THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licenced securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shougang Concord International Enterprises Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licenced securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Shougang Concord International Enterprises Company Limited.

首 長 國 際 企 業 有 限 公 司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 697)

DISCLOSEABLE AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Optima Capital Limited

A letter from the Board is set out on pages 5 to 15 of this circular and a letter from the Independent Board Committee is set out on page 16 of this circular. A letter from Optima Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advices to the Independent Board Committee and the Independent Shareholders on the Acquisition, the issue of Consideration Shares and the Whitewash Waiver is set out on pages 17 to 36 of this circular.

A notice of the EGM to be held at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 13 July 2011 at 11:00 a.m. is set out on pages 142 to 143 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the share registrars of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

24 June 2011

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition by the Company of the Sale Share pursuant to the terms of the Agreement;
"Agreement"	the agreement dated 5 May 2011 entered into between the Company and Shougang Holding in relation to the Acquisition;
"Announcement"	the announcement of the Company dated 6 May 2011 in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver;
"associate(s)"	has the same meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Business Day"	any day (other than a Saturday, Sunday, a public holiday or a day on which typhoon signal no. 8 or above or a "black" rainstorm warning is hoisted in Hong Kong) on which banks in Hong Kong are open for business;
"Company"	Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
"Completion"	completion of the sale and purchase of the Sale Share in accordance with the terms and conditions of the Agreement;
"Completion Date"	the third Business Day after the day on which the last condition precedent is fulfilled or such other date as the Company and Shougang Holding may agree;
"connected person"	has the same meaning ascribed to it under the Listing Rules;
"Consideration Shares"	777,925,013 new Shares to be allotted and issued by the Company under the Agreement;
"controlling shareholder"	has the same meaning ascribed to it under the Listing Rules;
"Directors"	the directors of the Company;
"EGM"	the extraordinary general meeting of the Company to be held at 11:00 a.m. on Wednesday, 13 July 2011 at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong to approve, among other things, the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver;

"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate;
"Fair Gain"	Fair Gain Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially and wholly-owned by Shougang Holding;
"Fushan International"	Shougang Fushan Resources Group Limited (formerly Fushan International Energy Group Limited), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange;
"Fushan Share(s)"	the ordinary share(s) of HK$0.10 each in the share capital of Fushan International;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"Independent Board Committee"	an independent committee of the Board comprising Mr. Wong Kun Kim, Ms. Kan Lai Kuen, Alice and Mr. Leung Kai Cheung, being all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the Acquisition, the issue of Consideration Shares and the Whitewash Waiver;
"Independent Shareholder(s)"	the Shareholders other than (i) Shougang Holding, its associates and parties acting in concert with any of them, (ii) Cheung Kong (Holdings) Limited, its associates and parties acting in concert with any of them, and (iii) those who are involved in or interested in the Agreement and the Whitewash Waiver;
"Issue Price"	an issue price of HK$1.01 per Consideration Share;
"Last Trading Day"	4 May 2011, being the last full trading day on which the Shares were traded on the Stock Exchange prior to the date of the Agreement;
"Latest Practicable Date"	21 June 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
"Listing Committee"	has the same meaning ascribed to it under the Listing Rules;

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Optima Capital"	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver;
"PRC"	the People's Republic of China;
"Relevant Period"	means the period from 6 November 2010 (being the date falling six months immediately prior to 6 May 2011, being the date of the Announcement) up to and including the Latest Practicable Date;
"Sale Share"	1 share of US$1.00 in the capital of Fair Gain, representing the entire issued share capital of Fair Gain;
"Scheme"	the share option scheme of the Company adopted by its shareholders on 7 June 2002;
"SFC"	the Securities and Futures Commission;
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shares"	shares of HK$0.20 each in the share capital of the Company;
"Shareholders"	holders of the Shares;
"Shougang Corporation"	Shougang Corporation, a state-owned enterprise in the PRC and the holding company of the entire interest of Shougang Holding;
"Shougang Holding"	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Shougang Corporation;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder"	has the same meaning ascribed to it under the Listing Rules;
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers;
"Target Group"	Fair Gain and Fushan International;

"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Shougang Holding and parties acting in concert with it to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by Shougang Holding or parties acting in concert with it which would otherwise arise as a result of the issue of the Consideration Shares to Shougang Holding or its nominee upon completion of the Acquisition; and
"%"	per cent.

首 長 國 際 企 業 有 限 公 司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 697)

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)*

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

24 June 2011

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Board announced on 5 May 2011, the Company and Shougang Holding entered into the Agreement, pursuant to which Shougang Holding has conditionally agreed to sell the Sale Share, representing the entire issued share capital of Fair Gain, to the Company at a consideration of HK$785,704,263, which will be satisfied in full by the allotment and issue by the Company of the Consideration Shares to Shougang Holding or its nominee at the Issue Price.

The Consideration Shares represent (i) approximately 9.52% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 8.69% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares immediately upon Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date save for the issue of the Consideration Shares).

The purposes of this circular are:

(i) to provide Shareholders with details of the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver;

(ii) to set out the recommendations of the Independent Board Committee to the Independent Shareholders on the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver;

(iii) to set out the advices of Optima Capital to the Independent Board Committee and the Independent Shareholders on the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver; and

(iv) to give you notice of the EGM to consider and, if thought fit, to approve the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver.

THE AGREEMENT

Date

5 May 2011

Parties

Purchaser:	The Company
Vendor:	Shougang Holding
	Shougang Holding is an investment holding company and is the controlling shareholder of the Company.

Assets to be acquired

The Sale Share represents the entire issued share capital of Fair Gain. Fair Gain is a wholly-owned subsidiary of Shougang Holding and is an investment holding company. The sole asset held by Fair Gain is the holding of 149,089,993 Fushan Shares, representing approximately 2.77% of the issued share capital of Fushan International as at the Latest Practicable Date. Fushan International and its subsidiaries are principally engaged in coking coal mining, production and sales of coking coal products and side products.

Consideration

The consideration for the Acquisition shall be HK$785,704,263, which will be satisfied in full by the allotment and issue by the Company of the Consideration Shares to Shougang Holding or its nominee at the Issue Price.

The consideration for the Acquisition in the amount of HK$785,704,263, or the equivalence of HK$5.27 per Fushan Share held by Fair Gain, was determined after arm's length negotiation between the Company and Shougang Holding with reference to the closing price of HK$5.27 per Fushan Share on the Last Trading Date. The purchase price of HK$5.27 per Fushan Share held by Fair Gain represents:

(i) the closing price of HK$5.27 per Fushan Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 3.34% to the average closing price per Fushan Share of approximately HK$5.452 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 6.33% to the average closing price per Fushan Share of approximately HK$5.626 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 56.38% over the audited equity attributable to owners per Fushan Share of approximately HK$3.37 as at 31 December 2010.

The Directors (including the independent non-executive Directors) are of the view that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Consideration Shares

The Consideration Shares will be issued at the Issue Price of HK$1.01 per Share which was determined after arm's length negotiation between the Company and Shougang Holding with reference to the closing price of HK$1.01 per Share on the Last Trading Day. The Consideration Shares represent (i) approximately 9.52% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 8.69% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares immediately upon Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date save for the issue of the Consideration Shares).

The Consideration Shares shall be issued as fully paid and shall rank pari passu in all respects with the ordinary Shares then in issue. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price represents:

(i) the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 2.32% to the average closing price per Share of approximately HK$1.034 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 4.27% to the average closing price per Share of approximately HK$1.055 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 13.68% to the audited equity attributable to owners per Share of approximately HK$1.17 as at 31 December 2010.

The Consideration Shares are to be issued by the Company under a specific mandate to be sought from the Shareholders at the EGM.

Conditions precedent

Completion shall be conditional upon the fulfilment of the following conditions:

(a) the Listing Committee of the Stock Exchange having granted listing of, and permission to deal in, the Consideration Shares;

(b) the passing by the Independent Shareholders who are permitted to vote under the Listing Rules and the Takeovers Code at a general meeting of the Company of resolutions to approve the Acquisition, the issue of the Consideration Shares, the Whitewash Waiver and other transactions contemplated under the Agreement; and

(c) the grant of the Whitewash Waiver by the Executive in respect of the Consideration Shares.

None of the conditions can be waived by the Company or Shougang Holding. The conditions precedent are required to be fulfilled on or before 31 December 2011 or such other date as the Company and Shougang Holding may agree. If the conditions precedent have not been satisfied on or before the date aforesaid, the Agreement shall cease and terminate.

As at the Latest Practicable Date, none of the conditions had been fulfilled.

Completion

Completion of the Agreement shall take place on the Completion Date, subject to the conditions precedent being fulfilled in accordance with the Agreement.

CHANGES TO THE SHAREHOLDING IN THE COMPANY AS A RESULT OF THE ISSUE OF CONSIDERATION SHARES

The following table sets out the shareholding structure of the Company (based on the best knowledge of the Directors) (i) as at the Latest Practicable Date; (ii) immediately after the Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date save for the issue of the Consideration Shares); and (iii) immediately after the Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date save for the issue of the Consideration Shares and the issue of shares upon fully exercise of the outstanding share options held by parties acting in concert with Shougang Holding):

	Latest Practicable Date		**Immediately After Completion**		**Immediately After Completion and fully exercise of share options held by concert parties**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Shougang Holding and its associates *(Note 1)*	3,425,850,686	41.90	4,203,775,699	46.95	4,203,775,699	46.43
Cheung Kong (Holdings) Limited and its associates *(Note 2)*	455,401,955	5.57	455,401,955	5.09	455,401,955	5.03
Shares issued upon fully exercise of the outstanding share options by parties acting in concert with Shougang Holding *(Note 3)*	–	–	–	–	100,000,000	1.11
Total of Shougang Holding and parties acting in concert with it	**3,881,252,641**	**47.47**	**4,659,177,654**	**52.04**	**4,759,177,654**	**52.57**
Other public Shareholders	4,294,128,573	52.53	4,294,128,573	47.96	4,294,128,573	47.43
	8,175,381,214	**100.00**	**8,953,306,227**	**100.00**	**9,053,306,227**	**100.00**

Notes:

1. The 3,425,850,686 Shares are held as to 332,481,160 Shares by Shougang Holding, as to 1,979,904,761 Shares by China Gate Investments Limited, as to 768,340,765 Shares by Grand Invest International Limited, as to 344,894,000 Shares by Wide Success Holdings Limited and as to 230,000 Shares by Lyre Terrace Management Limited. Each of China Gate Investments Limited, Grand Invest International Limited and Wide Success Holdings Limited is a wholly-owned subsidiary of Shougang Holding, whereas Lyre Terrace Management Limited is an associate of Shougang Holding.

2. The 455,401,955 Shares are held as to 7,220,000 Shares by Centerlin Investments Limited, as to 423,054,586 Shares by Max Same Investment Limited and as to 25,127,369 Shares by CEF Holdings Limited. Each of Centerlin Investments Limited and Max Same Investment Limited is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, whereas CEF Holdings Limited is an associate of Cheung Kong (Holdings) Limited.

3. The share options were granted to Messrs. Li Shaofeng, Zhang Wenhui and Chen Zhouping in their capacities as directors of the Company under the Scheme. They are also directors of Shougang Holding and are therefore deemed to be parties acting in concert with Shougang Holding. The earliest date that all such share options can be fully exercised is 14 December 2014.

INFORMATION ON THE TARGET GROUP

Fair Gain is a company incorporated in the British Virgin Islands on 13 June 2007. Fair Gain is a wholly-owned subsidiary of Shougang Holding and is an investment holding company. The sole asset held by Fair Gain is the holding of 149,089,993 Fushan Shares, representing approximately 2.77% of the issued share capital of Fushan International as at the Latest Practicable Date. Fushan International and its subsidiaries are principally engaged in coking coal mining, production and sales of coking coal products and side products.

The Company's investments in Fushan International are currently accounted for as "investment in an associate". Upon Completion, the Company's investments in Fushan International will continue to be accounted for as "investment in an associate". Accordingly, the results of Fushan International will continue to be accounted for in the Company as share of the results of an associate. The Company is currently interested in 1,314,872,497 Fushan Shares and will be interested in 1,463,962,490 Fushan Shares upon Completion.

The original acquisition cost of Fushan Shares held by Fair Gain is approximately HK$998,785,688.

According to the audited accounts of Fair Gain, the financial information of Fair Gain for the years ended 31 December 2010 and 2009 is as follows:

	For the year ended 31 December	
	2010	**2009**
	(audited)	**(audited)**
	HK$'000	*HK$'000*
Revenue	17,454	–
Loss before taxation	(258,239)	(6)
Loss after taxation	(258,239)	(6)
Net (liabilities) assets	(181,160)	43,312

As at 31 December 2010, Fair Gain had net current liabilities of approximately HK$780 and net liabilities of HK$181,159,682.

Shougang Holding executed a deed of waiver on 15 June 2011 in favour of both Fair Gain and the Company, pursuant to which Shougang Holding irrevocably agreed to waive the debt due by Fair Gain to Shougang Holding in the amount of HK$1,005,629,686.29 upon Completion. At Completion, Fair Gain is free from any indebtedness to Shougang Holding.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration.

INFORMATION ON SHOUGANG HOLDING

Shougang Holding is an investment holding company. Its subsidiaries and associated companies are principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration, provision of digital television technical solutions and sale of equipment, development and provision of system integration solutions, system design and sale of system hardware, provision of financial services, property investment and management, manufacture of steel cord for radial tyres and sales and processing and trading of copper and brass products.

RELATIONSHIP BETWEEN SHOUGANG HOLDING, ITS ASSOCIATES AND PARTIES ACTING IN CONCERT WITH ANY OF THEM

Shougang Holding is the sole shareholder of Fair Gain and Fair Gain is therefore a wholly-owned subsidiary of Shougang Holding. As Shougang Holding and its associates hold an aggregate of approximately 41.90% of the issued share capital of the Company, Shougang Holding is therefore a connected person of the Company under the Listing Rules. Immediately after the Completion and the issue of the Consideration Shares (assuming no further Shares, other than the Consideration Share, were issued by the Company between the Latest Practicable Date and the Completion Date), the interest in the Shares held by Shougang Holding, its associates and parties acting in concert with any of them in the Company will increase by more than 2% (from 47.47% to 52.04%) as a result of the issue of the Consideration Shares. As at the Latest Practicable Date, there was no agreement, arrangement or understanding between Shougang Holding and any person that the Consideration Shares to be issued to Shougang Holding or its nominee under the Agreement would be transferred, charged or pledged to that person.

REASONS FOR ENTERING INTO THE AGREEMENT

The Group is principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration. The Acquisition will further increase the Company’s interest in Fushan International from 24.44% to 27.21%, which would reinforce the Group’s relationship with Fushan International. Accordingly, the Board believes that the Acquisition is in the interest of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement are normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors consider the issue of Consideration Shares to settle the consideration for the Acquisition is fair and reasonable and in the best interest of the Shareholders as a whole, as the Company is free from utilizing its monetary resources for the Acquisition.

APPLICATION FOR WHITEWASH WAIVER

Shougang Holding and parties acting in concert with it hold an aggregate of approximately 47.47% of the issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion, the interests in the issued share capital of the Company held by Shougang Holding and parties acting in concert with it will increase by more than 2% (from 47.47% to 52.04%) as a result of the issue of the Consideration Shares. Shougang Holding and parties acting in concert with it will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares to Shougang Holding or its nominee upon Completion. Shougang Holding has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code on the basis that, among other things, the Acquisition and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote taken by way of a poll whereby Shougang Holding, its associates and parties acting in concert with any of them and those who are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting. The Executive has indicated that the Whitewash Waiver will be granted and will be subject to, among others, approval by the Independent Shareholders at the EGM by way of poll.

Shougang Holding has confirmed that it, Shougang Corporation and/or parties acting in concert with any of them have not dealt in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company within the 6-month period prior to the date of the Announcement and up to and including the Latest Practicable Date.

As at the Latest Practicable Date:

(i) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Acquisition and the Whitewash Waiver;

(ii) there is no other agreement or arrangement to which Shougang Holding is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition or the Whitewash Waiver;

(iii) there is no outstanding derivative in respect of relevant securities (as defined in the Takeovers Code) in the Company which has been entered into by Shougang Holding or any parties acting in concert with it;

(iv) save for the share options granted to Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping (who are also directors of Shougang Holding) in their capacities as directors of the Company under the Scheme, neither Shougang Holding nor any parties acting in concert with it holds any convertible securities, warrants, derivatives or options of the Company;

(v) neither Shougang Holding nor any parties acting in concert with it has received an irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Acquisition and the Whitewash Waiver;

(vi) none of the Company nor Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code); and

(vi) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which Shougang Holding or any parties acting in concert with it has borrowed or lent.

As the maximum potential holding of voting rights of Shougang Holding and its parties acting in concert resulting from the proposed transaction will exceed 50% of the voting rights of the Company, if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM, Shougang Holding and its parties acting in concert may increase their holdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer upon Completion.

FURTHER INTENTIONS

Shougang Holding intends to maintain the existing businesses of the Group upon Completion. Shougang Holding does not intend to introduce any major changes to the existing operations and management structure of the Group, or to discontinue the employment of any employees of the Group, or to deploy any material fixed assets of the Group, as a result of the Completion. Accordingly, there will be no material change to the existing businesses and employment of the existing employees of the Group as a result of the Completion. Shougang Holding is optimistic about the prospect of the existing business of the Group and considers that the increase of its equity interest in the Company is commercially justifiable.

IMPLICATION UNDER THE LISTING RULES AND TAKEOVERS CODE

As Shougang Holding and its associates hold an aggregate of approximately 41.90% of the issued share capital of the Company, Shougang Holding is therefore a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. As the applicable ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition also constitutes a discloseable transaction for the Company under the Listing Rules. Given that the applicable ratios for the Acquisition are more than 5% and the transaction is with a connected person, the Acquisition is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Shougang Holding and parties acting in concert with it hold an aggregate of approximately 47.47% of the issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion, the interests in the issued share capital of the Company held by Shougang Holding and parties acting in concert with it will increase by more than 2% (from 47.47% to 52.04%) as a result of the issue of the Consideration Shares. Shougang Holding and parties acting in concert with it will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares to Shougang Holding or its nominee upon Completion. Shougang Holding has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code on the basis that, among other things, the Acquisition and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote taken by way of a poll whereby Shougang Holding, its associates and parties acting in concert with any of them and those who are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting. The Executive has indicated that the Whitewash Waiver will be granted and will be subject to, among others, approval by the Independent Shareholders at the EGM by way of poll.

The Independent Board Committee comprising Mr. Wong Kun Kim, Ms. Kan Lai Kuen, Alice and Mr. Leung Kai Cheung has been formed to advise the Independent Shareholders on the Acquisition, the issue of Consideration Shares and the Whitewash Waiver. As Mr. Ip Tak Chuen, Edmond and Mr. Leung Shun Sang, Tony, non-executive Directors of the Company, are directors of Cheung Kong (Holdings) Limited and/or its associates, and Cheung Kong (Holdings) Limited is party acting in concert with Shougang Holding, they are therefore not considered to be independent and have been excluded from the Independent Board Committee for the purpose of advising the Independent Shareholders on the Acquisition, the issue of Consideration Shares and the Whitewash Waiver.

Mr. Wang Qinghai, the Chairman of the Company, and Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping, all executive Directors, are also directors of Shougang Holding. Mr. Wang Qinghai did not attend and vote at the Board meeting for approving, inter alia, the Acquisition and the issue of the Consideration Shares. Each of Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping has voluntary abstained from voting on the resolutions of the Board for approval of the relevant transactions.

The Company has appointed Optima Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver in accordance with the Listing Rules and the Takeovers Code. Such appointment has been approved by the Independent Board Committee.

As the Completion is subject to the fulfillment of a number of conditions precedent, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 11:00 a.m. on Wednesday, 13 July 2011 at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong is set out on pages 142 to 143 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions as set out therein.

A form of proxy for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's share registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules and Rule 2.9 of the Takeovers Code, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the voting of the ordinary resolutions as set out in the notice of EGM shall be taken by way of poll at the EGM whereby Shougang Holding, its associates and parties acting in concert with any of them and those who are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular which contains its recommendations to the Independent Shareholders on the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver. Your attention is also drawn to the letter of advice from Optima Capital which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver as set out from pages 17 to 36 of this circular.

The Directors consider that the Acquisition is in the interest of the Company and the Shareholders as a whole, and the terms of the Agreement including the issue of the Consideration Shares and the Whitewash Waiver are on normal commercial terms and fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Your attention is also drawn to the general information set out in the appendix II of this circular.

By Order of the Board
Shougang Concord International Enterprises Company Limited
Li Shaofeng
Managing Director

首 長 國 際 企 業 有 限 公 司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 697)

24 June 2011

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular of the Company to the Shareholders dated 24 June 2011 (the "**Circular**"), in which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed "Definitions" of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Optima Capital, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver, as set out from pages 17 to 36 of the Circular and the letter from the Board set out on pages 5 to 15 of the Circular.

Having considered, among other matters, the factors and reasons considered by and the advices of Optima Capital as stated in its letter of advice, we consider that the terms of the Agreement including the issue of the Consideration Shares and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Shougang Concord International Enterprises Company Limited
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung
Independent Non-executive Directors

The following is the text of the letter of advice prepared by Optima Capital for the purpose of incorporation into this circular.

Suite 1501, 15th floor
Jardine House
1 Connaught Place
Central
Hong Kong

24 June 2011

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise (i) the Independent Board Committee and the Independent Shareholders on the terms of the Agreement entered into between the Company and Shougang Holding in respect of the Acquisition (including the issue of the Consideration Shares); and (ii) the Independent Board Committee regarding the Whitewash Waiver. Details of the Acquisition and the Whitewash Waiver are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 24 June 2011 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

As at the Latest Practicable Date, Shougang Holding and its associates held an aggregate of 3,425,850,686 Shares (representing approximately 41.90% of the issued share capital of the Company) and is therefore a connected person of the Company under the Listing Rules. Given that the applicable ratios for the Acquisition are more than 5% and the transaction is conducted with a connected person, the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as the applicable ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Shougang Holding and parties acting in concert with it (the "Shougang Concert Group") held an aggregate of 3,881,252,641 Shares (representing approximately 47.47% of the issued share capital of the Company). Assuming no further Shares will be issued or repurchased by the Company prior to Completion, the interests in the issued share capital of the Company held by the Shougang Concert Group will increase by more than 2% (from approximately 47.47% to 52.04%) as a result of the issue of the Consideration Shares by the Company to Shougang Holding or its nominee at Completion. As the voting rights of the Company held by the Shougang Concert Group will increase by more than 2% in the 12-month period ending on and inclusive of the Completion Date, the Shougang Concert Group, in the absence of the Whitewash Waiver, will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by it pursuant to Rule 26 of the Takeovers Code. Shougang Holding has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code on the basis that, among other things, the Acquisition and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM by way of poll. The Shougang Concert Group, its associates and those who are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting at the EGM.

The Independent Board Committee comprising Mr. Wong Kun Kim, Ms. Kan Lai Kuen, Alice and Mr. Leung Kai Cheung has been formed to advise the Independent Shareholders on the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver. As Mr. Ip Tak Chuen, Edmond and Mr. Leung Shun Sang, Tony, non-executive Directors, are directors of Cheung Kong (Holdings) Limited and/or its associates and Cheung Kong (Holdings) Limited is a party acting in concert with Shougang Holding, they are therefore not considered to be independent and have been excluded from the Independent Board Committee. We have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders as to whether the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the management of the Company up to the Latest Practicable Date and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the Latest Practicable Date. Shareholders will be notified of material changes, if any, to the information and facts provided and expressed to us after the Latest Practicable Date and up to the date of the EGM. We have also sought and received confirmation from the management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice, we have considered the following principal factors and reasons:

1. Principal terms of the Agreement

Assets to be acquired

Pursuant to the Agreement, the Company has conditionally agreed to acquire and Shougang Holding has conditionally agreed to dispose of the entire issued share capital of Fair Gain. The sole asset held by Fair Gain is the holding of 149,089,993 Fushan Shares, representing approximately 2.77% of the issued share capital of Fushan International as at the date of the Agreement.

Consideration

The consideration for the Acquisition shall be HK$785,704,263 and will be satisfied in full by the allotment and issue by the Company of the Consideration Shares to Shougang Holding or its nominee at the Issue Price. As Fair Gain does not have any material assets and liabilities other than the investment in Fushan Shares, the consideration for the Acquisition is translated into a purchase price of HK$5.27 per Fushan Share (the "Purchase Price").

The consideration for the Acquisition of HK$785,704,263 and the Purchase Price was determined after arm's length negotiations between the Company and Shougang Holding with reference to the closing price of HK$5.27 per Fushan Share on the Last Trading Day. The Purchase Price represents:

(i) the closing price of HK$5.27 per Fushan Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 3.34% to the average of the closing prices of the Fushan Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$5.452 per Fushan Share;

(iii) a discount of approximately 6.33% to the average of the closing prices of the Fushan Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day of approximately HK$5.626 per Fushan Share;

(iv) a premium of approximately 22.0% over the closing price of the Fushan Shares of HK$4.32 per Fushan Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 56.38% over the audited equity attributable to owners per Fushan Share of approximately HK$3.37 as at 31 December 2010.

The Consideration Shares will be issued at the Issue Price of HK$1.01 per Share which was determined between the parties to the Agreement with reference to the closing price of HK$1.01 per Share on the Last Trading Day. The Issue Price represents:

(i) the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 2.32% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$1.034 per Share;

(iii) a discount of approximately 4.27% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day of approximately HK$1.055 per Share;

(iv) a premium of approximately 40.28% over the closing price of the Shares of HK$0.72 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 13.68% to the audited equity attributable to owners per Share of approximately HK$1.17 as at 31 December 2010.

2. Reasons for the Acquisition

The Group is principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration. Fushan International and its subsidiaries (the "Fushan Group") are principally engaged in coking coal mining, production and sales of coking coal products and side products. Prior to the Agreement, the Group was interested in an approximately 24.44% interest in Fushan International. Upon Completion, the Group's interest in Fushan International will increase to approximately 27.21%.

As discussed in the paragraph headed "Financial information of the Group" below, the Group's performance was dependent on the global economy as well as the demand in steel market. In the past few years, the Group has been strengthening its vertical integration strategy in order to better cope with the price fluctuations in the steel market, particularly the raw materials for steel production. The investment in Fushan International is part of this initiative to enhance the Group's investment in upstream supply chain. The Board believes the Acquisition would reinforce the Group's relationship with Fushan International and we consider the Acquisition to be in line with the Group's business strategy.

3. Financial information of the Group

Results

Set out below is the audited financial information of the Group extracted from the annual reports of the Company for the two years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$' million	*HK$' million*	*HK$' million*
Revenue from continuing operations	17,464.7	11,357.6	15,850.3
Cost of Sales	(14,024.9)	(12,089.1)	(14,998.3)
Gross profit/(loss)	3,439.8	(731.5)	852.0
Other income, gains and losses	116.1	1,075.3	34.6
Change in fair value of derivative financial instruments	(208.7)	95.1	147.1
Impairment loss on available-for-sale investments	(91.1)	–	–
Distribution and selling expenses	(287.0)	(64.7)	(191.7)
Administrative expenses	(643.5)	(461.7)	(474.5)
Finance costs	(448.8)	(392.9)	(444.5)
Share of result of associates	(22.4)	402.0	476.6
Profit/(loss) before taxation	1,854.4	(78.4)	399.6
Income tax (expense)/credit	(39.0)	(142.5)	33.6
Profit/(loss) for the year from continuing operations	1,815.4	(220.9)	433.2
Profit after tax from discontinued operation	11.2	–	–
Non-controlling interests	(407.1)	292.6	66.4
Profit/(loss) attributable to owners of the Company	1,419.5	71.7	499.6
Earnings per Share (HK cents)	19.67	0.92	6.11

The Group is principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration. The Group's performance in 2009 was hard hit by the adverse macro environment such as shrinkage in demand in steel market, diving export and over-capacity. Turnover for the year ended 31 December 2009 dropped significantly by approximately 35.0% from the preceding year, and the Group recorded a gross loss of HK$731.5 million, versus a gross profit of HK$3,439.8 million or a gross profit margin of 19.7% in 2008. Among the Group's four principal business segments of steel manufacturing, shipping operations, steel and iron ore trading and mineral exploration, steel manufacturing had the worst performance and recorded segment loss of approximately HK$1,183.7 million due to the crash in demand and steel prices. With a substantial gain of approximately HK$1,245.9 million recorded from the disposal of available-for-sale investments and the share of result of associates of approximately HK$402.0 million, the Group managed to report a profit attributable to owners of approximately HK$71.7 million in 2009, which nevertheless was a substantial drop from that of HK$1,419.5 million in 2008. During the year, the Group made successive investments in Fushan Shares and started to account for such investments as interests in associate since September 2009. As a result of these successive investments, the Group recorded a loss arising from fair value adjustments on consideration paid for its investments in Fushan Shares of approximately HK$170.5 million which is included in other income, gains or losses as shown in the table above, and a share of result of associates attributable to the interest in Fushan International of approximately HK$347.3 million for the financial year ended 31 December 2009, which comprised a discount on acquisition of approximately HK$307.4 million and the share of results of Fushan International of approximately HK$39.9 million from September 2009.

The turnover of the Group for the financial year ended 31 December 2010 was approximately HK$15,850.3 million, representing a growth of approximately 39.6% over that of the preceding year and recovered to a level comparable to 2008. The revenue for the financial year ended 31 December 2010 was generated principally from steel manufacturing and steel and iron ore trading, which together accounted for approximately 89.0% of the total revenue for the year. Gross profit was about HK$852.0 million and gross profit margin was about 5.4%. The improvement in the overall results was mainly attributable to the recovery of the steel market since the third quarter of 2009 and the resulting increase in the steel price. According to the annual report of the Company for the year ended 31 December 2010, the average realised selling price of heavy steel plate and steel slab increased by approximately 19% and 20% respectively in 2010 as compared with the preceding year. Nevertheless, the Group is still facing challenges from the increasing costs of raw materials. The net profit attributable to the Shareholders was approximately HK$499.6 million, representing around 7 times of that for the previous year. We note that the Group recorded share of results of associates of HK$476.6 million for the year, of which approximately HK$414 million was attributable to the interests in Fushan International.

The analysis above showed that the investment in Fushan International had been a key contributor to the Group's profit in 2009 and 2010.

Financial position

Set out below is the financial position of the Group as at 31 December 2010 as extracted from the 2010 annual report of the Company:

	HK$' million
Non-current assets	20,433.1
Current assets	9,195.5
Current liabilities	(17,030.6)
Net current liabilities	(7,835.1)
Non-current liabilities	(1,900.7)
Non-controlling interests	(1,130.2)
Equity attributable to owners of the Company	9,567.1

The non-current assets of the Group comprised principally property, plant and equipment and interests in associates including the investment in Fushan International. Inventories and trade and bill receivables accounted for the majority of the current assets, with balances of approximately HK$3,491.2 million and HK$2,372.3 million respectively, while restricted bank deposits and bank balances and cash amounted to about HK$281.5 million and HK$1,702.7 million respectively as at 31 December 2010. Bank borrowings and trade and bills payable were the biggest current liabilities items as at 31 December 2010, amounting to approximately HK$8,845.3 million and HK$2,966.1 million respectively. The Group had net current liabilities of approximately HK$7,835.1 million as at 31 December 2010.

Equity attributable to owners of the Company amounted to approximately HK$9,567.1 million as at 31 December 2010, equivalent to approximately HK$1.17 per Share based on the 8,175,381,214 Shares in issue as at that date.

4. Financial information of Fair Gain

Fair Gain is a company incorporated in the British Virgin Islands on 13 June 2007. Fair Gain is an investment holding company and its sole asset is the holding of 149,089,993 Fushan Shares, representing approximately 2.77% of the issued share capital of Fushan International as at the Latest Practicable Date. The audited financial information of Fair Gain as provided by the Company is as follows:

	Year ended 31 December 2009 HK$' 000	2010 HK$' 000
Revenue	–	17,454.4
Interest income	–	0.1
Impairment loss on available-for-sale investment	–	(236,725.3)
Administrative expenses	(5.8)	(6.8)
Imputed interest expense	–	(38,961.3)
Loss attributable to owner of Fair Gain	(5.8)	(258,238.9)

Apart from its holding in the Fushan Shares, Fair Gain has no other business operations. Revenue of Fair Gain represents dividend income from its investment in Fushan Shares, which has been accounted for as available-for-sale investments. According to Fair Gain's accounting policies, available-for-sale investments are measured at fair value at the end of the reporting period. In accordance with such accounting policy, an impairment loss of approximately HK$236.7 million was recorded in the year ended 31 December 2010. Imputed interest expense of approximately HK$39.0 million was incurred in the year ended 31 December 2010 on the amount due to Shougang Holding which was used to finance the acquisitions of Fushan Shares.

Set out below is the audited financial position of Fair Gain as at 31 December 2010:

	HK$' million
Available-for-sale investment	581.4
Amount due to immediate holding company	(762.6)
Deficit attributable to owner of Fair Gain	(181.2)

The principal asset of Fair Gain is the available-for-sale investment in Fushan Shares. The amount due to immediate holding company is an unsecured, interest-free loan owed to Shougang Holding which was used to finance the acquisition of Fushan Shares. On 15 June 2011, Shougang Holding executed a deed of waiver in favour of Fair Gain and the Company, pursuant to which Shougang Holding irrevocably agreed that it shall waive all its rights, obligations and interest in the amount due by Fair Gain to it upon Completion, and confirmed that Fair Gain shall be free from indebtedness to Shougang Holding at Completion.

As the principal asset of Fair Gain is the 149,089,993 Fushan Shares and there will not be any other material assets and liabilities at Completion, we consider that it is more meaningful to look at the financial information of Fushan International as discussed below for the purpose of our analysis of the terms of the Acquisition.

5. Financial information of Fushan International

Results

The financial information below are extracted from the annual reports of Fushan International for the two years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$' million	*HK$' million*	*HK$' million*
Revenue from continuing operations	1,896.6	4,260.7	5,543.3
Cost of sales	(659.7)	(1,173.8)	(1,451.8)
Gross profit	1,236.9	3,086.9	4,091.5
Selling and distribution expenses	(59.8)	(222.8)	(381.0)
General and administrative expenses	(140.9)	(376.3)	(620.5)
Other operating income and expenses	(11.6)	(216.9)	(113.4)
Finance costs	(91.3)	(117.7)	(39.6)
Net transaction loss arising from acquisition of available-for-sale financial assets	–	(221.2)	–
Others	(0.2)	42.2	9.1
Profit before income tax	933.1	1,974.2	2,946.1
Income tax expense	(226.5)	(424.6)	(529.1)
Profit from continuing operations	706.6	1,549.6	2,417.0
Loss from discontinued operations	–	(107.1)	(201.9)
Non-controlling interest	(139.0)	(316.2)	(412.3)
Profit attributable to owners of Fushan International	567.6	1,126.3	1,802.8
Earnings per Fushan Share (HK cents)	16.86	23.53	33.52

The Fushan Group is principally engaged in coking coal mining, production and sales of coking coal products including raw coking coal, clean coking coal and other side products. During the financial year 2008, Fushan International generated revenue of approximately HK$1,896.6 million from the sales of raw coal, clean coal and coke, and recorded a profit attributable to its owners of approximately HK$567.6 million, contrary to a loss for the financial year 2007. The improvement in the results was largely attributable to the contributions from Xingxu Coal Mine, Jinjiazhang Coal Mine and Zhaiyadi Coal Mine (the "Coal Mines") in Shanxi Province acquired during 2008.

After the acquisition of the Coal Mines, the Fushan Group expanded its sales network by entering into sales contracts with two sizeable iron and steel plants for the sale of coking coal to the latter. During the financial year 2009, Fushan International recorded turnover of approximately HK$4,260.7 million, representing an increase of 124.6% over the preceding year. The remarkable increase in turnover was largely due to the full year contribution of revenue from the Coal Mines. During the year, the Fushan Group doubled its profit and had profit attributable to owners of approximately HK$1,126.3 million. The earnings per Fushan Share rose from HK16.86 cents in 2008 to HK23.53 cents in 2009.

During the financial year 2010, the Fushan Group recorded turnover of approximately HK$5,543.3 million, representing a growth of approximately 30.1% as compared with the preceding year. As stated in the annual report of Fushan International for the year ended 31 December 2010, the growth in turnover was mainly attributable to the increase in realised selling prices of both raw and clean coking coal, with a rise by approximately 30% and 22% respectively over the year. The increase in realised selling prices of coal was mainly due to the robust economic growth resulting in an increase in the demand from steel industry, as well as a tight supply of quality coking coal in PRC. Gross profit margin maintained a steady growth, and earnings per Fushan Share were also on the increase and reached HK33.52 cents for the financial year 2010.

Financial position

Set out below is a summary of the financial position of the Fushan Group as at 31 December 2010 as extracted from the 2010 annual report of Fushan International:

	HK$' million
Non-current assets	19,224.4
Current assets	6,895.3
Current liabilities	(3,317.6)
Net current assets	3,577.7
Non-current liabilities	(3,178.9)
Non-controlling interests	(1,473.3)
Equity attributable to owners of Fushan International	18,149.9

The non-current assets of the Fushan Group as at 31 December 2010 comprised principally the mining rights of approximately HK$10,413.7 million, and other available-for-sale financial assets of approximately HK$3,161.1 million, being investments in equity securities of companies in the mining businesses listed in Hong Kong and Australia. Current assets comprised principally trade and bills receivables of approximately HK$2,317.9 million and bank deposits, cash and cash equivalents of approximately HK$2,798.6 million. Current liabilities comprised mainly advance payments from customers and other payables and accruals of approximately HK$1,394.7 million. The Fushan Group has a net current asset position and a net cash position (i.e. total cash and bank balances exceeding total borrowings) as at 31 December 2010.

As at 31 December 2010, the Fushan Group had equity attributable to owners of approximately HK$18,149.9 million, equivalent to approximately HK$3.37 per Fushan Share based on 5,380,563,000 Fushan Shares in issue as at that date.

Dividend and payout ratio

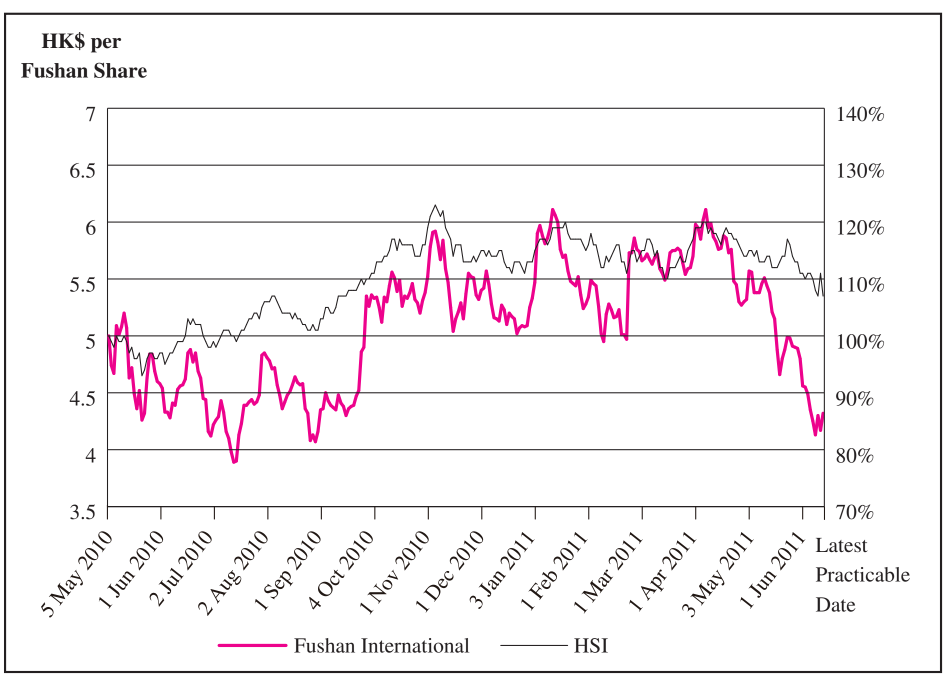
Fushan International distributed dividends in a total amount of HK$1,091.5 million, including interim dividend of HK10 cents per Fushan Share and final dividend of HK11 cents per Fushan Share, for the financial year ended 31 December 2009, representing a payout of approximately 96.9% of the profit attributable to owners of the year. For the financial year ended 31 December 2010, Fushan International distributed interim dividend of HK$269.0 million (HK5 cents per Fushan Share) and proposed final dividend of HK$538.1 million (HK10 cents per Fushan Share), representing a payout of approximately 44.8% of the profit attributable to owner of the year.

6. Market price and trading volume

The Fushan Shares

(i) Historical price movement

The chart below shows the movement of the closing prices of Fushan Shares for the period between 5 May 2010, being the date falling one year before the date of the Agreement, and the Latest Practicable Date, and the performance of the share price relative to the Hang Seng Index (the "HSI"):



Source: the official website of the Stock Exchange

On 5 May 2010, Fushan International was trading at the price of HK$5.00 per Fushan Share. For around five months thereafter, the price of Fushan Shares closed within the range of HK$4 and HK$5 for most of the time. In mid September 2010, Fushan Shares showed sign of strength, which may partly be attributable to the announcement of interim results by Fushan International on 26 August 2010 and partly due to the positive market movement as shown by the HSI during that period. During the period between 29 September 2010 and the Last Trading Day, the price of Fushan Shares closed in the range between HK$5.00 and HK$6.00 for the majority of the time, and was largely in line with the market performance of the HSI. After the date of the Agreement, the price of Fushan Shares dropped gradually and closed at HK$4.32 per Fushan Share on the Latest Practicable Date, which movement was in line with the weak market performance.

(ii) Trading volume

The table below shows the monthly trading volume of Fushan Shares for the period between 5 May 2010 and the Latest Practicable Date:

	Total monthly trading volume of the Fushan Shares	Percentage to the total issued Fushan Shares
2010		
May	641,608,154	11.9%
June	348,466,072	6.5%
July	515,804,452	9.6%
August	545,762,835	10.1%
September	719,421,032	13.4%
October	605,778,357	11.3%
November	684,663,985	12.7%
December	452,890,321	8.4%
2011		
January	666,443,020	12.4%
February	503,422,484	9.4%
March	543,389,571	10.1%
April	823,056,308	15.3%
May	521,017,044	9.7%
June (up to the Latest Practicable Date)	235,495,003	4.4%

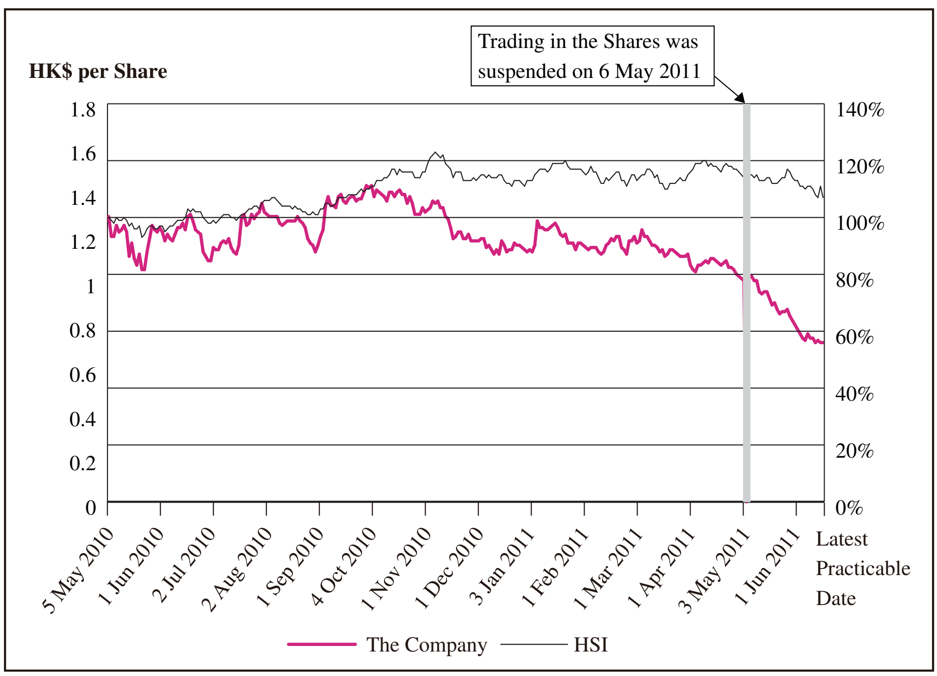
Source: the official website of the Stock Exchange

Since May 2010, the monthly trading volume of the Fushan Shares ranged between approximately 348 million shares and 823 million shares, representing approximately 6.5% and 15.3% of the total issued shares of Fushan International respectively. We note that the trading activities were more active in September 2010, November 2010, January 2011 and April 2011, during which period the trading prices were climbing to higher levels as shown in the chart above. The higher trading volume may be due to the stronger demand for the Fushan Shares in those months.

The Shares

(i) Historical price movement

The chart below shows the movement of the closing prices of the Shares for the period between 5 May 2010 and the Latest Practicable Date, and the performance of the Shares relative to the HSI:



Source: the official website of the Stock Exchange

The Shares closed at HK$1.29 on 5 May 2010. From 13 May 2010, the Shares showed downward trend and dropped to HK$1.05 on 26 May 2010. Since then, the Share price did not show any explicit direction and moved more or less in line with the market and reached its peaks of HK$1.43 on 29 September 2010 and 4 October 2010. Thereafter, Share price declined gradually and the Shares traded within the narrow range of HK$1 to HK$1.4 until the Last Trading Day. We note that the Group had not made any material acquisitions and disposals during the period and we are not aware of any reasons for such decline. The Shares closed at HK$1 on the date of Agreement and dropped further to HK$0.72 on the Latest Practicable Date. We note that the drop in Share price after the date of Agreement was in line with the overall weak performance of the Hong Kong stock market in that period as indicated by the movement in the HSI.

(ii) Trading volume

The table below shows the monthly trading volume of the Shares for the period between 5 May 2010 and the Latest Practicable Date:

	Total monthly trading volume of the Shares	Percentage to the total issued Shares
2010		
May	1,352,236,009	16.5%
June	980,502,018	12.0%
July	1,037,990,449	12.7%
August	594,555,571	7.3%
September	1,894,540,000	23.2%
October	1,751,196,397	21.4%
November	1,008,831,056	12.3%
December	507,600,157	6.2%
2011		
January	806,039,071	9.9%
February	520,379,503	6.4%
March	787,988,439	9.6%
April	894,293,348	10.9%
May	480,514,779	5.9%
June (up to the Latest Practicable Date)	365,530,415	4.5%

Source: the official website of the Stock Exchange

The monthly trading volume of the Shares ranged between approximately 480 million Shares and 1,895 million Shares, representing approximately 5.9% to 23.2% of the total issued Shares respectively. The trading volume of the Shares was relatively higher in the second half of the year 2010. The higher trading volume of the Shares was noted for the months of September 2010 and October 2010 where the closing prices of the Shares stayed at higher levels.

As discussed above, Fushan Shares and the Shares were trading in a stable manner without any observable irregularities in terms of market price, and the liquidity of the Shares and the Fushan Shares were reasonable during the period under review. In light of these, we consider it reasonable to determine the consideration of the Sale Share and the Issue Price with reference to the respective market prices of the Fushan Shares and the Shares. In view of the fact that (i) the consideration for the Acquisition was determined after arm's length negotiations between the Company and Shougang Holding based on the closing price of Fushan Shares on the Last Trading Day; and (ii) the Issue Price was determined based on the closing price the Shares on the Last Trading Day, we consider the Purchase Price and the Issue Price to be fair and reasonable.

7. Financial effects of the Acquisition

The Company's investments in Fushan International are currently accounted for as investment in an associate. As set out in the letter from the Board, this accounting treatment will continue to be applied upon Completion. We have reviewed the Company's calculation of the financial effects of the Acquisition assuming Completion has taken place and understand that the Company has prepared the same according to the Group's accounting policies. The financial effects of the Acquisition on the earnings, assets and liabilities, gearing and cashflow of the Group are more particularly discussed below.

Earnings

The results of Fushan International will continue to be accounted for by the Company as share of results of an associate. By increasing the shareholding interests in Fushan International, the Company is able to share a higher percentage of the results of Fushan International. In view of the profitable track record of the Fushan Group as discussed in the paragraph headed "Financial Information of Fushan International" and the substantial contribution of Fushan International to the Group's profits in the past as discussed in the paragraph headed "Financial information of the Group" above, it is expected that the increased investment in Fushan International will contribute positively to the Group. Nevertheless, the actual effect on earnings of the Company will depend on the future results of Fushan International.

For the financial year ended 31 December 2010, the Company shared a profit of approximately HK$414 million from the current investment in Fushan International. For illustrative purpose, assuming the additional 2.77% equity interests in Fushan International was acquired by the Company on 1 January 2010, an additional profit of approximately HK$46.9 million would have been shared by the Company for the financial year ended 31 December 2010. Based on the profit attributable to Shareholders of HK$499.6 million for the year ended 31 December 2010, the increased share of profits from Fushan International of HK$46.9 million and the total issued share capital of 8,953,306,227 Shares as enlarged by the issue of the Consideration Shares, the earnings per Share would have been approximately HK6.10 cents, which is not materially different from that of HK6.11 cents before the Acquisition.

Assets and liabilities

The total assets and total liabilities of the Group as at 31 December 2010 were approximately HK$29,628.6 million and HK$18,931.3 million respectively. After Completion, the assets and liabilities of Fair Gain will be consolidated into the accounts of the Company. Immediately upon Completion, the total assets of the Company will increase by the amount of the additional investment in 149,089,993 Fushan Shares, which shall be recorded at the fair value of the Consideration Shares to be issued, i.e., at the market price of the Consideration Shares at Completion. Accordingly, the actual increase in total assets will only be ascertained at Completion when the fair value of the Consideration Shares is determined. For illustration purpose, assuming the Issue Price of HK$1.01 is the fair value per Consideration Share at Completion, total assets of the Group would have increased by HK$785.7 million as a result of the Acquisition.

As the consideration for the Acquisition is to be satisfied by the issue of the Consideration Shares, there will not be any liabilities incurred for the Acquisition. Thus, the Acquisition will not have any effect on the total liabilities of the Company.

As a result of the Acquisition, the net asset value of the Company will increase upon Completion due to the increase in equity caused by the issue of the Consideration Shares. For illustration purpose and assuming the Issue Price of HK$1.01 is the fair value per Consideration Share at Completion, the net assets of the Group would have increased by HK$785.7 million as a result of the Acquisition. Based on the equity attributable to owners of the Company of approximately HK$9,567.1 million as at 31 December 2010, the estimated increase in net assets as disclosed above and the 8,953,306,227 Shares in issue as enlarged by the issue of the Consideration Shares, the net asset value per Share would have been HK$1.156 per Share assuming Completion takes place on 31 December 2010, representing a slightly decrease of 1.2% from HK$1.17 per Share as at 31 December 2010 before Completion. Shareholders should note, however, that the actual effect on net asset value per Share would only be ascertained at Completion when the fair value of the Consideration Shares is determined.

In addition, according to the accounting policies of the Group, 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. 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 and included within the carrying amount of the investment. Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. For illustration purpose, assuming the Issue Price of HK$1.01 is the fair value per Consideration Share at Completion and based on the total equity attributable to owners of Fushan International of HK$18,149.9 million as at 31 December 2010, the cost of the acquisition would exceed the Group's share of net assets of Fushan International and therefore the Group would have recorded a goodwill on acquisition which is included within the carrying amount of the investment and would not have any effect on our analysis above. In the event the actual fair value of the Consideration Shares is less than the Group's share of net assets of Fushan International as at the Completion Date, the Group would have to record a discount on the Acquisition at Completion which will be recognised immediately in profit or loss.

Gearing position

As at 31 December 2010, the gearing ratio of the Company, defined as net debt (being total bank borrowings and loans from ultimate holding company of a shareholder of the Company less restricted bank deposits and bank balances and cash) to total capital (defined as equity attributable to the owners of the Company plus total bank borrowings and loans from ultimate holding company of a shareholder), was approximately 45.7%. As the Acquisition does not require any external financing, there will not be any effect on the net debt. For illustration purpose, assuming the Issue Price of HK$1.01 is the fair value per Consideration Share, the gearing ratio of the Company would have reduced to 44.1% as a result of the Acquisition due to the increase in total equity of the Company.

Cashflow

As the Acquisition does not involve any cash consideration, the Acquisition would not have any immediate effect on the Group's cashflow position apart from the payment of expenses directly attributable to the Acquisition. As a shareholder of Fushan International, the Company had received dividend income of approximately HK$100 million and HK$210.4 million from Fushan International for the financial years ended 31 December 2009 and 31 December 2010 respectively. In the future, the Acquisition may bring about additional cash inflow to the Company if Fushan International distributes dividend.

8. Dilution effect on existing Shareholders

The Consideration Shares represent (i) approximately 9.52% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 8.69% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares immediately upon Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date save for the issue of the Consideration Shares).

The table below shows the shareholding structure of the Company (i) immediately before Completion; and (ii) upon Completion and immediately after the issue of the Consideration Shares.

	Immediately before Completion		Upon Completion and immediately after the issue of the Consideration Shares	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Shougang Holding and its associates	3,425,850,686	41.90	4,203,775,699	46.95
Cheung Kong (Holdings) Limited and its associates	455,401,955	5.57	455,401,955	5.09
Total of the Shougang Concert Group	**3,881,252,641**	**47.47**	**4,659,177,654**	**52.04**
Independent Shareholders	4,294,128,573	52.53	4,294,128,573	47.96
Total	**8,175,381,214**	**100.00**	**8,953,306,227**	**100.00**

We note that the shareholding interest of the Independent Shareholders will be diluted from approximately 52.53% to approximately 47.96% as a result of the issue of the Consideration Shares upon Completion.

As discussed in the paragraph headed "Financial information of the Group" above, the Company was in net current liability position of approximately HK$7,835.1 million as at 31 December 2010. As set out in the Letter, the Directors consider the issue of Consideration Shares to settle the consideration for the Acquisition is in the interest of the Shareholders as a whole, as the Company is free from utilizing its monetary resources for the Acquisition.

In light of the financial position of the Group and the fact that the issue of the Consideration Shares would not result in additional gearing or finance costs to the Group which may otherwise be incurred if the Group were to settle the consideration by way of borrowings, we concur with the Directors' view that the issue of the Consideration Shares to settle the consideration helps to preserve the cash resources of the Group and is in the interest of the Company and the Shareholders as a whole, and the dilution to Independent Shareholders is justifiable.

9. Whitewash Waiver

As at the Latest Practicable Date, the Shougang Concert Group held an aggregate of approximately 47.47% of the issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to Completion, the interests in the issued share capital of the Company held by the Shougang Concert Group will increase by more than 2% (from approximately 47.47% to 52.04%) as a result of the issue of the Consideration Shares. As the voting rights of the Company held by the Shougang Concert Group will increase by more than 2% in the 12-month period ending on and inclusive of the Completion Date, the Shougang Concert Group, in the absence of the Whitewash Waiver, will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by it pursuant to Rule 26 of the Takeovers Code. Shougang Holding has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code on the basis that, among other things, the Acquisition and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM by way of poll. The Shougang Concert Group, its associates and those who are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting at the EGM.

Completion of the Agreement is subject to, among other things, the Whitewash Waiver having been granted by the Executive and approved by the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Agreement will not become unconditional and the Acquisition will not proceed and the benefits which may be derived from the Acquisition will not accrue to the Company.

Having considered (i) the terms of the Agreement including the basis of determining the consideration for the Sale Share; (ii) the commercial justification for the Acquisition; (iii) the substantial contribution of Fushan International to the profits of the Group in 2009 and 2010 and the increased share in results of Fushan International after the Acquisition; (iv) the immaterial dilution effect of the issue of the Consideration Shares on earnings and net assets per Share; and (v) the issue of the Consideration Shares to settle the consideration would help to preserve cash resources for the Group, we are of the view that the Whitewash Waiver is fair and reasonable in so far as the Independent Shareholders are concerned.

OPINION

Having taken into account the above principal factors and reasons, in particular, (i) the Acquisition is in line with the business strategy of the Company; (ii) the strong historical financial performance of the Fushan Group and the substantial contribution of Fushan International to the profits of the Group in the past; (iii) the possibility of receiving dividend and sharing profits from the additional investment in Fushan International; (iv) the basis of determining the Purchase Price and the Issue Price with reference to the closing share prices of the Fushan Shares and the Shares as at the Last Trading Day; (v) the current financial resources available to the Company; and (vi) the financial effects of the Acquisition, we consider that the terms of the Agreement including the issue of the Consideration Shares and the Whitewash Waiver are on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Acquisition, the issue of the Consideration Shares and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Beatrice Lung
Managing Director

1. SUMMARY OF INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated results and financial information of the Group for the three years ended 31 December 2010. The figures for the years ended 31 December 2010, 2009 and 2008 are extracted from the 2010, 2009 and 2008 annual reports of the Company. The Company's auditors, Deloitte Touche Tohmatsu, have not issued any qualified opinion on the Group's financial statements for the three years ended 31 December 2010.

Consolidated results of the Group for years ended 31 December 2010, 2009 and 2008

	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Revenue	15,850,276	11,357,623	17,464,705
Cost of sales	(14,998,290)	(12,089,157)	(14,024,858)
Gross profit (loss)	851,986	(731,534)	3,439,847
Other income	61,796	68,103	138,826
Other gains and losses	(27,214)	1,007,153	(22,684)
Change in fair value of derivative financial instruments	147,074	95,136	(208,730)
Impairment loss on available-for-sale investments	–	–	(91,143)
Distribution and selling expenses	(191,742)	(64,723)	(287,006)
Administrative expenses	(474,436)	(461,684)	(643,538)
Finance costs	(444,527)	(392,863)	(448,748)
Share of result of associates	476,629	402,022	(22,417)
Profit (loss) before taxation	399,566	(78,390)	1,854,407
Income tax credit (expense)	33,617	(142,546)	(39,002)
Profit (loss) for the year from continuing operations	433,183	(220,936)	1,815,405

	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
Discontinued operation			
Profit after tax for the year from discontinued operation	–	–	11,237
Profit (loss) for the year	433,183	(220,936)	1,826,642
Profit (loss) for the year attributable to:			
Owners of the Company	499,576	71,667	1,419,463
Non-controlling interests	(66,393)	(292,603)	407,179
	433,183	(220,936)	1,826,642
Dividends recognised as distribution during the year:			
Interim – (2010: nil, 2009: nil and 2008: HK2 cents per ordinary share)	–	–	144,350
Final – (2010: nil, 2009: HK3 cents and 2008: HK4 cents per ordinary share)	–	231,762	291,334
Special – (2010: nil, 2009: nil and 2008: HK4 cents per ordinary share)	–	–	291,334
	–	231,762	727,018
Earnings per share			
From continuing and discontinued operations:			
– Basic *(Note 1)*	6.11 HK cents	0.92 HK cent	19.67 HK cents
– Diluted *(Note 2)*	6.05 HK cents	0.83 HK cent	19.55 HK cents
From continuing operations:			
– Basic *(Note 1)*	6.11 HK cents	0.92 HK cent	19.57 HK cents
– Diluted *(Note 2)*	6.05 HK cents	0.83 HK cent	19.45 HK cents

There were no exceptional items for the three years ended 31 December 2010, 2009 and 2008.

Note 1: Weighted average number of ordinary shares for the purpose of basic earnings per share for (i) 2010: 8,175,381,214; (ii) 2009: 7,782,093,543; and (iii) 2008: 7,214,737,209.

Note 2: Weighted average number of ordinary shares for the purpose of diluted earnings per share for (i) 2010: 8,185,410,694; (ii) 2009: 7,791,820,035; and (iii) 2008: 7,257,141,834.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2010 together with comparable figure, as extracted from the 2010 annual report of the Company.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

		2010	2009
	NOTES	*HK$'000*	*HK$'000*
Revenue	6	15,850,276	11,357,623
Cost of sales		(14,998,290)	(12,089,157)
Gross profit (loss)		851,986	(731,534)
Other income	7	61,796	68,103
Other gains and losses	8	(27,214)	1,007,153
Change in fair value of derivative financial instruments		147,074	95,136
Distribution and selling expenses		(191,742)	(64,723)
Administrative expenses		(474,436)	(461,684)
Finance costs	9	(444,527)	(392,863)
Share of result of associates		476,629	402,022
Profit (loss) before taxation		399,566	(78,390)
Income tax credit (expense)	10	33,617	(142,546)
Profit (loss) for the year	11	433,183	(220,936)
Other comprehensive income (expense)			
Exchange differences arising on translation		187,208	7,189
Available-for-sale financial assets			
Gains arising during the year		24,609	3,476,917
Reclassification adjustments of cumulative gain upon disposal		–	(1,610,136)
Reversal of cumulative gain of an available-for-sale investee upon becoming an associate		–	(1,963,500)
Share of result of an available-for-sale investee upon becoming an associate		–	95,726
Deferred tax charge arising on fair value gains on available-for-sale investments		–	(170,816)
Reclassification adjustment for deferred tax charge upon disposal		–	170,816
Release on deemed disposal of partial interest in associates		(108)	–
Share of other comprehensive income of associates			
Exchange differences arising on translation		125,442	6,503
Fair value gain on available-for-sale financial assets		157,528	16,419
Gains on revaluation of properties		–	800
Other comprehensive income for the year (net of tax)		494,679	29,918
Total comprehensive income (expense) for the year		927,862	(191,018)

	NOTES	2010 HK$'000	2009 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		499,576	71,667
Non-controlling interests		(66,393)	(292,603)
		433,183	(220,936)
Total comprehensive income and expense attributable to:			
Owners of the Company		950,476	99,588
Non-controlling interests		(22,614)	(290,606)
		927,862	(191,018)
Earnings per share	14		
– Basic		6.11 HK cents	0.92 HK cent
– Diluted		6.05 HK cents	0.83 HK cent

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investment properties	15	34,234	31,477
Property, plant and equipment	16	12,096,114	10,251,792
Prepaid lease rentals	17	357,078	326,316
Intangible asset	18	–	–
Mining assets	18	179,593	174,212
Goodwill	19	168,015	168,015
Interests in associates	22	6,742,974	6,211,843
Available-for-sale investments	23	261,931	231,688
Deferred tax assets	35	46,827	38,639
Other financial assets	29	367,942	275,140
Deposits for acquisition of property, plant and equipment	24	178,396	773,040
		20,433,104	18,482,162
CURRENT ASSETS			
Inventories	25	3,491,190	1,619,661
Trade and bill receivables	26	1,622,373	783,869
Trade receivables from related companies	27	749,972	722,395
Prepayments, deposits and other receivables	26	1,006,681	338,184
Prepaid lease rentals	17	7,680	7,459
Amounts due from related companies	27	108,044	301,007
Amount due from an associate	27	17,756	–
Amount due from a non-controlling shareholder of a subsidiary	27	3,526	3,407
Amount due from ultimate holding company of a shareholder	28	1,887	185,784
Other financial assets	29	202,195	149,706
Restricted bank deposits	30	281,486	280,838
Bank balances and cash	31	1,702,696	1,372,258
		9,195,486	5,764,568
CURRENT LIABILITIES			
Trade and bill payables	32	2,966,135	1,165,507
Other payables and accrued liabilities	32	1,802,613	1,414,060
Tax payable		218,457	184,741
Amount due to a shareholder	27	–	350,000
Amounts due to related companies	27	1,056,185	541,708
Amount due to ultimate holding company of a shareholder	28	1,172,981	99,041
Bank borrowings – due within one year	33	8,845,339	6,010,188
Loans from ultimate holding company of a shareholder	34	968,868	793,479
		17,030,578	10,558,724
NET CURRENT LIABILITIES		(7,835,092)	(4,794,156)
TOTAL ASSETS LESS CURRENT LIABILITIES		12,598,012	13,688,006

	NOTES	2010 HK$'000	2009 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	33	1,888,612	3,898,921
Deferred tax liabilities	35	12,139	48,267
		1,900,751	3,947,188
		10,697,261	9,740,818
CAPITAL AND RESERVES			
Share capital	36	1,635,076	1,635,076
Share premium and reserves		7,932,018	6,946,160
Equity attributable to owners of the Company		9,567,094	8,581,236
Non-controlling interests		1,130,167	1,159,582
		10,697,261	9,740,818

Statement of Financial Position
At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	2,859,179	2,774,045
Interest in an associate	22	4,876	4,876
Amounts due from subsidiaries	21	4,905,784	4,993,469
Other financial assets	29	367,942	275,140
		8,137,781	8,047,530
CURRENT ASSETS			
Other receivables	26	1,105	2,363
Amount due from a related company	27	8	–
Other financial assets	29	202,195	149,164
Bank balances and cash	31	426,090	494,882
		629,398	646,409
CURRENT LIABILITIES			
Other payables and accrued liabilities	32	3,217	8,611
Amount due to a subsidiary	21	151,193	44,998
Amount due to a shareholder	27	–	350,000
Bank borrowings – due within one year	33	2,444,652	384,833
Other financial liabilities	29	162,518	149
		2,761,580	788,591
NET CURRENT LIABILITIES		(2,132,182)	(142,182)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,005,599	7,905,348
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	33	–	2,090,447
		6,005,599	5,814,901
CAPITAL AND RESERVES			
Share capital	36	1,635,076	1,635,076
Share premium and reserves	38	4,370,523	4,179,825
		6,005,599	5,814,901

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	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 2009	1,435,076	2,242,475	22,611	32,587	557,948	170,603	729,318	88,536	51,979	2,232,705	7,563,838	1,497,500	9,061,338
Profit for the year	–	–	–	–	–	–	–	–	–	71,667	71,667	(292,603)	(220,936)
Exchange differences arising on translation	–	–	–	–	5,192	–	–	–	–	–	5,192	1,997	7,189
Fair value gains on available-for-sale investments	–	–	–	–	–	–	–	3,476,917	–	–	3,476,917	–	3,476,917
Deferred tax charge arising on fair value gains on available-for-sale investments	–	–	–	–	–	–	–	(170,816)	–	–	(170,816)	–	(170,816)
Transfer to profit or loss upon disposal of available-for-sale investments *(note 22)*	–	–	–	–	–	–	–	(1,610,136)	–	–	(1,610,136)	–	(1,610,136)
Reclassification adjustment for deferred tax charge included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	–	–	–	170,816	–	–	170,816	–	170,816
Reversal of cumulative gain of an associate previously classified as available-for-sale investment	–	–	–	–	–	–	–	(1,963,500)	–	–	(1,963,500)	–	(1,963,500)
Share of result of an associate previously classified as available-for-sale investment	–	–	–	–	–	–	–	–	–	95,726	95,726	–	95,726
Surplus on revaluation of properties	–	–	–	800	–	–	–	–	–	–	800	–	800
Share of other comprehensive income of associates	–	–	–	–	2,999	–	–	16,419	–	3,504	22,922	–	22,922
Total comprehensive income and expense for the year	–	–	–	800	8,191	–	–	(80,300)	–	170,897	99,588	(290,606)	(191,018)
Release on deemed disposal of partial interest in associates	–	–	–	(61)	(1,334)	–	–	155	–	–	(1,240)	–	(1,240)
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	159	–	–	(159)	–	–	–
Share issued at premium	200,000	891,500	–	–	–	–	–	–	–	–	1,091,500	–	1,091,500
Share issue expenses	–	(60)	–	–	–	–	–	–	–	–	(60)	–	(60)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(65,432)	(65,432)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	(231,762)	(231,762)	–	(231,762)
Recognition of equity-settled share based payment	–	–	–	–	–	59,372	–	–	–	–	59,372	–	59,372
Contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	18,120	18,120
At 31 December 2009	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

	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*
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

Notes:

(a) Revaluation reserve mainly represents 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 2010

	2010	2009
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before tax from operations	399,566	(78,390)
Adjustments for:		
Interest income	(26,966)	(47,472)
Interest expenses	444,527	392,863
Share of results of associates	(476,629)	(402,022)
Share-based payments	35,382	59,372
Loss on dilution of interests in associates	1,680	19,177
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired	–	170,500
Gain from changes in fair value of investment properties	(1,910)	(3,558)
Gain on disposal of available-for-sale investments	–	(1,245,923)
Gain on disposal of property, plant and equipment	(131)	(298)
Depreciation of property, plant and equipment	684,567	659,197
Amortisation of mining assets	1,888	2,963
Amortisation of prepaid lease rentals	7,871	6,982
Change in fair value of derivative financial instruments	(146,883)	(67,346)
Impairment loss on goodwill	–	50,000
(Reversal of) allowance for inventories	(201,751)	210,395
Reversal of allowance of trade receivables, net	(5,641)	(3,547)
Operating cash flows before movements in working capital	715,570	(277,107)
(Increase) decrease in inventories	(1,592,872)	60,974
(Increase) decrease in trade and bill receivables	(798,882)	142,518
Increase in prepayments, deposits and other receivables	(652,745)	(6,303)
Decrease in amounts due from related companies	50,384	1,000,910
Decrease (increase) in amount due from ultimate holding company of a shareholder	191,704	(185,372)
Decrease (increase) in other financial assets/liabilities	1,610	(11,948)
Decrease in restricted bank deposits	11,153	371,159
Increase (decrease) in trade and bill payables	1,747,166	(213,973)
Increase in other payables and accrued liabilities	356,103	27,695
Increase (decrease) in amount due to ultimate holding company of a shareholder	1,069,817	(45,260)
Increase (decrease) in amounts due to related companies	462,888	(172,329)
Cash generated from operations	1,561,896	690,964
Interest paid	(531,575)	(434,427)
Income taxes paid	(4,180)	(30,418)
NET CASH FROM OPERATING ACTIVITIES	1,026,141	226,119

	2010	2009
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,262,035)	(1,462,790)
Decrease in amount due to a shareholder	(191,750)	–
Deposits paid for acquisition of property, plant and equipment	(145,911)	(772,545)
Addition of prepaid lease rentals	(28,909)	(2,397)
Increase in amount due from an associate	(17,756)	–
Dividends received from an associate	227,531	100,000
Interest received	26,966	47,472
Proceeds from disposal of property, plant and equipment	847	2,777
Acquisition of an associate	–	(2,440,628)
Purchase of available-for-sale investments	–	(107,180)
Capital contribution to associates	–	(17,381)
Decrease in amounts due from related companies	–	207,392
Proceeds from disposal of investment properties	–	10,692
NET CASH USED IN INVESTING ACTIVITIES	(1,391,017)	(4,434,588)
FINANCING ACTIVITIES		
New borrowings raised	6,976,776	6,742,401
Loan from ultimate holding company of a shareholder	142,046	–
Repayment of loan from ultimate holding company of a shareholder	–	(136,317)
Increase in amounts due to related companies	26,344	18,384
Repayment of bank borrowings	(6,467,342)	(4,126,012)
Dividend paid to non-controlling shareholders of a subsidiary	(6,801)	(65,432)
Decrease in amount due to ultimate holding company of a shareholder	(39)	(29,530)
Payment of dividend	–	(231,762)
Expenses on issue of shares	–	(60)
Capital contribution from non-controlling shareholders	–	18,120
NET CASH FROM FINANCING ACTIVITIES	670,984	2,189,792
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	306,108	(2,018,677)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,372,258	3,382,952
Effect of foreign exchange rate changes	24,330	7,983
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	1,702,696	1,372,258

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 42% equity interest of the Company as at 31 December 2010, 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 to the consolidated financial statements.

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$7,835,092,000 as at 31 December 2010 of which current liabilities of approximately HK$8,845,339,000 were attributable to bank borrowings due within one year as disclosed in note 33 to the consolidated financial statements. Taking into account the financial resources of the Group, including the Group's unutilised banking facilities, the Group's ability to renew the banking facilities upon maturity, financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, and the marketable securities held by the Group that can be disposed of, if necessary, 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 Standards and Interpretations applied in the current year

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

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
Hong Kong Accounting Standard ("HKAS") 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009, except for amendment to HKFRS5
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRIC – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the consolidated financial statements of the Group and the statement of financial position of the Company.

Amendments to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease rentals in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The application of the amendment has had no material effect on the consolidated financial statements of the Group.

HKFRS 3 (Revised 2008) Business Combinations and HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

As there was no transaction during the current period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the consolidated financial statements of the Group.

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28 [1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets [3]
HKFRS 9	Financial Instruments [4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [5]
HKAS 24 (as revised in 2009)	Related Party Disclosures, except for partial exemption of paragraph 25-27 [6]
HKAS 32 (Amendments)	Classification of Rights Issues [7]
HKFRIC – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement [6]
HKFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either 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 accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. 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 presentation 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. Currently, 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 is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2011. Based on the Group's and the Company's financial assets and financial liabilities as at 31 December 2010, the application of the new Standard may affect the classification and measurement of the Group's financial assets but not on the Group's financial liabilities, and will have no significant impact on the Company's financial statements.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors are still in the process of assessing the impact of the amendments to the Group.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on consolidated financial statements of the Group.

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 principle 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. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

The Group regards acquisition of partial interest in the equity of a subsidiary with non-controlling shareholders without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying amount of the subsidiary's net assets acquired is recorded in equity.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the combination over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree is initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

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 any 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.

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.

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

For acquisition of associates which involved successive share purchases 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 which 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. The Goodwill 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 and 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 and liabilities attributable to the additional equity interest acquired over the cost of acquisition of additional equity interest, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

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

Revenue from the sale of goods is recognised when 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.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

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 revenue can be measured reliably. Interest income from a financial asset 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 revenue can be measured reliably).

Rental income including rental invoiced in advance, from letting of properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

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

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

Property, plant and equipment

Property, plant and equipment including land and 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 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 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 category 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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.

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 using the fair value model. 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 asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the 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.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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 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.

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) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses 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 (the exchange reserve).

From 1 January 2010 onwards, 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.

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 the reporting period. Exchange differences arising are recognised in the 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 are charged as an expense 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.

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. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible asset

Deferred product design fees

Deferred product design fees acquired separately and with finite useful lives are carried at costs 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.

Mining Assets

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

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

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

Financial assets

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. 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 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

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.

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 and 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 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 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment 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 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.

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 subsequently 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 average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 receivables or trade receivables from related companies is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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 in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in security investment reserve.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

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
- 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.

Other financial liabilities

Other financial liabilities including trade and bill payables, other payables, bank borrowings, amounts due to related companies, amount due to a shareholder, 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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount 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 HKAS 18 Revenue.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

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.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on assets excluding goodwill and financial assets (see the accounting policy in respect of goodwill and financial instruments above)

At the end of the reporting period, the Group reviews the carrying amounts of its assets excluding goodwill and financial 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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 in prior years. A reversal of an impairment loss is recognised as income immediately.

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 estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time 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 2010, the carrying amount of the Group's mining assets is approximately HK$179,593,000 (2009: HK$174,212,000). Mining assets with a carrying amount of approximately HK$54,510,000 (2009: HK$52,312,000) will expire in June 2011 and mining assets with a carrying amount of approximately HK$125,083,000 (2009: HK$121,900,000) will expire in December 2011. The Directors are of the opinion that the expiry date of the mining assets can be extended with minimal cost. Where the mining assets cannot be extended upon expiry, 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 of the provision for impairment recognised during the year is set out in note 26.

Allowance for inventories

As at 31 December 2010, the carrying amount of the Group's inventories is HK$3,491,190,000 (2009: HK$1,619,661,000). 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 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.

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$1,819 million, of which HK$285 million is subject to Hong Kong Inland Revenue Department's ("IRD") confirmation and HK$479 million is subject to confirmation by the State Administration of Taxation of the PRC ("SAT") (2009: HK$1,229 million, of which HK$263 million was subject to IRD's confirmation and HK$884 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 iron ore market price and risk free rate, 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$570,137,000 (2009: HK$423,137,000). Details of the commodity forward contracts are disclosed in note 29.

Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2010 was approximately HK$12,096,114,000 (2009: HK$10,251,792,000). 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.

6. REVENUE AND SEGMENT INFORMATION

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

	2010	**2009**
	HK$'000	*HK$'000*
Sale of steel products	11,143,193	9,129,186
Vessel chartering and floating cranes leasing income	207,142	197,127
Sale of iron ore	4,494,866	2,026,013
Management services income	5,075	5,297
	15,850,276	11,357,623

Segment information

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

During the year ended 31 December 2009, the Group has started the mineral exploration operation, which is reported as a separate operating segment to the Directors for the purposes of resource allocation and performance assessment.

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 2010

	Steel manufacturing	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Total
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 instrument						74
Loss on dilution of interests in associates						(1,680)
Share of result of associates						476,629
Profit before taxation						399,566

For the year ended 31 December 2009

	Steel manufacturing	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
External sales	8,600,112	197,127	2,419,265	135,822	5,297	11,357,623
Inter-segment sales	377,260	–	–	188,931	–	566,191
Segment revenue	8,977,372	197,127	2,419,265	324,753	5,297	11,923,814
Eliminations						(566,191)
Group revenue						11,357,623

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Total
Segment (loss) profit	(1,183,722)	28,808	114,355	(61,394)	6,010	(1,095,943)
Interest income						47,472
Central administration costs						(121,523)
Finance costs						(392,863)
Gain from change in fair value of derivative financial instrument						26,199
Loss on dilution of interest in associates						(19,177)
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired						(170,500)
Gain on disposal of available-for-sale investment						1,245,923
Share of result of associates *(Note)*						402,022
Loss before taxation						(78,390)

Note: Share of result of associates including discount on acquisition of an associate of HK$307,358,000.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit (loss) generated by each segment without allocation of interest income, central administration costs, finance costs, gain from change in fair value of foreign currency forward contracts and option to subscribe for shares of a listed company in Australia, loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired, gain on disposal of available-for-sale investment, loss on dilution of interest in associates and share of result of associates. This is the measure reported to the 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:

	2010	2009
	HK$'000	*HK$'000*
Segment assets		
Steel manufacturing	17,051,386	13,686,624
Shipping operations	25,630	17,762
Steel and iron ore trading	1,311,422	535,508
Mineral exploration	2,180,773	1,561,955
Others	5,709	6,899
Total segment assets	20,574,920	15,808,748
Interests in associates	6,742,974	6,211,843
Available-for-sale investments	261,931	231,688
Deferred tax assets	46,827	38,639
Amount due from an associate – non-trade	17,756	–
Amounts due from related companies – non-trade	–	301,007
Foreign currency forward contracts	–	1,592
Option to subscribe for shares of a listed company in Australia	–	117
Restricted bank deposits	281,486	280,838
Bank balances and cash	1,702,696	1,372,258
Consolidated assets	29,628,590	24,246,730

	2010	2009
	HK$'000	*HK$'000*
Segment liabilities		
Steel manufacturing	5,406,163	2,542,688
Shipping operations	44,456	45,683
Steel and iron ore trading	698,587	58,883
Mineral exploration	447,663	193,463
Others	6,032	10,891
Total segment liabilities	6,602,901	2,851,608
Amount due to a shareholder	–	350,000
Amount due to related companies – non-trade	296,140	269,796
Amount due to ultimate holding company of a shareholder – non-trade	98,873	98,912
Bank borrowings	10,733,951	9,909,109
Tax payable	218,457	184,741
Deferred tax liabilities	12,139	48,267
Loans from ultimate holding company of a shareholder	968,868	793,479
Consolidated liabilities	18,931,329	14,505,912

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

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

Other segment information

2010

	Steel manufacturing HK$'000	Shipping operations HK$'000	Steel and iron ore 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
Loss (gain) on disposal of property, plant and equipment	(164)	–	–	–	33	(131)
Reversal of allowance for inventories	(201,751)	–	–	–	–	(201,751)

2009

	Steel manufacturing HK$'000	Shipping operations HK$'000	Steel and iron ore 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)*	1,350,083	898	192	934,053	33	2,285,259
Depreciation of property, plant and equipment	636,003	1,634	55	20,491	1,014	659,197
Amortisation of mining assets	–	–	–	2,963	–	2,963
Amortisation of prepaid lease rentals	6,888	–	89	5	–	6,982
Gain on disposal of property, plant and equipment	(5)	–	–	–	(293)	(298)
Allowance for inventories	210,395	–	–	–	–	210,395

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

Revenue from major products and services

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

	2010	**2009**
	HK$'000	*HK$'000*
Steel plates	10,324,234	8,421,651
Iron ore	4,494,866	2,026,013
Steel slabs	818,959	707,535
Vessel chartering and floating cranes leasing	207,142	197,127
Management services	5,075	5,297
	15,850,276	11,357,623

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**	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC, excluding Hong Kong (country of domicile)	12,744,884	7,660,738	13,016,467	11,726,548
Hong Kong	200,564	1,632,333	6,739,937	6,210,147
Australia	2,837,647	1,890,191	–	–
Korea	67,074	146,425	–	–
Others	107	27,936	–	–
	15,850,276	11,357,623	19,756,404	17,936,695

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

Information about major customers

During the years ended 31 December 2010 and 2009, the customer which accounted for 10% or more of the Group's sales is Shougang Group. Sales to Shougang Group under the segments of steel manufacturing, steel and iron ore trading and mineral exploration contributed HK$3,642,508,000 (2009: HK$2,443,582,000) to the Group's revenue.

7. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Interest income on bank deposits	26,966	47,472
Scrap sales income	3,288	7,353
Compensation income	679	1,647
Refund of value added tax	18,028	–
Sundry income	12,835	11,631
	61,796	68,103

8. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale investment *(note)*	–	1,245,923
Reversal of provision for impairment of trade receivables	5,641	3,547
Gain from changes in fair value of investment property	1,910	3,558
Gain on disposal of property, plant and equipment	131	298
Net foreign exchange loss	(33,216)	(6,496)
Loss on dilution of interest in associates	(1,680)	(19,177)
Impairment loss on goodwill	–	(50,000)
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired *(note 22)*	–	(170,500)
	(27,214)	1,007,153

Note: During the year ended 31 December 2009, cumulative gain of an available-for-sale investment amounted to HK$1,610,136,000 has been reclassified from security investment reserve upon disposal to an associate, of which HK$364,213,000 represents unrealised gain on disposal and has been eliminated against interest in associates, resulting a net gain of HK$1,245,923,000 recognised as gain on disposal in the profit or loss as disclosed in note 22.

9. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	487,516	395,161
Other borrowings wholly repayable within five years	43,540	44,734
Total borrowing costs	531,056	439,895
Less: Amounts capitalised	(86,529)	(47,032)
	444,527	392,863

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate of 4.57% (2009: 4.73%) per annum to expenditure on qualifying assets.

10. INCOME TAX (CREDIT) EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
– PRC Enterprise Income Tax	3,883	11,387
– Other jurisdictions	–	170,816
	3,883	182,203
Underprovision in prior year – Hong Kong	–	870
Deferred tax *(note 35)*:		
Current year	(37,500)	(40,527)
Income tax (credit) expense	(33,617)	142,546

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Current tax in other jurisdictions represents an one-off tax provision in connection with gain on disposal of equity securities.

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. The EIT Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the EIT Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate is only applicable to certain subsidiaries after the expiry of tax holidays and concessions.

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

	2010	2009
	HK$'000	*HK$'000*
Profit (loss) before taxation	399,566	(78,390)
Taxation at the income tax rate of 25% (2009: 25%) *(Note)*	99,891	(19,598)
Tax effect of share of results of associates	(119,157)	(100,506)
Tax effect of expenses not deductible for tax purposes	31,507	102,836
Tax effect of income not taxable for tax purposes	(140,006)	(229,968)
Underprovision in respect of prior years	–	870
Tax effect of tax loss not recognised	155,627	352,638
Tax effect of deductible temporary differences not recognised	689	52,653
Tax effect of utilisation of tax losses previously not recognised	(8,244)	(11,022)
Tax effect of utilisation of deductible temporary differences previously not recognised	(53,924)	(34,476)
Tax effect of withholding tax on distributed profits of a subsidiary	–	7,086
Effect of different tax rates of subsidiaries and the capital gain tax on listed Australia equity investments	–	22,033
Tax (credit) expense for the year	(33,617)	142,546

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

11. PROFIT (LOSS) FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	359,886	361,390
– retirement benefits scheme contributions	44,229	39,256
– share-based payments	35,382	59,372
	439,497	460,018
Amortisation of mining assets, included in cost of sales	1,888	2,963
Depreciation of property, plant and equipment	684,567	659,197
Total depreciation and amortisation	686,455	662,160
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	(191)	(29,382)
– change in fair value of option to subscribe for shares of a listed company in Australia	117	3,183
– change in fair value of commodity forward contracts	(147,000)	(68,937)
	(147,074)	(95,136)
Auditor's remuneration	2,652	3,449
Cost of inventories recognised as expenses (including reversal of allowance for inventories of HK$201,751,000 (2009: including allowance for inventories of HK$210,395,000))	14,843,440	11,927,416
Minimum lease payments under operating leases in respect of land and buildings	3,267	4,484
Amortisation of prepaid lease rentals	7,871	6,982
Rental income from investment properties under operating leases, less outgoings of HK$209,000 (2009: HK$258,000)	(1,147)	(1,374)
Impairment loss on goodwill (included in other gains and losses)	–	50,000

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2009: ten) Directors were as follows:

	Wang Qinghai	Cao Zhong	Li Shaofeng	Zhang Wenhui	Chen Zhouping	Luo Zhenyu	Ip Tak Chuen, Edmond	Leung Shun Sang, Tony	Kan Lai Kuen, Alice	Wong Kun Kim	Leung Kai Cheung	Total 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note b)	*(Note c)*			*(Note c)*						
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

	Wang Qinghai	Cao Zhong	Zhang Wenhui	Chen Zhouping	Luo Zhenyu	Ip Tak Chuen, Edmond	Leung Shun Sang, Tony	Kan Lai Kuen, Alice	Wong Kun Kim	Leung Kai Cheung	Total 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009											
Fees	150	–	–	–	–	150	230	330	330	330	1,520
Other emoluments											
Salaries and other benefits	–	3,730	2,114	2,735	1,731	–	–	–	–	–	10,310
Contributions to retirement benefits schemes	–	587	233	302	164	–	–	–	–	–	1,286
Performance related incentive payments *(Note a)*	–	8,000	2,550	3,300	1,540	–	–	–	–	–	15,390
Share-based payments	–	18,509	9,966	12,814	7,119	–	–	–	–	–	48,408
Total emoluments	150	30,826	14,863	19,151	10,554	150	230	330	330	330	76,914

Notes:

(a) The performance related incentive payments are determined by the Remuneration Committee of the Board of Directors taking into consideration 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 from the same day.

(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 from the same day.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2009: four) were Directors of the Company whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining one (2009: one) individual are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Salaries and other benefits	1,040	910
Contributions to retirement benefits scheme	120	77
Performance related incentive payments *(Note)*	560	620
Share-based payments	778	1,424
	2,498	3,031

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

	2010	**2009**
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final – nil (2009: HK3 cents) per ordinary share	–	231,762

The final dividend of HK1 cent in respect of the year ended 31 December 2010 (2009: nil) per ordinary share has been proposed by the directors and is subject to approval by shareholders in the forthcoming annual general meeting of the Company,

The proposed dividends for 2010 are payable to all shareholders whose names appear on the register of members on 19 May 2011.

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:

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	499,576	71,667
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	(4,250)	(6,909)
Earnings for the purpose of diluted earnings per share	495,326	64,758

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,175,381,214	7,782,093,543
Effect of dilutive potential ordinary shares on share options	10,029,480	9,726,492
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,185,410,694	7,791,820,035

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 2010 and 2009.

15. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2009	37,102
Transfer from prepaid lease rentals	1,479
Exchange adjustments	30
Changes in fair value recognised in profit or loss	3,558
Disposals	(10,692)
At 31 December 2009	31,477
Exchange adjustments	847
Changes in fair value recognised in profit or loss	1,910
At 31 December 2010	34,234

The fair value of the Group's investment properties at 31 December 2010 and 2009 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a member of the Royal Institution of Chartered Surveyors. 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 capitalisation 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 investment properties shown above are situated in:

	2010	2009
	HK$'000	*HK$'000*
Hong Kong and held under long-term lease	12,690	12,290
The PRC and held under medium-term lease	21,544	19,187
	34,234	31,477

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 2009	3,436,985	62,825	79,451	6,337,381	192,474	30,893	1,029,505	11,169,514
Exchange adjustments	5,470	87	121	10,081	300	68	1,648	17,775
Additions	32,890	–	7,809	25,005	48,442	–	1,707,146	1,821,292
Transfer from construction in progress	511,811	–	9,779	534,148	1,204	–	(1,056,942)	–
Reclassification *(note)*	(590,883)	–	1,400	538,179	51,304	–	–	–
Disposals	–	(2,128)	(490)	–	(1,041)	–	–	(3,659)
At 31 December 2009	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
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2009	332,615	38,088	38,031	1,590,360	67,965	24,055	–	2,091,114
Exchange adjustments	587	59	70	3,087	147	49	–	3,999
Provided for the year	128,980	469	9,976	487,155	31,379	1,238	–	659,197
Reclassification *(note)*	(73,498)	–	314	60,069	13,115	–	–	–
Eliminated on disposals	–	(125)	(120)	–	(935)	–	–	(1,180)
At 31 December 2009	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
CARRYING VALUES								
At 31 December 2010	3,070,337	22,763	67,335	6,551,226	154,169	4,533	2,225,751	12,096,114
At 31 December 2009	3,007,589	22,293	49,799	5,304,123	181,012	5,619	1,681,357	10,251,792

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

Note: These represented reclassification of property, plant and equipment that were constructed in prior years as a result of an independent construction completion report received during the year ended 31 December 2009.

17. PREPAID LEASE RENTALS

	THE GROUP	
	2010	2009
	HK$'000	*HK$'000*
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	363,825	332,753
Medium-term leasehold land in Hong Kong	933	1,022
	364,758	333,775
Analysed for reporting purposes as:		
Current asset	7,680	7,459
Non-current asset	357,078	326,316
	364,758	333,775

18. INTANGIBLE ASSET/MINING ASSETS

	THE GROUP		
	Mining assets	Intangible asset – deferred product design fees	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2009	176,897	9,615	186,512
Additions	–	–	–
Exchange adjustments	281	15	296
At 31 December 2009	177,178	9,630	186,808
Exchange adjustments	7,321	–	7,321
At 31 December 2010	184,499	9,630	194,129
AMORTISATION			
At 1 January 2009	–	9,615	9,615
Exchange adjustments	3	15	18
Charge for the year	2,963	–	2,963
At 31 December 2009	2,966	9,630	12,596
Exchange adjustments	52	–	52
Charge for the year	1,888	–	1,888
At 31 December 2010	4,906	9,630	14,536
CARRYING VALUES			
At 31 December 2010	179,593	–	179,593
At 31 December 2009	174,212	–	174,212

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
Chagou Iron Ore Mine	Qinglong Manchu Autonomous County, Hebei Province	June 2011

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 2011.

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

19. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1 January 2009, 31 December 2009 and 31 December 2010	218,015
IMPAIRMENT	
At 1 January 2009	–
Impairment loss recognised in the year	50,000
At 31 December 2009 and 31 December 2010	50,000
CARRYING VALUES	
At 31 December 2009 and 31 December 2010	168,015

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

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 2010 allocated to these units are as follows:

	Goodwill	
	2010	**2009**
	HK$'000	*HK$'000*
Steel manufacturing – Qinhuangdao Plate Mill (Unit A)	144,489	144,489
Steel manufacturing – Shouqin (Unit B)	23,526	23,526
	168,015	168,015

During the year ended 31 December 2010, the management of the Group determined that there are no impairments of any of its CGUs containing goodwill.

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 15.70% for Unit A and 9.69% for Unit B (2009: 11.43% for both Unit A and B). All 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	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost	2,534,483	2,534,483
Deemed capital contribution *(Note)*	978,863	767,406
Less: Impairment loss recognised	(654,167)	(527,844)
	2,859,179	2,774,045
Amounts due from subsidiaries	5,243,673	5,331,358
Less: Impairment losses recognised	(337,889)	(337,889)
	4,905,784	4,993,469
Amount due to a subsidiary	151,193	44,998

Note: Deemed capital contribution represented the imputed interest on the interest-free loans.

Amounts due from subsidiaries 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 to a subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 December 2010 are set out in note 48.

22. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of investment in associates				
Listed in Hong Kong	6,173,623	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	913,116	381,985	–	–
	7,107,187	6,576,056	4,876	4,876
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments	(364,213)	(364,213)	–	–
	6,742,974	6,211,843	4,876	4,876
Fair value of listed investment	7,646,860	10,621,393	5,085	7,193

On 9 February 2009, Excel Bond Investments Limited ("Excel Bond"), a wholly-owned subsidiary of the Company, and the Company entered into a share sale agreement with China Merit Limited ("China Merit") and Mr. Wong Lik Ping, being independent parties, pursuant to which China Merit has conditionally agreed to sell 550,000,000 shares of Fushan International Energy Group Limited ("Fushan International"), which is a company listed on the Main Board of the Stock Exchange, representing approximately 12.05% of the issued share capital of Fushan International as at 9 February 2009, to Excel Bond at a consideration of HK$1,199,000,000 (the "First Acquisition") subject to certain conditions precedent. The consideration of the First Acquisition was determined with reference to the prevailing market price of HK$1.99 per share of Fushan International on 9 February 2009 and was satisfied in full by (a) a cash consideration of HK$715,000,000; and (b) the allotment and issue of 550,000,000 new shares of the Company to China Merit (or its nominees) at an issue price of HK$0.88 per share, which was determined with reference to the prevailing market price of HK$0.88 per share of the Company on 9 February 2009. The First Acquisition was completed on 24 February 2009 (the "First Completion Date") and the investment was initially recognised as available-for-sale investment at HK$979,000,000, which was based on the market price of HK$1.78 per share of Fushan International on the First Completion Date. As aforesaid mentioned, the Company issued 550,000,000 shares as part of the consideration at the market price of HK$0.79 per share on the First Completion Date. Together with the cash consideration of HK$715,000,000, the total consideration for the First Acquisition amounted to HK$1,149,500,000 and thus resulted in a loss of HK$170,500,000 which was included in other gains and losses as disclosed in note 8.

On 3 July 2009, 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 Fine Power Group Limited ("Fine Power") to the Company at a consideration of HK$1,930,500,000 (the "Second Acquisition"), which was satisfied in full by a cash consideration of HK$1,350,000,000; and the allotment and issue of the 450,000,000 shares of the Company to Shougang HK or its wholly owned subsidiary at an issued price of HK$1.29 per share of the Company, representing the closing price of the Company's shares on 3 July 2009. The consideration was determined by reference to the prevailing market price per share of Fushan International on 3 July 2009 as the main asset held by Fine Power is the holding of 450,000,000 shares of Fushan International. The Second Acquisition was completed on 11 September 2009 (the "Second Completion Date"). Upon completion of the Second Acquisition, together with the aforesaid mentioned 550,000,000 shares of Fushan International held by the Group, the Group held approximately 20.02% of the issued share capital of Fushan International and has significant influence in the financial and operating policy decision of Fushan International, and since then being accounted for as an associate in accordance with HKAS 28. On the Second Completion Date, the Company issued 450,000,000 shares with the market price of HK$1.46 per share, as part of the consideration and together with the cash consideration of HK$1,350,000,000, the total consideration for the Second Acquisition amounted to HK$2,007,000,000.

For the First Acquisition, by applying the accounting policy on acquisition of an associate with successive share purchases, there is a discount on acquisition of approximately HK$307,358,000 on the First Acquisition Date which has been included in the Group's share of result of associates. Share of result in Fushan International from the date the First Acquisition was recognised as available-for-sale investment up to the Second Acquisition was recognised in other comprehensive income amounted to approximately HK$95,726,000.

For the Second Acquisition, there is a goodwill of approximately HK$739,430,000 which has been included in the cost of investment in the associate.

On 22 September 2009, the Group entered into an agreement with Fushan International, pursuant to which the Group has agreed to sell the investment in equity securities of Mount Gibson Iron Limited ("MGI"), which was previously recognised as available-for-sale investments, to Fushan International for a consideration of approximately HK$1,188,531,000. The total number of MGI shares held and disposed by the Group was approximately 154,167,000 and the consideration was based on the market price of MGI on 22 September 2009, which is 1.14 Australian Dollar ("AUD") (equivalent to approximately HK$7.72 per share). The consideration was satisfied in full by the allotment and issue of approximately 213,918,000 shares of Fushan International to the Group at HK$5.556 per share (the "Third Acquisition"), which was determined by reference to the prevailing market price of Fushan International on the same date.

The Third Acquisition was completed on 1 December 2009 (the "Third Completion Date"). The market value of MGI's share on that date was AUD1.61 each (equivalent to approximately HK$11.54 per share). The total fair value of the investment in MGI and the security investment reserve accumulated in relation to the fair value increase were approximately HK$1,778,887,000 and HK$1,610,136,000 respectively. By using such fair value as the cost of acquisition of the 213,918,000 shares of Fushan International, the Third Acquisition resulted in a goodwill of approximately HK$916,196,000 which has been included in the cost of investment in the associate. Upon completion, the Group held approximately 22.63% equity interest in Fushan International and cumulative gain of an available-for-sale investment amounted to HK$1,610,136,000 has been reclassified from security investment reserve upon disposal to an associate, of which HK$364,213,000 represents unrealised gain on disposal and has been eliminated against interest in associates, resulting a net gain of HK$1,245,923,000 recognised as gain on disposal in the profit or loss as disclosed in note 8.

On 30 December 2009, the Group further acquired 100,000,000 shares of Fushan International from China Merit (the "Fourth Acquisition") at HK$7.2 per share, which was determined by reference to the prevailing market price on 30 December 2009. The total consideration was HK$720,000,000 and was satisfied in full by cash. The Fourth Acquisition resulted in a goodwill of approximately HK$436,756,000 which has been included in the cost of investment in the associate. Upon completion of the Fourth Acquisition, the Group held approximately 24.48% equity interest in Fushan International.

Included in the cost of investment in associates is goodwill of HK$2,092,382,000 (2009: HK$2,092,382,000) arising on acquisition of associates during the year ended 31 December 2009. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2009	–
Arising on acquisitions of an associate	2,092,382
At 31 December 2009 and 31 December 2010	2,092,382

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

	2010	**2009**
	HK$'000	*HK$'000*
Total assets	32,523,609	28,327,326
Total liabilities	(9,046,614)	(8,728,501)
Net assets	23,476,995	19,598,825
Group's share of net assets of associates	5,014,805	4,483,674
Revenue	7,222,752	5,569,403
Profit for the year	1,894,340	1,267,165
Other comprehensive income	1,111,105	37,745
Group's share of profits and other comprehensive income of associates for the year	759,599	424,944

Details of the associates are set out in note 48.

23. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2010	2009
	HK$'000	*HK$'000*
Equity securities listed in Australia, at fair value *(Note a)*	122,252	97,643
Unlisted equity securities, at cost *(Note b)*	139,679	134,045
Total	261,931	231,688

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 6.4% 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 disclosed in note 29.

b. The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. 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 of the Company 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$108,513,000 (2009: HK$131,878,000) was paid to the Shougang Group.

25. INVENTORIES

	THE GROUP	
	2010	2009
	HK$'000	*HK$'000*
Raw materials	2,146,671	1,024,543
Work in progress	627,754	453,383
Finished goods	716,765	141,735
	3,491,190	1,619,661

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Trade and bill receivables	1,783,474	950,097
Less: Provision for impairment	(161,101)	(166,228)
	1,622,373	783,869
Prepayments and deposits	415,069	225,940
Other receivables	599,631	119,727
Less: Provision for impairment	(8,019)	(7,483)
	1,006,681	338,184
	2,629,054	1,122,053

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 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables net of provision for impairment presented based on the invoice date at the end of the reporting period:

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Within 60 days	1,514,457	769,756
61 – 90 days	10,127	4,838
91 – 180 days	64,368	9,255
181 – 365 days	33,421	20
	1,622,373	783,869

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 and bill receivable balance are debtors with an aggregate carrying amount of HK$107,916,000 (2009: HK$14,113,000) which are past due at the reporting date for which the Group has not provided for provision for impairment loss 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 172 days (2009: 115 days).

The aged analysis of trade receivables which are past due but not impaired.

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Within 60 days	–	–
61 – 90 days	10,127	4,838
91 – 180 days	64,368	9,255
181 – 365 days	33,421	20
Total	107,916	14,113

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	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January	166,228	191,999
Impairment losses recognised on receivables	41	141
Amounts written off as uncollectible	–	(21,675)
Impairment losses reversed	(6,029)	(4,275)
Exchange adjustments	861	38
At 31 December	161,101	166,228

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the financial statements approval dates. In order to minimise 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 provision are made for irrecoverable amounts. Accordingly, the Directors believe that no further provision is required in excess of the provision for impairment.

Other receivables of the Group and the Company are unsecured, interest-free and repayable on demand.

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

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. As at 31 December 2009, the non-trade receivables included a consideration receivable arising from the disposal of the entire interest in Ultra Result Limited during the year ended 31 December 2008 and such amount was fully settled in March 2010. The remaining 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	
	2010	**2009**
	HK$'000	*HK$'000*
Within 60 days	734,527	73,065
61 – 90 days	1,198	627,432
91 – 180 days	1,104	133
181 – 365 days	7,601	–
1 – 2 years	5,542	21,765
	749,972	722,395

The Group allows a range of a 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$15,445,000 (2009: HK$649,330,000) which are past due at the reporting date but for which an impairment loss has not been provided. The Group does not hold any collateral over these balances. The average age of these receivables is 342 days (2009: 85 days).

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
61 – 90 days	1,198	627,432
91 – 180 days	1,104	133
181 – 365 days	7,601	–
1 – 2 years	5,542	21,765
Total	15,445	649,330

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.

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January	26,012	25,971
Impairment losses recognised on receivables	130	–
Exchange adjustments	1,138	41
At 31 December	27,280	26,012

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	
	2010	**2009**
	HK$'000	*HK$'000*
Within 90 days	694,076	107,160
91 – 180 days	8,276	59,890
181 – 365 days	836	37,232
1 – 2 years	18,541	30,920
Over 2 years	38,316	36,710
	760,045	271,912

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

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

The Group's and the Company's amount due to a shareholder is unsecured, interest-free and repayable on demand.

The Company's amount due from a related company is unsecured, interest-free and repayable on demand.

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

As at 31 December 2010 and 2009, the amount due from the ultimate holding company of a shareholder are non-trade in nature, unsecured, interest free and are 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.

In determining the recoverability of the receivables from the ultimate holding company of a shareholder, the Group considers any change in credit quality of the receivables from the date credit was initially granted up to the financial statements approval dates. No impairment is considered necessary as the counterparty has good credit rating and majority of the balance has been repaid subsequent to the end of the reporting period.

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Within 90 days	1,074,108	–
91 – 180 days	–	129
	1,074,108	129

29. OTHER FINANCIAL ASSETS/LIABILITIES

Other financial assets

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Commodity forward contracts *(Note a)*	570,137	423,137	570,137	423,137
Foreign currency forward contracts *(Note b)*	–	1,592	–	1,167
Option to subscribe for shares of a listed company in Australia *(Note c)*	–	117	–	–
	570,137	424,846	570,137	424,304

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed as:				
Non-current	367,942	275,140	367,942	275,140
Current	202,195	149,706	202,195	149,164
	570,137	424,846	570,137	424,304

Notes:

a. In November 2008, the Company entered into certain commodity forward contracts with MGI to purchase iron ore for which the forward price was determined with reference to Hamersley Benchmark Prices. In November 2010, the commodity forward contracts were revised as the Hamersley Benchmark Prices 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 2010 and 2009, the major terms of the outstanding commodity forward contracts entered by the Company with MGI are as follows:

2010

Notional amount	Period	Forward price
Purchase approximately 50% of total production of the relevant mines 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

2009

Notional amount	Period	Forward price
Purchase approximately 50% of total production of the relevant mines in Australia	01.07.2009 to the lives of the relevant mines	10% discount on Hamersley Benchmark Prices for lump and fines ore products per dead weight metric tonne

As at 31 December 2010, 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 and recognised international business valuers and the fair value is approximately HK$570,137,000 (2009: HK$423,137,000). For the year ended 31 December 2010, a gain of HK$147,000,000 (2009: HK$68,937,000) has been recognised in the consolidated statement of comprehensive income.

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 5.582% (2009: 5.48%), the life of the Mines of 8 years and a range of iron ore market prices throughout the contract period based on management's best estimate.

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

At 31 December 2009, the Group and the Company entered into non-deliverable foreign currency forward contracts with banks, the major terms of the outstanding contracts are as follows:

Notional amount	Maturity	Forward exchange rates
THE GROUP		
Buy United States Dollar ("USD") 2 million for each maturity date and total notional amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.63 to USD1 to RMB6.73 to USD1
Sell USD2 million for each maturity date and total notional amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.74 to USD1 to RMB6.80 to USD1
THE COMPANY		
Buy USD 2 million for each maturity date and total notional amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.63 to USD1 to RMB6.73 to USD1

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.

c. The ARH Option with exercise period starting from 7 June 2007 to 7 June 2010 was deemed as held for trading on initial recognition and the Directors consider that the fair value of the ARH Option is insignificant at the date of acquisition. As at 31 December 2010, the share option expired, and the Group had derecognised the financial instrument, that resulted a loss of HK$117,000 recognised in the consolidated statement of comprehensive income. As at 31 December 2009, the fair value of the ARH Option was determined by the Directors. The valuation performed by the Directors was arrived at by using the Binomial Option Pricing model with reference to recent market observable data as inputs. The fair value of each ARH Option was AUD0.0012. For the year ended 31 December 2009, a loss of HK$3,183,000 has been recognised in the consolidated statement of comprehensive income.

Binomial Option Pricing model is used for valuation of the ARH Option. The inputs into the model were as follows:

	31 December 2009
Stock price	AUD0.50
Exercise price	AUD1.50
Volatility	70.27%
Dividend yield	0%
Option life	0.43 year
Risk free rate (Australia)	4.219%

Other financial liabilities

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial guarantee contracts	–	–	162,518	149

30. RESTRICTED BANK DEPOSITS

The amounts represent the bank deposits restricted to certain banks to secure the issuance of letters of credit. The deposits carry fixed interest ranged from 0.36% to 1.17% (2009: 0.36% to 1.98%) per annum.

The deposits will be released upon the settlement of the letters of credit.

31. BANK BALANCES AND CASH

Bank balances and time deposits carry interest at market rates which range from 0.05% to 4.92% (2009: 0.01% to 3.85%) per annum.

32. TRADE AND BILL PAYABLES, OTHER PAYABLES 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	
	2010	**2009**
	HK$'000	*HK$'000*
Within 90 days	2,456,267	844,018
91 – 180 days	447,981	317,010
181 – 365 days	57,217	702
1 – 2 years	1,551	2,858
Over 2 years	3,119	919
	2,966,135	1,165,507

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

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

33. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	6,400,687	6,010,188	–	384,833
In the second year	1,009,706	1,677,956	–	772,583
In the third to fifth years inclusive	878,906	2,198,245	–	1,317,864
More than five years	–	22,720	–	–
	8,289,299	9,909,109	–	2,475,280
Carrying amount of bank loans that are repayable on demand (shown under current liabilities)	2,444,652	–	2,444,652	–
Less: Amount due within one year shown under current liabilities	(8,845,339)	(6,010,188)	(2,444,652)	(384,833)
Amount due after one year	1,888,612	3,898,921	–	2,090,447
Secured	2,655,355	2,543,439	2,444,652	2,475,280
Unsecured	8,078,596	7,365,670	–	–
	10,733,951	9,909,109	2,444,652	2,475,280

As at 31 December 2010, bank borrowings of HK$2,444,652,000 are repayable on demand. As at the date of report, the lenders and the Company have come into agreement that the amount will have to be fully repaid by May 2013.

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	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate borrowings				
Within one year	1,670,810	1,486,993	–	–

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	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Variable-rate borrowings				
Within one year or repayable on demand	7,174,529	4,523,195	2,444,652	384,833
In more than one year but not more than two years	1,009,706	1,677,956	–	772,583
In more than two years but not more than five years	878,906	2,198,245	–	1,317,864
More than five years	–	22,720	–	–
	9,063,141	8,422,116	2,444,652	2,475,280

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 4.779% to 5.56% (2009: from 4.374% to 5.0445%) per annum.

The variable-rate bank borrowings of approximately HK$2,098 million (2009: HK$2,475 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.52% (2009: LIBOR plus 0.52%) per annum, which are ranged from 0.77% to 0.895% (2009: from 0.83% to 2.02%) per annum. Approximately HK$347 million (2009: Nil) of the variable-rate borrowings carry interest at the Hong Kong Interbank Offered Rates ("HIBOR") plus 0.8% per annum, which are ranged from 0.94% to 1.23%. The remaining variable-rate borrowings carry interest at the People's Bank of China's lending rate ("lending rate"), or with a 5% to 10% reduction on the lending rate, which are ranged from 4.78% to 5.81% (2009: from 4.37% to 5.64%) per annum.

In 2010 and 2009, 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 2010 and 2009, the Company's borrowings were secured by certain assets of subsidiaries (details are set out in note 46), and certain loans are guaranteed by a wholly-owned subsidiary.

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	THE COMPANY
	HK$'000	*HK$'000*
As at 31 December 2010	2,098,088	2,098,088
As at 31 December 2009	2,475,280	2,475,280

34. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at fixed-rates ranged from 5.31% to 5.56% (2009: 5.76% to 7.47%) per annum, except for HK$142,045,000 which are non-interest bearing as at 31 December 2010 (2009: nil). 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:

	2010	**2009**
	HK$'000	*HK$'000*
Deferred tax assets	(46,827)	(38,639)
Deferred tax liabilities	12,139	48,267
	(34,688)	9,628

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

	Accelerated tax depreciation	**Fair value adjustment and revaluation of properties**	**Fair value adjustment of available-for-sale investments**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
At 1 January 2009	27,341	23,478	–	(705)	50,114
Exchange differences	41	–	–	–	41
Charge to security investment reserve	–	–	170,816	–	170,816
Credit to profit or loss upon disposal of available-for-sale investments	–	–	(170,816)	–	(170,816)
(Credit) charge to profit or loss *(note 10)*	(2,302)	(44)	(38,639)	458	(40,527)
At 31 December 2009	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)

At the end of the reporting periods, the Group has unused tax losses of approximately HK$1,962 million, of which HK$285 million is subject to IRD's confirmation and HK$479 million is subject to SAT's confirmation (2009: HK$1,230 million of which HK$263 million was subject to IRD's confirmation and HK$884 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$143 million (2009: HK$1 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,819 million (2009: HK$1,229 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of which HK$959 million will expire in 2014 and HK$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.

At the end of the reporting periods, the Group has deductible temporary differences, which mainly represents allowance for trade receivables and allowance for inventories of approximately HK$114 million (2009: HK$326 million) and tax credit of approximately HK$390 million (2009: HK$375 million), which represents tax credit granted by the PRC Tax Authority for purchase of plants and machineries manufactured domestically in the PRC. 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 2010, 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$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. As at 31 December 2009, the Group has no such temporary differences.

THE COMPANY

At the end of the reporting period, the Company has unused tax losses of approximately HK$58 million of which HK$57 million was subject to IRD's confirmation (2009: HK$33 million of which HK$32 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 2009, 31 December 2009 and 31 December 2010	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2009	7,175,381,214	1,435,076
Issue for the acquisition of interest in an associate *(Note)*	1,000,000,000	200,000
At 31 December 2009 and 31 December 2010	8,175,381,214	1,635,076

Note:

During the year ended 31 December 2009, 550,000,000 shares were issued as consideration for the First Acquisition of Fushan International at HK$0.79 per share, which is based on the market price per share on the First Completion Date, and 450,000,000 shares were issued as consideration for the Second Acquisition of Fushan International at HK$1.46 per share, which is based on the market price per share on the Second Completion Date as disclosed in note 22.

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 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 vested as at 31 December 2010.

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.

Pursuant to the Scheme, share options held by any participants will lapse automatically upon their resignations but the Board of Directors is empowered to extend the exercise period of the concerned share options at its discretion. Relevant exercise period of the share options held by the eligible participants who resigned during the year was extended and approved by the Board of Directors. Such change does not constitute modification of the Scheme.

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 the year** *(Note 1)*	**Transferred to other category during the year** *(Note 2)*	**Lapsed due to resignation** *(Note 3)*	**At 31.12.2010**	**Date of grant**	**Exercise 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	20.12.2008 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	34,000,000	–	(5,000,000)	–	29,000,000	20.12.2007	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	14.12.2011 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2012 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2013 to 13.12.2017	1.180
	–	4,000,000	–	–	4,000,000	14.12.2010	14.12.2014 to 13.12.2017	1.180
	187,090,000	20,000,000	(25,000,000)	–	182,090,000			

Grantees	At 1.1.2010	Granted during the year *(Note 1)*	Transferred to other category during the year *(Note 2)*	Lapsed due to resignation *(Note 3)*	At 31.12.2010	Date of grant	Exercise period	Exercise price per share *HK$*
	Number of share options							
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	20.12.2008 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	2,500,000	–	200,000	(100,000)	2,600,000	20.12.2007	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	20.12.2008 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	5,200,000	–	4,800,000	–	10,000,000	20.12.2007	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 the end of the year					187,540,000			

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. 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 extension of the exercise period for such share options up to 19 December 2014 and such share options were reclassified from the category of "Directors of the company" to "Other eligible participants" during the year. The other 1,000,000 shares option were held by grantees who were employed by the Group during the year 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 cease of the employment.

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

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 2009:

	Number of share options					
Grantees	**At 1.1.2009**	**Transferred to other category during the year** *(Note 1)*	**At 31.12.2009**	**Date of grant**	**Exercise 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	–	38,500,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	187,090,000	–	187,090,000			

Grantees	Number of share options At 1.1.2009	Transferred to other category during the year *(Note 1)*	At 31.12.2009	Date of grant	Exercise period	Exercise price per share *HK$*
Other employees of the Group	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	37,500,000	(25,000,000)	12,500,000			
Other eligible participants *(Note 2)*	50,000	–	50,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	200,000	5,000,000	5,200,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	200,000	5,000,000	5,200,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	200,000	5,000,000	5,200,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	200,000	5,000,000	5,200,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	200,000	5,000,000	5,200,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	1,050,000	25,000,000	26,050,000			
	225,640,000	–	225,640,000			
Exercisable at the end of the year			142,240,000			

Notes:

1. The share options were held by a grantee who ceased to be an employee of the Group during the year. In accordance with the Scheme, the share options should lapse on the date of cessation of employment, the Board of Directors of the Company approved the extension of the exercise period for share options granted to this employee up to 19 December 2014 and such share options were re-classified from the category of "Other employees of the Group" to "Other eligible participants" during the year. Such share options will be lapsed upon the expiration of the exercise period on 19 December 2014.

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

During the year ended 31 December 2010 and 2009, 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$35,382,000 for the year ended 31 December 2010 (2009: HK$59,372,000) 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	**Share option reserve**	**Capital redemption reserve**	**Accumulated profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY					
At 1 January 2009	2,242,475	170,603	22,611	896,363	3,332,052
Profit for the year and total comprehensive income	–	–	–	128,723	128,723
Share issued at premium	891,500	–	–	–	891,500
Share issue expenses	(60)	–	–	–	(60)
Recognition of equity-settled share based payments	–	59,372	–	–	59,372
Dividends recognised as distribution	–	–	–	(231,762)	(231,762)
At 31 December 2009	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

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 stakeholders 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 debt, 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 debt.

40. FINANCIAL INSTRUMENTS

40a. Categories of financial instruments

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Financial assets		
Held for trading	570,137	424,846
Loans and receivables (including cash and cash equivalents)	5,087,371	3,769,285
Available-for-sale financial assets	261,931	231,688
Financial liabilities		
Amortised cost	17,514,863	13,405,540

	THE COMPANY	
	2010	**2009**
	HK$'000	*HK$'000*
Financial assets		
Held for trading	570,137	424,304
Loans and receivables (including cash and cash equivalents)	5,332,068	5,488,445
Financial liabilities		
Amortised cost	2,596,506	2,874,521
Financial guarantee contracts	162,518	149

40b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, restricted bank deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, loans from ultimate holding company of a shareholder, bank balances and deposits, amount due from (to) ultimate holding company of a shareholder, amount due to 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, bank balances, other payables, amount due from a related company, amount due to a shareholder, 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 Board of Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. Certain trade receivables, amount due from (to) related companies, bank balances, trade payables and bank borrowings of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities, which expose the Group to foreign currency risk. Approximately 22% (2009: 23%) of the Group's sales and 21% (2009: 18%) of the Group's costs 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**	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
AUD	–	–	25,094	28,358
USD	2,742,145	2,504,829	584,899	668,636
HKD	357,120	358,873	323,738	205,320

	THE COMPANY			
	Liabilities		**Assets**	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
AUD	–	–	25,094	28,358
USD	2,096,848	2,485,630	78,452	420,445
HKD	348,465	350,212	322,739	46,174

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which 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 number below indicates a decrease in post-tax profit (2009: increase in post-tax loss) 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		
	2010	2009		2010	2009		2010	2009	
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	
(Loss) profit for the year	(1,048)	(1,184)	(i)	90,065	85,652	(ii)	1,394	6,086	(iii)

	THE COMPANY								
	AUD			USD			HKD		
	2010	2009		2010	2009		2010	2009	
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	
(Loss) profit for the year	(1,048)	(1,184)	(i)	84,267	85,652	(ii)	1,074	6,086	(iii)

(i) This is mainly attributable to the exposure outstanding on AUD bank balances, receivables and payables at year end in the Group and the Company.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, receivables and payables at year end in the Group and the Company.

(iii) This is mainly attributable to the exposure outstanding on HKD bank balances, receivables and payables at the year end in the Group and the Company.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, 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 is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. The Group currently does not enter into any interest rate swaps to convert floating rate to fixed rate obligations. However, the management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The sensitivity analysis below presents the effects on the Group's and the Company's post-tax profit for the year as a result of change in interest expense on variable-rate borrowings, restricted 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.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings, restricted bank deposits and bank balances at the end of the reporting period only as the Directors of the Company consider that other non-derivative instruments may not have significant exposure to change in interest rates. For variable-rate bank borrowings, restricted 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.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would decrease/increase by HK$54,115,000 (2009: post-tax loss would increase/decrease by HK$52,097,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings, restricted 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 2010 would increase/decrease by HK$16,855,000 (2009: HK$16,536,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings and bank balances.

The Group's and the Company's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

(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 and the exposure to equity price risk on option to subscribe for shares of ARH as at 31 December 2009 are insignificant.

Sensitivity analysis

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

Sensitivity analysis of listed equity securities

If the price had been 35% higher/lower, security investment reserve would increase/decrease by HK$42,789,000 (2009: increase/decrease by HK$34,175,000) for the Group as a result of the changes in fair value of available for sale investments. In addition, if there is a 5% increase/decrease in HKD against AUD, security investment reserve would decrease/increase by HK$6,113,000 (2009: decrease/increase by HK$4,882,000) for the Group.

Sensitivity analysis of commodity forward contracts

In addition, the Group is required to estimate the fair value of commodity forward contracts to purchase iron ore at the end of the reporting period with change in fair value to be recognised in consolidated statement of comprehensive income. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in risk free rate and the iron ore market price.

The sensitivity analysis below have been determined based on the exposure to the iron ore market price risks at the reporting date only as the Directors of the Company consider that change in market interest rate may not have significant financial impact on the fair value of the commodity forward contract.

Based on discounted cash flow analysis, if the price of the iron ore had been 5% higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK$12,253,000 (2009: the Group's loss would decrease/increase by HK$42,218,000) as a result of the change in fair value of commodity forward contracts to purchase iron ore. In addition, if there is a 5% increase/decrease in RMB against USD and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$29,298,000 (2009: the Group's loss would increase/decrease by HK$24,157,000).

Credit risk

As at 31 December 2010, 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 Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement 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 and shipping operations. The Group mainly deals with companies with a successful track record and reputation and also has policies in place to assess the credit worthiness of customers.

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

The Group and the Company has no 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 76% (2009: 93%) of the total trade receivables as at 31 December 2010.

Liquidity risk

The Group and the Company manages 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 believes 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.

The Group and the Company rely on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK$1,786 million (2009: HK$1,631 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 and can dispose of the marketable securities held by the Group, if necessary, 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 maturity dates for other non-derivative financial liabilities are based on the agreed repayment date. 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 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.

Liquidity tables

	THE GROUP								
	Weighted average interest rate	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
Amount due to ultimate holding company of a shareholder		1,172,981	–	–	–	–	–	1,172,981	1,172,981
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 loans									
– 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	–

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

THE GROUP

	Weighted average interest rate	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 31.12.2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009									
Non-derivative financial liabilities									
Trade and bill payables		1,165,507	–	–	–	–	–	1,165,507	1,165,507
Other payables		546,696	–	–	–	–	–	546,696	546,696
Amount due to ultimate holding company of a shareholder		99,041	–	–	–	–	–	99,041	99,041
Amounts due to related companies		541,708	–	–	–	–	–	541,708	541,708
Amount due to a shareholder		350,000	–	–	–	–	–	350,000	350,000
Loans from ultimate holding company of a shareholder	6.80	13,640	194,868	627,559	–	–	–	836,067	793,479
Bank loans									
– fixed rate	4.89	165,336	784,633	573,443	–	–	–	1,523,412	1,486,993
– variable rate	3.78	1,018,282	1,128,349	2,602,113	1,757,609	2,308,215	22,923	8,837,491	8,422,116
		3,900,210	2,107,850	3,803,115	1,757,609	2,308,215	22,923	13,899,922	13,405,540
Derivatives – gross settlement									
Commodity forward contracts									
– outflow *(Note)*		441,384	441,384	882,767	3,544,593	7,192,772	3,292,492	15,795,392	–

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

	THE COMPANY								
	Weighted average interest rate	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 loans – 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 COMPANY								
	Weighted average interest rate	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 31.12.2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009									
Non-derivative financial liabilities									
Other payables		4,243	–	–	–	–	–	4,243	4,243
Amount due to a subsidiary		44,998	–	–	–	–	–	44,998	44,998
Amount due to a shareholder		350,000	–	–	–	–	–	350,000	350,000
Bank loans – variable rate	0.83	5,182	5,182	397,146	789,164	1,320,130	–	2,516,804	2,475,280
Financial guarantee contracts		1,280,368	–	–	–	–	–	1,280,368	149
		1,684,791	5,182	397,146	789,164	1,320,130	–	4,196,413	2,874,670
Derivatives – gross settlement									
Commodity forward contracts – outflow *(Note)*		441,384	441,384	882,767	3,544,593	7,192,772	3,292,492	15,795,392	–

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.

40c. Fair value

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

- the fair value of financial assets (including derivative instruments) 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 derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- 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.

- the fair value of financial guarantee contracts are determined using option pricing models where the main assumptions are the probability of default by the specified counterparties extrapolated from market-based credit information and the amount of losses, given the default.

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.

Fair value measurements recognised in the statement 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 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

THE GROUP

	As at 31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Derivative financial assets	–	1,592	423,254	424,846
Available-for-sale financial assets				
Listed equity securities	97,643	–	–	97,643
Total	97,643	1,592	423,254	522,489

THE COMPANY

	As at 31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Derivative financial assets	–	1,167	423,137	424,304

There were no transfers between Level 1 and 2 during the year ended 31 December 2010 and 2009.

Reconciliation of Level 3 fair value measurements of financial assets

	THE GROUP	THE GROUP AND THE COMPANY
	ARH Option	Commodity forward contracts
	HK$'000	*HK$'000*
At 1 January 2009	3,300	354,200
Total unrealised gains or losses:		
– to profit or loss	(3,183)	68,937
At 31 December 2009	117	423,137
Total unrealised gains or losses:		
– to profit or loss	(117)	147,000
At 31 December 2010	–	570,137

Of the total gains or losses for the year included in profit or loss, loss of approximately HK$117,000 (2009: HK$3,183,000) relates to ARH Option and profit of approximately HK$147,000,000 (2009: HK$68,937,000) relates to commodity forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

Included in other comprehensive income is an amount of HK$24,609,000 gain related to listed equity securities held at the end of the reporting period and is reported as changes of 'Security Investment Reserve' (2009: HK$3,476,917,000).

41. MAJOR NON-CASH TRANSACTIONS

(a) 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.

(b) During the year ended 31 December 2009, the Company issued 550,000,000 shares at the market price on the First Completion Date, which was HK$0.79 per share, as consideration for the First Acquisition and issued 450,000,000 shares at the market price on the Second Completion Date, which was HK$1.46 per share, as consideration for the Second Acquisition of Fushan International, as disclosed in note 22.

(c) On 22 September 2009, the Group entered into a Share Purchase Agreement with Fushan International to dispose of the available-for-sale investment in MGI to Fushan International. The disposal was completed on 1 December 2009 and the consideration of approximately HK$1,779 million was satisfied in full by the allotment and issue of approximately 214 million shares of Fushan International to the Group as disclosed in note 22.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	3,267	4,484
Vessels time charter hire	138,854	136,193
	142,121	140,677

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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	149,379	147,956	3,323	2,795	152,702	150,751
In the second to fifth years inclusive	137,980	287,359	3,664	6,007	141,644	293,366
	287,359	435,315	6,987	8,802	294,346	444,117

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 2010, leases for properties are negotiated for terms ranging from two to three years.

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

The Group as lessor

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Minimum lease payments received under operating leases during the year are as follows:		
Land and buildings	1,356	1,632
Vessels time charter hire	199,033	194,397
	200,389	196,029

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	
	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	6,378	43,399	1,215	1,215	7,593	44,614
In the second to fifth years inclusive	–	–	1,823	3,220	1,823	3,220
	6,378	43,399	3,038	4,435	9,416	47,834

43. COMMITMENTS

	THE GROUP	
	2010	2009
	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	467,702	868,928

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 consolidated income statement 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 2010, the financial guarantee given to banks in respect of banking facilities available to subsidiaries of approximately HK$1,931 million (2009: HK$1,280 million), of which approximately HK$306 million (2009: HK$87 million) was utilised by subsidiaries. As at 31 December 2010, HK$162,518,000 (2009: HK$149,000) were recognised in the financial statements for such financial guarantee.

46. **PLEDGE OF ASSETS**

THE GROUP

At 31 December 2010, the following items were used to secure banking facilities granted to the Group:

(a) Restricted bank deposits amounting to HK$281,486,000 (2009: HK$280,838,000).

(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$156,315,000 (2009: HK$156,315,000) and HK$183,593,000 (2009: HK$183,593,000) respectively.

(c) Pledge of the Group's plant and machinery with net book value of HK$336,115,000 (2009: HK$33,537,000).

(d) Pledge of the Group's land use rights with net book value of approximately HK$83,362,000 (2009: HK$81,714,000).

(e) Pledge of 170,000,000 shares of the Group's listed associate with a carrying amount of approximately HK$766,941,000, while there was no such pledged assets as at 31 December 2009.

THE COMPANY

(a) At 31 December 2010 and 2009, the Company pledged the total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Company, with total assets amounting to HK$156,315,000 (2009: HK$156,315,000) and HK$183,593,000 (2009: HK$183,593,000), respectively, to secure banking facilities granted to the Company.

(b) Pledge of 170,000,000 shares of the Group's listed associate with a carrying amount of approximately HK$766,941,000 to secure banking facilities granted to the Company, while there was no such pledged assets as at 31 December 2009.

47. **RELATED PARTY DISCLOSURES**

The Company is an associate of Shougang Holding (Hong Kong) Limited("Shougang HK"), which is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise under the direct supervision of the State Council of the PRC. 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. The transactions and balances with the Shougang Group and other PRC government related entities are disclosed in note 47(I) to 47(III).

(I) Transactions with Shougang Group

	Notes	2010 HK$'000	2009 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	3,642,508	2,443,582
Purchases of goods by the Group	(b)	7,976,437	6,343,984
Lease rentals charged to the Group	(c)	2,875	4,447
Management fee charged to the Group	(d)	960	960
Purchases of spare parts by the Group	(e)	128,466	122,630
Management fees charged by the Group	(f)	2,944	5,009
Rental income charged by the Group	(g)	151	151
Interest charged to the Group	(h)	43,540	44,734
Service fees charged to the Group	(i)	110,287	109,023
Service fees charged by the Group	(j)	5,397	12,519
Purchase of property, plant and equipment by the Group	(k)	299,651	603,208
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(d)	960	960
Management fee charged by the Company	(f)	2,944	5,009

Notes:

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

(b) The Group purchased materials and steel products 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 5.31% to 5.56% (2009: 5.76% to 7.47%) 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 2010 were disclosed in note 37.

(II) Balances with Shougang Group

Details of deposits for acquisition 630 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 note 28 and 34;

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2010, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$6,227,506,000 (2009: HK$5,634,443,000).

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

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled 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 associate

During the year ended 31 December 2010, the Group purchased coking coal products amounted to approximately HK$5,616,000 (2009: nil) from a subsidiary of an associate, Fushan International.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Short-term employee benefits	19,942	26,870
Post employment benefits	997	1,327
Share-based payments	29,375	55,528
	50,314	83,725

The remuneration of Directors and key executives is determined by the remuneration committee of the Board of Directors of the Company having regard to the performance of individuals and market trends.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2009 and 2010 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		
			2010	2009	2010	2009	
			%	%	%	%	
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Cheer Source Limited	Samoa	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

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		
			2010	2009	2010	2009	
			%	%	%	%	
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

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		
			2010	2009	2010	2009	
			%	%	%	%	
SCIT Services Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	–	Chartering of vessels
SCIT Trading Limited	Hong Kong	HK$1 Ordinary share	–	–	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

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		
			2010	2009	2010	2009	
			%	%	%	%	
秦皇島首秦金屬材料有限公司 Shouqin ΔΔ	PRC	RMB2,700,000,000 Registered capital	–	–	76	76	Manufacture and sale of steel and related products
Pointer Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	100	100	–	–	Provision of management services
Huge Ever Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Froxy Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Host Sun Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
Shine Tone Group Limited	Hong Kong	HK$100 Ordinary shares	–	–	100	100	Investment holding
Sky Choice International Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Timefull Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Excel Bond Investments Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding

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		
			2010	2009	2010	2009	
			%	%	%	%	
Fine Power Group Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	100	100	–	–	Investment holding
Ultimate Capital Limited	Hong Kong	HK$1 Ordinary share	–	–	100	100	Investment holding
秦皇島首秦鋼材加工配送有限公司 Qinhuangdao Shouqin Steels Machining & Delivery Co., Ltd. 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 Shouqin Longhui 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	US$6,000,000 Registered capital	–	–	100	–	Trading of iron ore, coking coal, 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.

Details of the Company's principal associates at 31 December 2009 and 2010 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 2010	2009	Proportion of voting power held 2010	2009	Principal activities
					%	%	%	%	
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	35.72	35.73	35.72	35.73	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
Fushan International	Incorporated	Hong Kong	Hong Kong	Ordinary	24.44	24.48	24.44	24.48	Coking coal mining, production and sale of coking coal products and side products

3. STATEMENT OF INDEBTEDNESS

As at 31 March 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the aggregate carrying value of outstanding borrowings of the Group comprise loans from ultimate holding company of a shareholder and bank borrowings of approximately HK$973 million and HK$10,749 million respectively. The loans from ultimate holding company of a shareholder are unsecured. Bank borrowings of HK$2,521 million are secured by (1) total assets of certain subsidiaries amounting to approximately HK$340 million in total; (2) plant and machinery with net book value of approximately HK$338 million; (3) land use rights with net book value of approximately HK$83 million; and (4) 346,000,000 shares of the Group's listed associate. The remaining bank borrowings were not secured.

Save as the aforesaid, the Group did not have, as at 31 March 2011, any mortgages, charges, debentures, loan capital, bank overdrafts, loans, guarantees, material contingent liabilities or other similar indebtedness.

4. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

		HK$
Authorised:		
10,000,000,000	Shares	2,000,000,000
Issued:		
8,175,381,214	Shares	1,635,076,243
Issued and fully paid:		
8,175,381,214	Shares	1,635,076,243
777,925,013	Consideration Shares to be allotted and issued for settlement of the consideration for the Acquisition	155,585,003
8,953,306,227	Shares	1,790,661,246

No Share has been issued since 31 December 2010 (the date to which the latest audited consolidated financial statements of the Company were made up) up to the Latest Practicable Date.

All the issued Shares are fully paid up and rank pari passu in all respects including all rights as to dividends, voting and capital. The holders of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares. The Consideration Shares to be issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

Save for the total outstanding 245,140,000 share options (including the share options disclosed in the paragraph headed "Disclosure of Interests" in this Appendix to this circular) exercisable into 245,140,000 Shares, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share *HK$*
30 November 2010	1.18
31 December 2010	1.13
31 January 2011	1.15
28 February 2011	1.18
31 March 2011	1.07
29 April 2011	1.03
Last Trading Day	1.01
31 May 2011	0.87
Latest Practicable Date	0.72

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$1.36 on 9 November 2010 and HK$0.72 on 16 June 2011, 20 June 2011 and the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in the Company: Interests in Shares	Interests in underlying Shares*	Total interests	Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.91%
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.24%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.42%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.55%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.15%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.09%
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 Scheme. Upon exercise of the share options in accordance with the Scheme, Shares are issuable. The share options are personal to the respective Directors.

Details of the share options held by the Directors are as follows:

Name of Director	**Number of share options held as at the Latest Practicable Date**	**Date of grant**	**Exercise period**	**Exercise price per share**
Cao Zhong	65,000,000 #	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Li Shaofeng	20,000,000 #	14.12.2010	14.12.2010 – 13.12.2017	HK$1.180
Zhang Wenhui	35,000,000 #	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Chen Zhouping	45,000,000 #	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			

\# 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.

*(ii) 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 are 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 the Latest Practicable Date
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.

(iii) Long positions in the shares and underlying shares of Fushan International, an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in Fushan International: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Fushan International as at the Latest Practicable Date
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 Fushan International adopted on 20 June 2003. Upon exercise of the share options in accordance with the share option scheme of Fushan International, ordinary shares of HK$0.10 each in the share capital of Fushan International are issuable. The share options are personal to the respective Directors.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the directors of the Company nor any of their spouse or minor children was granted or held options to subscribe for shares in the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised such rights.

(b) Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests in the Shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of 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 are held	Number of Shares held in the Company	Interests as to % of the issued share capital of the Company as at the Latest Practicable Date	*Note(s)*
Shougang Holding	Beneficial owner, interests of controlled corporations	4,203,775,699	51.41%	*1*
China Gate Investments Limited ("**China Gate**")	Beneficial owner	1,979,904,761	24.21%	*1*
Grand Invest International Limited ("**Grand Invest**")	Beneficial owner	768,340,765	9.39%	*1*
Cheung Kong (Holdings) Limited ("**Cheung Kong**")	Interests of controlled corporations	455,401,955	5.57%	*2, 3*
Max Same Investment Limited ("**Max Same**")	Beneficial owner	423,054,586	5.17%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.57%	*3*
Li Ka-Shing Unity Trustee Company Limited ("**TUT1**")	Trustee	455,401,955	5.57%	*3*
Li Ka-Shing Unity Trustee Corporation Limited ("**TDT1**")	Trustee, beneficiary of a trust	455,401,955	5.57%	*3*
Li Ka-Shing Unity Trustcorp Limited ("**TDT2**")	Trustee, beneficiary of a trust	455,401,955	5.57%	*3*

Notes:

1. Shougang Holding indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 5 May 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.

2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to Latest Practicable Date) that as at 24 February 2009, its interests included the interests held by Max Same, a wholly-owned subsidiary of Cheung Kong.

3. 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 the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed in this circular, none of the Directors or proposed Director is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. MATERIAL CONTRACTS

The following contracts, not being contracts entered in the ordinary course of business of the Group, have been entered into by members of the Group after the date two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date which are or may be material:

(i) the Agreement;

(ii) the agreement dated 22 September 2009 entered into between the Company and its wholly-owned subsidiary, Sky Choice International Limited ("**Sky Choice**") and Fushan International, pursuant to which Sky Choice agreed to sell 154,166,874 ordinary shares in the share capital of Mount Gibson Iron Limited ("**Mount Gibson**"), a corporation incorporated under the laws of Australia and the shares of which are listed on the Australian Securities Exchange, representing approximately 14.34% of the then issued share capital of Mount Gibson, to Fushan International at a consideration of HK$1,188,531,169; and

(iii) the agreement dated 3 July 2009 entered into between the Company and Shougang Holding, pursuant to which Shougang Holding conditionally agreed to sell 1 share in the capital of Fine Power Group Limited ("**Fine Power**"), representing the entire issued share capital of Fine Power, to the Company at a consideration of HK$1,930,500,000.

6. ADDITIONAL DISCLOSURE OF SHAREHOLDING AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

(i) The shareholding of Shougang Holding in the Company as at the Latest Practicable Date as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO is set out in the paragraph headed "Substantial Shareholders" above. Save for the interests in the Company set out in the paragraph headed "Changes to the shareholding in the Company as a result of the issue of consideration shares" in the letter from the board in this circular, none of (i) Shougang Holding; (ii) directors of Shougang Holding; (iii) Cheung Kong (Holdings) Limited and its associates; (iv) Shougang Corporation; (v) directors of Shougang Corporation and (vi) other parties acting in concert with Shougang Holding had any shareholding interest or options, warrants, derivatives or securities convertible into shares of the Company as at the Latest Practicable Date. The Company had no shareholding interest or options, warrants, derivatives or securities convertible into shares of Shougang Holding as at the Latest Practicable Date.

(ii) As at the Latest Practicable Date, none of the Directors and Optima Capital had any interest in securities in Shougang Holding or Shougang Corporation.

(iii) As at the Latest Practicable Date, Shougang Holding and parties acting in concert with it held an aggregate of approximately 47.47% of the total issued share capital of the Company. Save for the share options granted to Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping (who are also directors of Shougang Holding) in their capacities as Directors under the Scheme, details of which are set out in the section headed "Disclosure of Interests" in this Appendix, none of the directors of Shougang Holding had any interest in the issued share capital of the Company or options, warrants, derivatives or securities convertible into shares of the Company as at the Latest Practicable Date.

(iv) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.

(v) As at the Latest Practicable Date, no person had any arrangement or any dealings of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Shougang Holding or Shougang Corporation or with any of their concert parties or with any person who is an associate of Shougang Holding by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.

(vi) As at the Latest Practicable Date, none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company had any interest in the shares, options, warrants, derivatives or securities convertible into shares of the Company and Shougang Holding or Shougang Corporation, and dealt in any shares, options, warrants, derivatives or securities convertible into shares of the Company and Shougang Holding or Shougang Corporation during the Relevant Period.

(vii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding that the Consideration Shares to be allotted and issued to Shougang Holding or its nominee under the Agreement would be transferred, charged or pledged to any other person.

(viii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) Shougang Holding or Shougang Corporation or any parties acting in concert with any of them; and (ii) any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver and/or the Acquisition.

(ix) As at the Latest Practicable Date, none of Optima Capital and any other advisers to the Company had any interest in the shares, options, warrants, derivatives or securities convertible into shares of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares, options, warrants, derivatives or securities convertible into shares in any member of the Group nor did it have any direct or indirect interest in any assets which have been, since 31 December 2010, the date to which the latest audited financial statements of the Company were made up, acquired or disposed of or leased to or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

(x) As at the Latest Practicable Date, no person had irrevocably committed to vote for or against the Acquisition and/or the Whitewash Waiver. As at the Latest Practicable Date, save for those disclosed under the section heading "Disclosure of Interests" in this Appendix, none of the Directors had interest in Shares, options, warrants, derivatives or securities convertible into Shares. No Director who held Shares as at the Latest Practicable Date will be entitled to vote in respect of the proposed resolutions approving the Acquisition and/or the Whitewash Waiver.

(xi) None of the Directors had dealt in any shares, options, warrants, derivatives or securities convertible into shares of Shougang Holding or Shougang Corporation during the Relevant Period.

(xii) Save for entering into the Agreement and the share options as disclosed under the section heading "Disclosure of Interests" in this Appendix, none of Shougang Holding, the directors of Shougang Holding, its associates and parties acting in concert with any of them had acquired any voting rights in the Company or had dealt in any Shares, options, warrants, derivatives or securities convertible into Shares of the Company for value during the Relevant Period. Shougang Holding has also undertaken that it and its associates and parties acting in concert with any of them shall not deal in the Shares, options, warrants, derivatives or securities convertible into Shares of the Company for value until Completion.

(xiii) The Company did not deal in the shares, options, warrants, derivatives or securities convertible into shares of Shougang Holding or Shougang Corporation during the Relevant Period.

(xiv) Save for the 20,000,000 share options granted to Mr. Li Shaofeng on 14 December 2010 under the Scheme (included in the section heading "Disclosure of Interests" in this Appendix), none of the Directors, Optima Capital or any of their respective holding companies, or any of their respective subsidiaries had dealt in any Shares, options, warrants, derivatives or securities convertible into Shares of the Company for value during the Relevant Period. The share options granted to Mr. Li as aforesaid will be exercisable up to 20%, 40%, 60%, 80% and 100% of the share options during the period of 12th, 24th, 36th, 48th and expiry of the 48th months from 14 December 2010. The consideration paid by Mr. Li for the share options was HK$1.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, the interests of the Directors in the businesses (other than those businesses where the Directors 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 were as follows:

Name of Director	Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which were 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#	Manufacture, sale and trading of steel products and iron ore	Director
Li Shaofeng	Shougang Holding#	Manufacture, sale and trading of steel products and iron ore	Director
Zhang Wenhui	Shougang Holding#	Manufacture, sale and trading of steel products and iron ore	Director
Chen Zhouping	Shougang Holding#	Manufacture, sale and trading of steel products and iron ore	Director

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

8. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, namely Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping, has entered into a service contract with a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2011 and expiring on 31 December 2013. Under the said service contracts, Messrs. Li Shaofeng, Zhang Wenhui and Chen Zhouping are entitled to receive a monthly salary of HK$350,000, HK$260,000 and HK$250,000, respectively, or such higher salaries and discretionary bonuses as may be determined by the Board from time to time. Each of the non-executive

Directors, namely Mr. Wang Qinghai, Mr. Cao Zhong, Mr. Ip Tak Chuen, Edmond, Mr. Leung Shun Song, Tony, and each of the independent non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Wong Kun Kim and Mr. Leung Kai Cheung, has entered into an engagement letter with the Company for a term of three years commencing on 1 January 2011 and expiring on 31 December 2013. Under the said engagement letters, each of the non-executive Directors and independent non-executive Directors is entitled to a director's fee as may be determined by the Board from time to time. There is no specific term regarding discretionary bonus and other variable remuneration under the said engagement letters. For the financial year ending 31 December 2011, the director's fees of Messrs. Wang Qinghai, Cao Zhong, Ip Tak Chuen, Edmond and Leung Shun Sang, Tony will be HK$150,000, HK$150,000, HK$150,000 and HK$230,000 respectively for a full year, and the director's fee of each of the independent non-executive Directors will be HK$330,000 for a full year.

Save for the monthly salary of Mr. Zhang Wenhui has been adjusted from HK$190,000 to HK$260,000 from 1 January 2011, there is no adjustment in the salary of any Director during the Relevant Period.

In addition, Mr. Li Shaofeng has entered into a service contract with Shougang Century, an associated company of the Company, with no specified or proposed length of service. Mr. Li is entitled to receive a monthly salary of HK$250,000 and other fringe benefit as may be determined by the board of directors of Shougang Century from time to time by reference to Mr. Li's performance and the policy of Shougang Century and subject to the relevant applicable rules and regulation. Save for disclosed herein, there is no specific term regarding discretionary bonus and other variable remuneration under Mr. Li's service contract. Mr. Leung Shun Sang, Tony has entered into a service contract with Shougang Century for a term of three years commencing on 1 January 2011 and expiring on 31 December 2013 and he is entitled to receive the director's fee as may be determined by the board of directors of Shougang Century from time to time. At present, Mr. Leung is entitled to receive a director's fee of HK$190,000 per annum. There is no specific term regarding discretionary bonus and other variable remuneration under Mr. Leung's service contract.

Mr. Chen Zhouping has entered into a service contract with a wholly-owned subsidiary of Fushan International, an associated company of the Company, commencing from 10 May 2010 with no specified or proposed length of service. Under the said service contract, Mr. Chen is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the board of directors of Fushan International from time to time. Mr. Zhang Wenhui has entered into an engagement letter with Fushan International commencing from 10 May 2010 and expiring on 31 December 2012. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the board of directors of Fushan International from time to time. There is no specific term regarding discretionary bonus and other variable remuneration under Mr. Zhang's engagement letter. For the financial year ending 31 December 2011, the director's fee of Mr. Zhang will be HK$300,000 for a full year. Mr. Leung Shun Sang, Tony has entered into an engagement letter with Fushan International commencing from 1 January 2010 and expiring on 31 December 2012. Under the said engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the board of directors of Fushan International from time to time. There is no specific term regarding discretionary bonus and other variable remuneration under Mr. Leung's engagement letter. For the financial year ending 31 December 2011, the director's fee of Mr.

Leung will be HK$300,000 for a full year. Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing nor proposed service contract with the Company or its subsidiaries or associated companies:

(i) which (including both continuous and fixed term contract) have been entered into or amended within six months before the date of the Announcement;

(ii) which are continuous contracts with a notice period of 12 months or more; or

(iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. INTEREST IN ASSETS AND CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2010 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

There is no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between any of the Directors and any other persons which is conditional or dependent on the outcome of the Acquisition and/or the Whitewash Waiver or otherwise connected with the Acquisition and/or the Whitewash Waiver.

As at the Latest Practicable Date, no material contracts have been entered into by Shougang Holding or Shougang Corporation in which any Director has a material personal interest.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest audited financial statements of the Company were made up.

11. EXPERT'S QUALIFICATION AND CONSENT

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

The following is the qualification of the expert who has given its opinions or advices which are contained in this circular:

Name	Qualification
Optima Capital Limited	a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

12. LITIGATION

As at the Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

13. GENERAL

(a) The company secretary of the Company is Ms. Cheng Man Ching, a fellow member of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries and an associate member of the Hong Kong Institute of Bankers. She holds a master degree in business administration and a master degree in arts.

(b) The parties acting in concert with Shougang Holding are Cheung Kong and CEF Holdings Limited. The directors of Shougang Holding are Messrs. Wang Qinghai, Li Shaofeng, Wang Pingsheng, Zhang Wenhui and Chen Zhouping and the ultimate beneficial owner of Shougang Holding is Shougang Corporation (which held 100% interest in Shougang Holding). According to the information that is publicly available to the Company, as at the Latest Practicable Date, the directors of Cheung Kong were Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mr. Ip Tak Chuen, Edmond, Mr. Chung Sun Keung, Davy, Ms. Pau Yee Wan, Ezra, Ms. Woo Chia Ching, Grace, Mr. Chiu Kwok Hung, Justin, Mr. Leung Siu Hon, Mr. Fok Kin-ning, Canning, Mr. Frank John Sixt, Mr. Chow Kun Chee, Roland, Mr. George Colin Magnus, Mr. Kwok Tun-li, Stanley, Mr. Yeh Yuan Chang, Anthony, Mr. Simon Murray, Mr. Chow Nin Mow, Albert, Ms. Hung Siu-lin, Katherine, Dr. Wong Yick-ming, Rosanna (also alternate director to Mr. Simon Murray) and Mr. Cheong Ying Chew, Henry and the controlling shareholder of Cheung Kong was Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust. The directors and alternate director of CEF Holdings Limited were Mr. Warren Philip Gilman, Mr. Ip Tak Chuen, Edmond, Mr. Leung Shun Sang, Tony, Ms. Pau Yee Wan, Ezra, Mr. Richard Nesbitt, Ms. Eirene Yeung, Mr. Winston Chow, Ms. Kwok Shi Hung, Maureen (alternate to Mr. Warren Philip Gilman) and the shareholders of CEF Holdings Limited were Cheung Kong and CIBC Holdings (Cayman) Limited ("**CIBC**"), a subsidiary of Canadian Imperial Bank of Commerce. As at the Latest Practicable Date, the directors of CIBC were Mr. M.F. Ben Gillooly, Mr. John Orr, Mr. Andrew Joseph Kriegler, Ms. Jennifer Denise Fischetti, Mr. Thomas James Crawford and Ms. Cordella E. Chollette. Each of Cheung Kong and CIBC held 50% shareholding interest in CEF Holdings Limited.

(c) The registered office of Shougang Holding is 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. The registered office of Cheung Kong is 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. The registered office of CEF Holdings Limited is Suite 2001, 20th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

(d) The registered office of the Company is 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(e) The share registrars of the Company is Tricor Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) The English text of this circular shall prevail over its Chinese text for the purpose of interpretation.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the registered office of the Company during normal business hours (9:00 a.m. – 5:00 p.m.); (ii) on the website of the Company (www.shougang-intl.com.hk); and (iii) on the website of SFC (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of Shougang Holding;

(c) the annual reports of the Company for each of the two years ended 31 December 2010;

(d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 16 of this circular;

(e) the letter from Optima Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 36 of this circular;

(f) the written consent from Optima Capital referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix;

(g) the material contracts referred to in paragraph headed "Material Contracts" in this Appendix;

(h) the service contracts of the Directors; and

(i) this circular.

首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 697)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Shougang Concord International Enterprises Company Limited (the "**Company**") will be held at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 13 July 2011 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) an agreement dated 5 May 2011 (the "**Agreement**") entered into between Shougang Holding (Hong Kong) Limited ("**Shougang Holding**") and the Company in relation to sale of the 1 share of US$1.00 in the share capital of Fair Gain Investments Limited by Shougang Holding to the Company at a consideration of HK$785,704,263, which will be satisfied in full by the allotment and issue of 777,925,013 new shares (the "**Consideration Shares**") by the Company to Shougang Holding or its nominee at an issue price of HK$1.01 per Consideration Share (the "**Acquisition**"), a copy of the Agreement is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose, be and is hereby confirmed, approved and ratified;

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares, the allotment and issue of the Consideration Shares to Shougang Holding or its nominee at an issue price of HK$1.01 per Consideration Share to satisfy the consideration for the Acquisition be and is hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to execute all documents and to do all such things and take all such other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for completion of the Agreement."

2. "**THAT** the waiver of the obligation of Shougang Holding and parties acting in concert with it to make a mandatory general offer for all the issued securities in the Company (the "**Shares**") (other than the Shares already owned by Shougang Holding and parties acting in concert with it), arising from the issue of the Consideration Shares (as defined in resolution no. 1 set out in the notice of which this resolution forms part) under the Agreement (as defined in resolution no. 1 set out in the notice of which this resolution forms part) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers be and is hereby approved and confirmed."

By order of the Board
Shougang Concord International Enterprises Company Limited
Li Shaofeng
Managing Director

Hong Kong, 24 June 2011

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

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the share registrars of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.