1,215	**2,719**	7,593
In the second to fifth years inclusive	**–**	–	**3,257**	1,823	**3,257**	1,823
	1,685	6,378	**4,291**	3,038	**5,976**	9,416

43. COMMITMENTS

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
CAPITAL COMMITMENTS		
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**445,936**	467,702

The Company had no significant commitment at the end of the reporting period.

44. 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.

45. CONTINGENT LIABILITIES

THE GROUP

The Group had no significant contingent liabilities at the end of the reporting period.

THE COMPANY

As at 31 December 2011, the financial guarantee given to banks in respect of banking facilities available to subsidiaries of approximately HK$3,036 million (2010: HK$1,931 million), of which approximately HK$832 million (2010: HK$306 million) was utilised by subsidiaries. As at 31 December 2011, HK$141,877,000 (2010: HK$162,518,000) were recognised as other financial liabilities in the statement of financial position for such financial guarantee as disclosed in note 29.

46. PLEDGE OF ASSETS

THE GROUP

At 31 December 2011, the following items were used to secure banking facilities granted to the Group:

(a) Restricted and pledged bank deposits amounting to HK$1,093,543,000 (2010: HK$281,486,000).

(b) Pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Company, with total assets amounting to HK$156,304,000 (2010: HK$156,315,000) and HK$183,587,000 (2010: HK$183,593,000) respectively.

(c) Pledge of the Group's plant and machinery with net book value of HK$369,682,000 (2010: HK$336,115,000).

(d) Pledge of the Group's land use rights with net book value of approximately HK$85,038,000 (2010: HK$83,362,000).

(e) Pledge of 1,344,500,000 shares (2010: 170,000,000 shares) of the Group's listed associate with the market value of approximately HK$3,536,035,000 (2010: HK$906,100,000).

THE COMPANY

(a) At 31 December 2011 and 2010, the Company pledged its investments in two wholly owned subsidiaries, Equity Dragon Assets Limited and Pointer Investments Limited, with total assets amounting to HK$156,304,000 (2010: HK$156,315,000) and HK$183,587,000 (2010: HK$183,593,000), respectively, to secure banking facilities granted to the Company.

(b) Pledged bank deposits amounting to HK$375,000,000 (2010: nil).

47. RELATED PARTY DISCLOSURES

The Group is an associate of Shougang HK, which is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise under the supervision of the Beijing State-owned Assets Supervision and Administration Commission. Accordingly, the Company and the Group are significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the PRC government. Accordingly, the Group is government related entities in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in note 47(I) to 47(III).

(I) Transactions with Shougang Group

	Notes	**2011** **HK$'000**	2010 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	**4,997,146**	3,642,508
Purchases of goods by the Group	(b)	**11,051,292**	7,976,437
Lease rentals charged to the Group	(c)	**2,912**	2,875
Management fee charged to the Group	(d)	**960**	960
Purchases of spare parts by the Group	(e)	**84,762**	128,466
Management fees charged by the Group	(f)	**3,204**	2,944
Rental income charged by the Group	(g)	**151**	151
Interest charged to the Group	(h)	**54,906**	43,540
Service fees charged to the Group	(i)	**121,050**	110,287
Service fees charged by the Group	(j)	**10**	5,397
Purchase of property, plant and equipment by the Group	(k)	**127,189**	299,651
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(d)	**960**	960
Management fee charged by the Company	(f)	**3,204**	2,944

47. RELATED PARTY DISCLOSURES (continued)

(I) Transactions with Shougang Group (continued)

Notes:

(a) The Group sold steel products, iron ore and scrap materials to Shougang Group.

(b) The Group purchased raw materials from Shougang Group.

(c) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.

(d) Management fees were paid to Shougang HK, the Company's shareholder, for the provision of management services.

(e) The Group purchased spare parts from Shougang Group.

(f) The Group/the Company provided business and strategic development services to Shougang Group.

(g) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, which is a wholly-owned subsidiary of Shougang HK, for renting office.

(h) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 6.31% to 6.56% (2010: 5.31% to 5.56%) per annum.

(i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services.

(j) The Group charged Shougang Group service fees in respect of processing of steel plates, transportation and administration services provided.

(k) The Group acquired property, plant and equipment from Shougang Group.

In addition, details of share options held by Directors as at 31 December 2011 were disclosed in note 37.

(II) Balances with Shougang Group

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 24;

Details of balances with the Group's related companies are set out in note 27;

Details of balances with the Group's ultimate holding company of a shareholder are set out in notes 28 and 34;

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2011, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$5,811,947,000 (2010: HK$6,227,506,000).

47. RELATED PARTY DISCLOSURES (continued)

(III) Transactions/balances with other PRC government controlled entities

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

(IV) Transactions with non-PRC government-related entities

Transaction with a subsidiary of an associate

During the year ended 31 December 2011, the Group purchased coal products amounted to approximately HK$33,633,000 (2010: HK$5,616,000) from a subsidiary of an associate, Shougang Resources.

Compensation of key management personnel

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

	THE GROUP	
	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**22,114**	21,562
Post employment benefits	**1,022**	997
Share-based payments	**15,043**	29,375
	38,179	51,934

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.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2010 and 2011 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		
			2011	2010	**2011**	2010	
			%	%	**%**	%	
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Cheer Source Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Equity Dragon Assets Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Standnew Limited	British Virgin Islands/Hong Kong	US$100 Ordinary shares	**–**	–	**100**	100	Investment holding
Profit News Investments Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Shougang Concord Steel Holdings Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	**100**	100	**–**	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK$25,000,000 Ordinary shares	**–**	–	**100**	100	Investment holding
Shougang Concord Godown Limited	Hong Kong	HK$2 Ordinary shares HK$2,000,000 Non-voting deferred shares	**–**	–	**100**	100	Provision of warehousing services

48. 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		
			2011 %	2010 %	**2011** %	2010 %	
Shougang Concord Management Company Limited	Hong Kong	HK$100,000 Ordinary shares	**–**	–	**100**	100	Provision of management services and investment holding
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	**–**	–	**100**	100	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Trading of iron ore, coal, coke and steel products and investment holding
Shougang Concord Shipping Holdings Limited	British Virgin Islands/Hong Kong	US$641,025 Ordinary shares	**100**	100	**–**	–	Investment holding
Shougang Concord International Transport Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding and chartering of vessels
Ryegar Limited	United Kingdom/ Hong Kong	£2 Ordinary shares	**–**	–	**100**	100	Chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK$2 Ordinary shares	**–**	–	**100**	100	Provision of management services
SCIT (Chartering) Limited	British Virgin Islands	US$1 Ordinary share	**–**	–	**100**	100	Chartering of vessels

48. 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		
			2011	2010	**2011**	2010	
			%	%	**%**	%	
SCIT Services Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Charting of vessels
SCIT Trading Limited	Hong Kong	HK$1 Ordinary share	**–**	–	**100**	100	Trading of iron ore
Centralink International Limited	British Virgin Islands/Hong Kong	US$2,000,000 Ordinary shares	**–**	–	**70**	70	Investment holding
舟山首和中轉儲運有限公司 Zhoushan Shouhe Centra-link Co., Ltd.	PRC	US$5,000,000 Registered capital	**#**	#	**#**	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Richson Limited	Samoa/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Casula Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
秦皇島首鋼板材有限公司 Qinhuangdao Plate Mill Δ	PRC	US$86,000,000 Registered capital	**–**	–	**100**	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Shouqin ΔΔ	PRC	RMB2,700,000,000 Registered capital	**–**	–	**76**	76	Manufacture and sale of steel and related products

48. 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		
			2011 %	2010 %	**2011** %	2010 %	
Pointer Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	**100**	100	**–**	–	Provision of management services
Huge Ever Limited	Hong Kong	HK$1 Ordinary share	**–**	–	**100**	100	Investment holding
Froxy Investments Limited	Hong Kong	HK$1 Ordinary share	**–**	–	**100**	100	Investment holding
Host Sun Investments Limited	Hong Kong	HK$1 Ordinary share	**–**	–	**100**	100	Investment holding
Shine Tone Group Limited	Hong Kong	HK$100 Ordinary shares	**–**	–	**100**	100	Investment holding
Sky Choice International Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	100	**100**	–	Investment holding
Timefull Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Excel Bond Investments Limited	British Virgin Island/Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Fair Gain Investments Limited	British Virgin Island/Hong Kong	US$1 Ordinary share	**100**	–	**–**	–	Investment holding

48. 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		
			2011	2010	**2011**	2010	
			%	%	**%**	%	
Fine Power Group Limited	British Virgin Island/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. ΔΔ	PRC	RMB300,000,000 Registered capital	**–**	–	**87.76**	87.76	Value-added services on steel products
秦皇島首秦龍匯礦業有限公司 Qinhuangdao Shouqin Longhui Mining Co., Ltd. *ΔΔ	PRC	RMB500,000,000 Registered capital	**–**	–	**67.84**	67.84	Mining and sale of iron ore
深圳市首康國際貿易有限公司 Δ	PRC	USD6,000,000 Registered capital	**–**	–	**100**	100	Trading of iron ore, coal and coke and steel products

\# Zhoushan Shouhe Centra-link Co., Ltd. ("Zhoushan") is a cooperative joint venture which was established in 1993 in the PRC for a period of 30 years. The entire registered capital of Zhoushan was contributed by Centralink International Limited ("Centralink"). Centralink is a non wholly-owned subsidiary of the Company. Centralink is entitled to 90% of the net profit generated by Zhoushan but bears all losses. Upon the expiry or early termination of the tenure, all residual assets will belong to Centralink.

Δ Foreign investment enterprise established in the PRC.

ΔΔ Sino-foreign equity joint venture established in the PRC.

* For identification purpose only

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Details of the Company's principal associates at 31 December 2010 and 2011 are as follows:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activities
					2011	2010	**2011**	2010	
					%	%	**%**	%	
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	**35.71%**	35.72%	**35.71%**	35.72%	Manufacturing of steel cords and processing and trading of copper and brass products
秦皇島首秦嘉華建材有限公司 Qinhuangdao Shouqin K. Wah Construction Materials Company Limited	Incorporated	PRC	PRC	Registered capital	**22.8%**	22.8%	**22.8%**	22.8%	Production and sales of slag powder
Shougang Resources	Incorporated	Hong Kong	Hong Kong	Ordinary	**27.22%**	24.44%	**27.22%**	24.44%	Coking coal mining, production and sale of coking coal products and side products

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	10,926,391	17,464,705	11,357,623	15,850,276	**21,342,643**
Profit attributable to owners of the Company	1,404,196	1,419,463	71,667	499,576	**152,252**

ASSETS AND LIABILITIES

	At 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	16,563,541	21,027,900	24,246,730	29,628,590	**32,885,632**
Total liabilities	(8,619,608)	(11,966,562)	(14,505,912)	(18,931,329)	**(21,770,345)**
	7,943,933	9,061,338	9,740,818	10,697,261	**11,115,287**
Equity attributable to owners of the Company	6,814,731	7,563,838	8,581,236	9,567,094	**10,148,381**
Non-controlling interests	1,129,202	1,497,500	1,159,582	1,130,167	**966,906**
	7,943,933	9,061,338	9,740,818	10,697,261	**11,115,287**

SUMMARY OF INVESTMENT PROPERTIES

Particulars of major investment properties held by the Group as at 31 December 2011 are as follows:

Property	Use	Group interest	Category of the lease
No. 158 Jianguo Lu, Qinhuangdao City, Hebei Province, PRC	Commercial	100%	Medium term lease
No. 27 Zhujiang Dao, Zhong Duan, Kai Fa District, Qinhuangdao City, Hebei Province, PRC	Commercial	100%	Medium term lease
10D Kai Fong Garden, Fanling, New Territories, Hong Kong	Commercial	100%	Long lease
Flat A2 on 8 Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong	Residential	100%	Long lease