



*Annual report*  
2 0 0 8



**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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

## EXECUTIVE COMMITTEE

Cao Zhong (*Chairman*)  
Chen Zhouping  
Zhang Wenhui  
Luo Zhenyu

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Cheng Man Ching

## AUDITOR

Deloitte Touche Tohmatsu

## SHARE REGISTRARS

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

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## STOCK CODE

697

## WEBSITE

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



# DIRECTORS' BIOGRAPHIES

**Mr. Wang Qinghai**, aged 50, senior engineer. Mr. Wang was appointed the Chairman of the Company, Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and Shougang Concord Grand (Group) Limited ("Shougang Grand") in April 2001. He is the general manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and has extensive experience in management and operation.

An engagement letter has been entered into with Mr. Wang for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Wang will receive a director's fee as may be determined by the board of director of the Company (the "Board") from time to time pursuant to the authority given by the shareholders of the Company (the "Shareholders"). For the financial year ending 31 December 2009, the director's fee of Mr. Wang will be HK\$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wang. For the financial year ended 31 December 2008, the director's fee of Mr. Wang is HK\$150,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Wang's experience and duties as well as the then prevailing market conditions.

**Mr. Cao Zhong**, aged 49, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Managing Director of the Company in November 2001. He is also the chairman of the Executive Committee and the Nomination Committee of the Company and the vice chairman of the Remuneration Committee of the Company. He was appointed the deputy chairman and general manager of Shougang Holding in November 2001 and a director of each of Grand Invest International Limited ("Grand Invest") and China Gate Investments Limited ("China Gate") in January and March 2002 respectively, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Cao was appointed the chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. Mr. Cao was also appointed the vice chairman of Shougang Grand in November 2001 and has acted concurrently as the managing director of Shougang Grand since February 2006. He was appointed the joint chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of Shougang Grand, in February 2005 and is currently the chairman of GDC. Mr. Cao was appointed an executive director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the chairman of APAC in May 2007. He was appointed a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, in December 2008. He was also appointed an executive director of Fushan International Energy Group Limited ("Fushan") in March 2009 and is currently the chairman of Fushan. Mr. Cao also acts as the assistant general manager of Shougang Corporation and the chairman of China Shougang International Trade and Engineering Corporation. He has extensive experience in corporate management and operation.

## DIRECTORS' BIOGRAPHIES

A service contract has been entered into between Mr. Cao and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Cao is entitled to a monthly salary of HK\$300,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Cao is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Cao is HK\$6,900,000.

**Mr. Chen Zhouping**, aged 43, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed a Deputy Managing Director of the Company in November 2002. He is also a member of the Executive Committee of the Company. Mr. Chen was appointed a deputy managing director of Shougang Holding in November 2001 and a director of each of Grand Invest and China Gate in January and March 2002 respectively, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He was appointed a non-executive director of Fushan and a director of Mount Gibson Iron Limited, a company listed in the Australian Securities Exchange, in January 2009. He had acted as the managing director of Shougang Grand during the period from February 2002 to November 2002. Mr. Chen has extensive experience in steel industry, engineering design, human resources and management.

A service contract has been entered into between Mr. Chen and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Chen is entitled to a monthly salary of HK\$220,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Chen is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Chen is HK\$2,640,000.

**Mr. Zhang Wenhui**, aged 53, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed a Deputy Managing Director of the Company in September 2006. He is also a member of the Executive Committee of the Company. Mr. Zhang joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. Mr. Zhang was appointed the General Manager of the Shipping Division of the Company in July 2001. He was also appointed the deputy managing director of Shougang Holding in June 2004 and a director of each of Grand Invest and China Gate in November 2004, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang had acted as the Deputy Managing Director of the Company for the period from July 2002 to January 2005. He was a director and the president of Shougang Technology during the period from July 2004 to July 2006, and was the vice chairman of Shougang Technology from July 2006 to September 2006. Mr. Zhang has extensive experience in management and company operations.

A service contract has been entered into between Mr. Zhang and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Zhang is entitled to a monthly salary of HK\$160,000 or such higher salary as may be

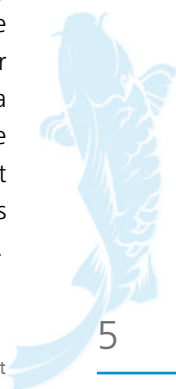
determined by the Board which is determined with reference to his experience and duties as well as the then prevailing market conditions. From 1 January 2009, his monthly salary has been adjusted from HK\$160,000 to HK\$170,000. Mr. Zhang is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Zhang is HK\$1,920,000.

**Mr. Luo Zhenyu**, aged 39, graduated from Tianjin University and Graduate School, the Chinese Academy of Social Sciences with a bachelor degree in technology and a doctor degree in economics respectively. Mr. Luo was appointed a Deputy Managing Director of the Company in January 2005. He is also a member of the Executive Committee of the Company. Mr. Luo has extensive experience in corporate investment.

A service contract has been entered into between Mr. Luo and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2008. Under the service contract, Mr. Luo is entitled to a monthly salary of HK\$140,000 which is determined with reference to his experience and duties as well as the then prevailing market conditions. Mr. Luo is also entitled to a discretionary bonus as may be determined by the Remuneration Committee of the Company from time to time with reference to the then prevailing market conditions, the performance of the Company as well as his individual performance. For the financial year ended 31 December 2008, the discretionary bonus received by Mr. Luo is HK\$1,400,000.

**Mr. Ip Tak Chuen, Edmond**, aged 56. Mr. Ip was appointed a Non-executive Director of the Company in 1993. He is also a deputy managing director of Cheung Kong (Holdings) Limited, an executive director and deputy chairman of Cheung Kong Infrastructure Holdings Limited, the senior vice president and chief investment officer of CK Life Sciences Int'l., (Holdings) Inc. and a non-executive director of each of TOM Group Limited, ARA Asset Management Limited, CATIC International Holdings Limited, Excel Technology International Holdings Limited and The Ming An (Holdings) Company Limited. All the companies mentioned above are listed companies in Hong Kong or overseas. Mr. Ip is currently also a director of ARA Asset Management (Singapore) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on the Singapore Exchange Securities Trading Limited ("SESTL"), and of ARA Trust Management (Suntec) Limited, which manages Suntec Real Estate Investment Trust, a real estate investment trust listed on SESTL. Mr. Ip is also a director of certain companies which are substantial shareholders of the Company within the meaning of Part XV of the SFO. He holds a bachelor of arts degree in economics and a master of science degree in business administration.

An engagement letter has been entered into with Mr. Ip for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Ip will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Ip will be HK\$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Ip. For the financial year ended 31 December 2008, the director's fee of Mr. Ip is HK\$150,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Ip's experience and duties as well as the then prevailing market conditions.



## DIRECTORS' BIOGRAPHIES

**Mr. Leung Shun Sang, Tony**, aged 66. Mr. Leung was appointed a Non-executive Director of the Company in November 1992. He is also the chairman of the Remuneration Committee of the Company and vice chairman of the Nomination Committee of the Company. Mr. Leung is a director of each of Shougang Grand, Shougang Technology, Shougang Century and GDC. He was also appointed a non-executive director of Fushan in March 2009. Mr. Leung is the managing director of CEF Group. Mr. Leung holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management.

An engagement letter has been entered into with Mr. Leung for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Leung will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Leung will be HK\$230,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. For the financial year ended 31 December 2008, the director's fee of Mr. Leung is HK\$230,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

**Ms. Kan Lai Kuen, Alice**, aged 54. Ms. Kan was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in September 2004. She is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Ms. Kan is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of The Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Hong Kong Institute of Directors. Ms. Kan has over 15 years of experience in corporate finance and is well experienced in both the equity and debt markets. She held various senior positions in international and local banks and financial institutions and is currently a controlling shareholder and the managing director of each of Asia Investment Management Limited and Asia Investment Research Limited, both companies are licensed corporations under the SFO. She is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. Ms. Kan is also an independent non-executive director of each of Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited, Sunway International Holdings Limited, Shimao Property Holdings Limited and China Energine International (Holdings) Limited, all of which are listed companies in Hong Kong. During the period from April 2005 to September 2006, Ms. Kan was an independent non-executive director of SNP Leefung Holdings Limited whose shares were delisted from the Hong Kong Stock Exchange in September 2006.

An engagement letter has been entered into with Ms. Kan for a term of three years commencing on 1 January 2008. Under the engagement letter, Ms. Kan will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Ms. Kan will be HK\$330,000 for a full year which will be paid in proportion to the actual length of services provided by Ms. Kan. For the financial year ended 31 December 2008, the director's fee of Ms. Kan is HK\$330,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Ms. Kan's experience and duties as well as the then prevailing market conditions.

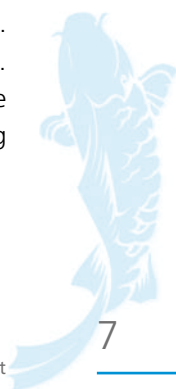


**Mr. Wong Kun Kim**, aged 64. Mr. Wong was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in September 2004. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Wong holds a bachelor degree in economics, a master degree in business administration and a doctorate of philosophy. He is a member of the Chartered Institute of Marketing and Chartered Management Institute and is licensed as a responsible officer of each of Asia Investment Management Limited and Asia Investment Research Limited under the SFO. Mr. Wong has over 30 years of experience working as senior executives for various multinational corporations engaged in trading, manufacturing, finance and real estates. He had served as consultants and directors for different listed companies in Mainland China, Hong Kong, Taiwan and United States of America and is currently an independent non-executive director of Sunway International Holdings Limited, a Hong Kong listed company.

An engagement letter has been entered into with Mr. Wong for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Wong will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Wong will be HK\$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wong. For the financial year ended 31 December 2008, the director's fee of Mr. Wong is HK\$330,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Wong's experience and duties as well as the then prevailing market conditions.

**Mr. Leung Kai Cheung**, aged 63. Mr. Leung was appointed an Independent Non-executive Director of each of the Company and Shougang Technology in June 2006. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Leung graduated from the Chinese University of Hong Kong with a bachelor degree in business. He had been a senior executive of Citibank, N.A. and the general manager of Barclays Bank PLC in charge of Kowloon and New Territories district. He is currently the chairman of each of Star International Enterprises Limited and Shinon Technologies Limited. He is one of the founding shareholders of China E-Learning Group Limited whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

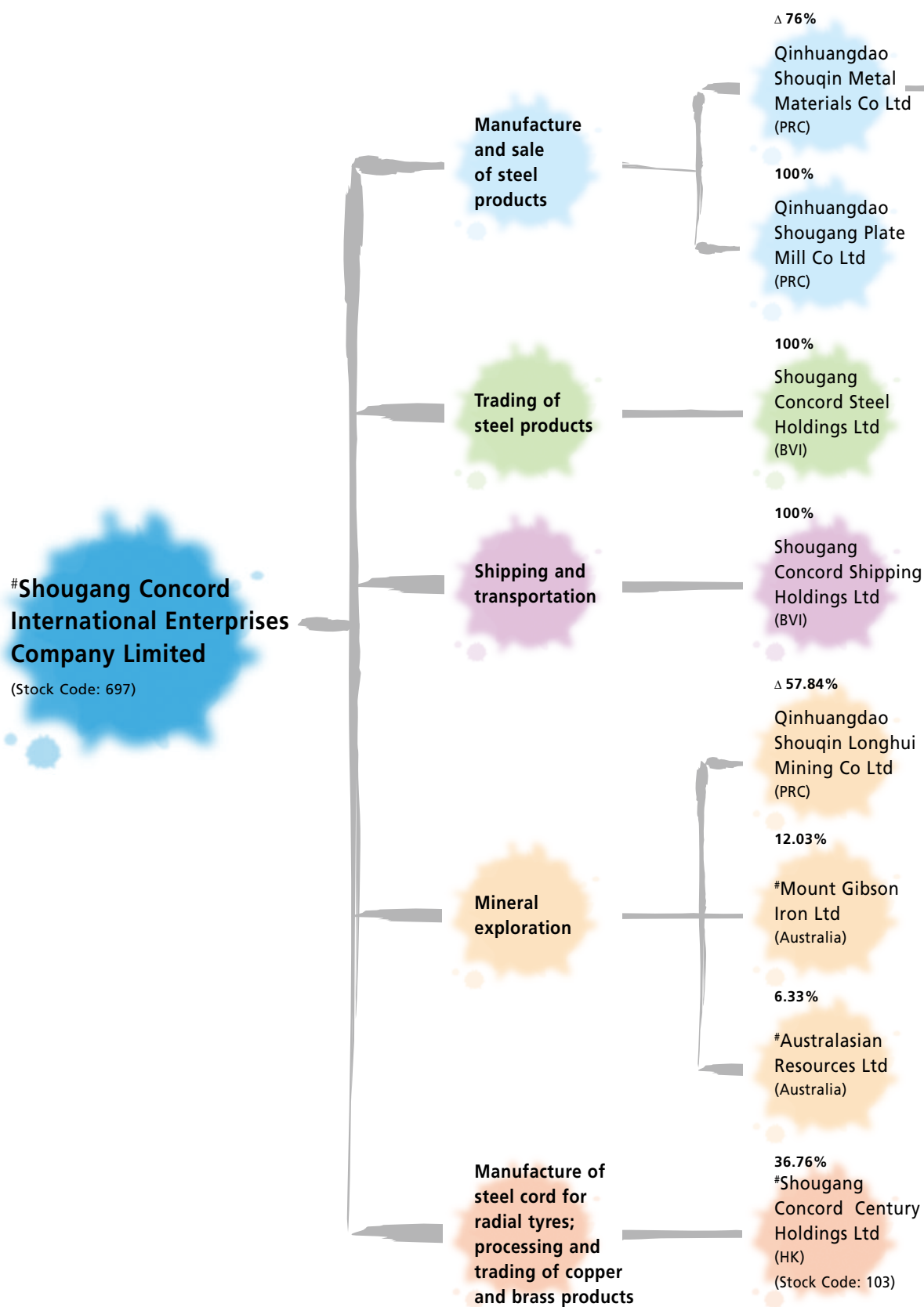
An engagement letter has been entered into with Mr. Leung for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Leung will receive a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2009, the director's fee of Mr. Leung will be HK\$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. For the financial year ended 31 December 2008, the director's fee of Mr. Leung is HK\$330,000. The relevant director's fees were determined by the Board pursuant to the authority given by the Shareholders and with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.





# MAIN OPERATIONAL STRUCTURE

As at 31 December 2008



**Notes:**

# Listed company

Δ Attributable interest held by Shougang Concord International Enterprises Company Limited

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

100%  
Shougang  
Concord Steel  
Int'l Trading  
Co Ltd  
(BVI)

100%  
Shougang  
Concord  
Godown Ltd  
(HK)

100%  
Shougang  
Concord  
Management  
Co Ltd  
(HK)

100%  
Shougang  
Concord Int'l  
Transport Ltd  
(BVI)

100%  
Shougang  
Concord  
Shipping  
Services Ltd  
(HK)

100%  
Ryegar Ltd  
(UK)

70%  
Centralink  
Int'l Ltd  
(BVI)

Δ 63%  
Zhoushan  
Shouhe Centra-  
link Co Ltd  
(PRC)

Δ 12.03%  
Mount Gibson  
Mining Ltd  
(Australia)

Δ 12.03%  
Koolan Iron Ore  
Pty Ltd  
(Australia)

Δ 12.03%  
Geraldton Bulk  
Handling Pty Ltd  
(Australia)

Δ 6.33%  
International  
Minerals Pty Ltd  
(Australia)

Δ 6.33%  
International  
Exploration Ltd  
(Australia)

Δ 36.76%  
Jiaxing  
Eastern  
Steel Cord  
Co Ltd  
(PRC)

Δ 36.76%  
Tengzhou  
Eastern Steel  
Cord Co  
Ltd  
(PRC)

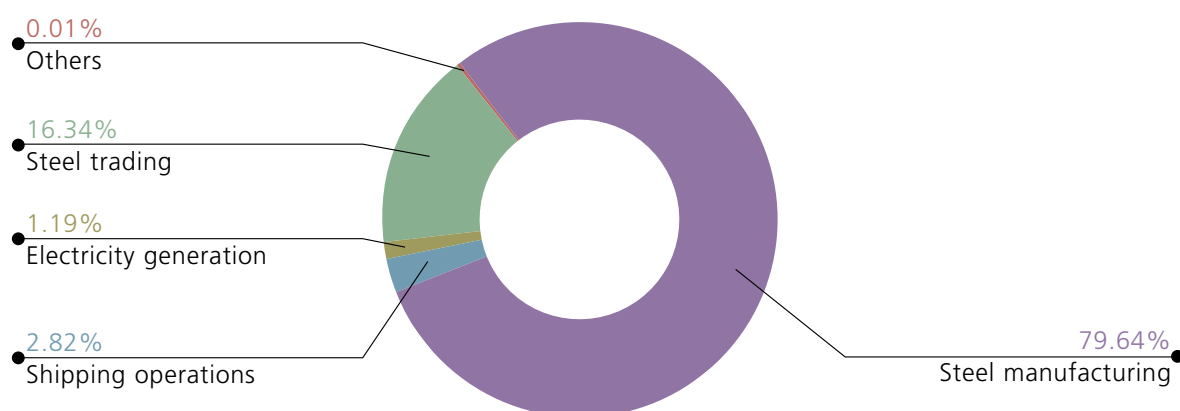
Δ 36.76%  
Hing Cheong  
Metals (China  
& Hong Kong)  
Ltd  
(HK)

Δ 36.76%  
Meta  
International  
Ltd  
(HK)

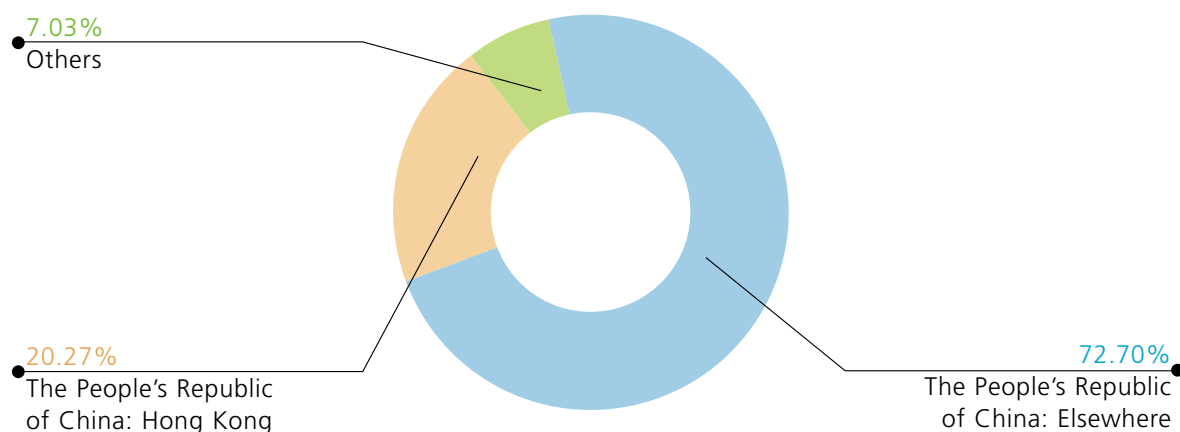


# FINANCIAL HIGHLIGHTS

## TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2008

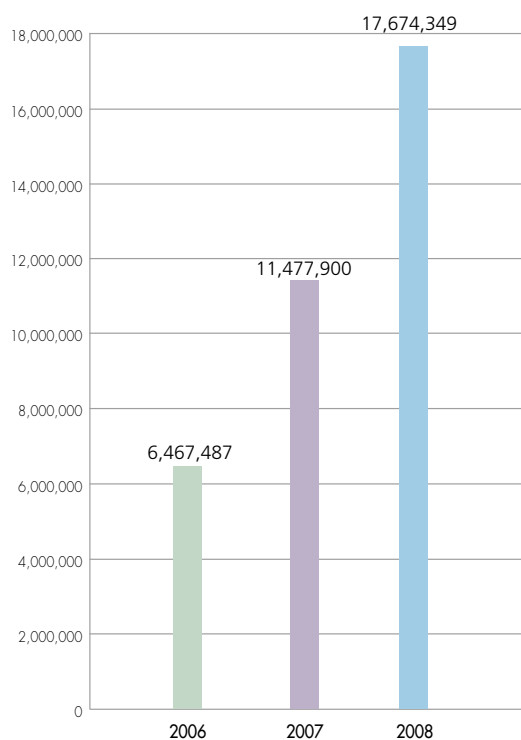


## TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2008



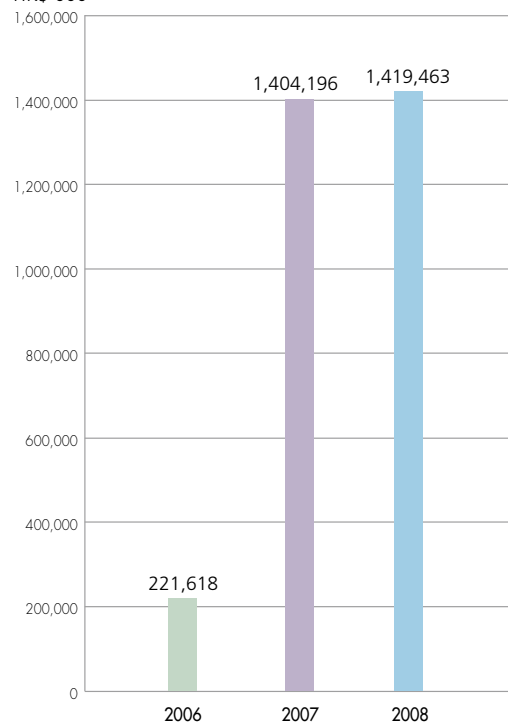
## TURNOVER

HK\$'000



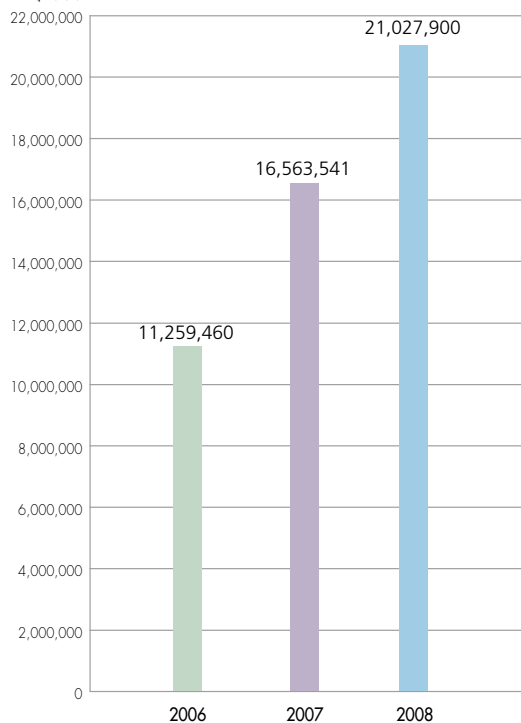
## PROFIT ATTRIBUTABLE TO SHAREHOLDERS

HK\$'000



## TOTAL ASSETS

HK\$'000



# CHAIRMAN'S STATEMENT

I am pleased to report that the past year has seen our Group registering encouraging results with growth in both sales and profitability. The core developments of our steel manufacturing segment are three-fold; first, to improve product quality and mix; then, on product deep processing; while the third is to strategically control resources, in order to enhance a vertically integrated value chain model. Our spectrum of heavy plates has already been expanded from lower grade ship plates and commodity plates back in 2007 to premium products such as X70 pipeline steel plates, high strength ship plates and offshore platform plates and pressure vessel plates.

On the other hand, we have expanded our investment in upstream supply chain, via equity investment in Australia-listed Mount Gibson Iron Limited with long term iron ore offtake agreements; establishing a joint venture with Qinhuangdao Longhui Group to develop local iron ore resources; equity investment in Fushan International Energy Group Limited which holds the second largest coking coal resources in China. We have also drawn out our downstream value chain by having our deep processing centre, its pre-treatment and steel structure facilities have just commenced operations. These investments represent joint pursuits of our common interest and should lay a solid foundation to enhance our competitiveness in the industry.

Consolidated revenues for the year jumped 54.0% to reach HK\$17,674.3 million, while net profit attributable to shareholders increased by 1.1% to HK\$1,419.5 million over that of 2007. In view of the sound financial resources of the Group, the Board has proposed to pay a final dividend of HK3 cents per share, with interim dividend paid at HK2 cents, annual dividend becomes HK5 cents per share.

As we begin 2009, we may be in a deep winter in terms of the global economy, spring should not be far away though. Amidst the crucial times, we shall commit our best efforts to bring decent results to our shareholders.

Finally, I would like to extend my warmest regards to all our shareholders for their partnership along this journey. Specifically, I would also like to thank our Board of Directors, management and staff who have showed much dedication and contributions to the Group.

**Wang Qinghai**  
*Chairman*

9 April 2009

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

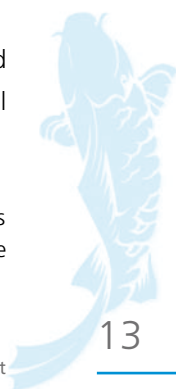
2008 started with optimism and hope through to the end of Beijing Olympics in September, the flourishing demand across of all segments provided much room for profitability. Things suddenly started to take a wrong turn post-Olympics, customers have become more cautious amidst the sharp deterioration in global economic conditions. The Group's performance has subsequently been negatively impacted mainly in the last quarter.

For the year ended 31 December 2008, net profit attributable to shareholders of the Group amounted to HK\$1,419.5 million<sup>1</sup>, representing an increase of 1.1% over that of the last year. Excluding non-cash impairment charges of options and shares in Australasian Resources Limited ("ARH") at HK\$238 million as well as employee share option expenses at HK\$111 million, core operating profit stood at HK\$1,764.4 million, amongst which steel manufacturing segment reporting net profit of over HK\$1,485.7 million. The Group recorded a consolidated turnover of HK\$17,674.3 million<sup>1</sup> in the year, which showed an increase of 54.0% comparing with that of last year. Basic and diluted earnings per share was HK19.7 cents and HK19.6 cents respectively.

The Group has been progressively executing its strategy to become to a more vertically-integrated steel manufacturer. With our own resources, one can effectively control its input costs much better. Such initiatives are as follows which, during the year and to date, we have:

- (i) acquired 14.3% equity interest in Mount Gibson Iron Limited ("Mount Gibson"), a pure-play iron ore producer which is listed in Australia. We have also executed a series of iron ore offtake agreements so that a sizeable quantity of ore will be available to us for a long time at discount to market/benchmark prices. Shipment has already commenced in the last quarter of 2008 and it should be a win-win result for all;
- (ii) set up a new iron ore mining joint venture in Qinhuangdao city, the same city where our manufacturing facilities are located. The mines are expected to be operational from around second half of this year, mainly for our own raw material requirements; and,
- (iii) acquired 12.0% equity interest in Fushan International Energy Group Limited, the second largest coking coal producer which is listed in Hong Kong. We expect to have beneficial business relationship with each other on a long term basis on our coal requirements.

*Note 1:* These amounts included turnover and profit attributable to shareholders contributed by certain segments that are presented as discontinued operation in accordance with HKFRS5. The respective amounts of the discontinued operation are separately disclosed in the analysis of turnover and profit.





# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

Year ended 31 December 2008 compared to year ended 31 December 2007

### Turnover and Cost of Sales

For the year under review, the Group recorded a consolidated turnover of HK\$17,674.3 million, representing an increase of 54.0% over that of last year. The increase is mainly attributed to higher selling prices and increased sales volume in the steel manufacturing segment.

Cost of sales for the current year was HK\$14,187.3 million. The resulting gross profit margin of 19.7% was similar to that of last year.

### EBITDA and Core Operating Profit

In this current year, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK\$2,466.9 million, which increased by 10.3% from HK\$2,237.5 million of the last year.

Profit after tax included certain significant non-cash and non-recurring charges and are shown below:

| In HK\$ million                     | Year ended 31 December |         |
|-------------------------------------|------------------------|---------|
|                                     | 2008                   | 2007    |
| Profit attributable to shareholders | <b>1,419.5</b>         | 1,404.2 |
| Adjusting for loss/(gain) items:    |                        |         |
| FV loss/(gain) on ARH Options       | <b>147.1</b>           | (150.4) |
| Impairment loss on ARH shares       | <b>91.1</b>            | –       |
| Employee share option expenses      | <b>110.9</b>           | 59.7    |
|                                     | <b>1,768.6</b>         | 1,313.5 |
| (Gain)/Loss on asset realizations   |                        |         |
| Power Plant                         | <b>(4.2)</b>           | –       |
| 20% interest in Shouqin             | –                      | (92.0)  |
| Kitchen and laundry segment         | –                      | 7.1     |
| Core Operating Profit               | <b>1,764.4</b>         | 1,228.6 |

Taking out significant non-operational related items, core operating profit of the Group rose by 43.6% on the comparative year.

## FINANCIAL REVIEW (continued)

### Finance cost

In the current year, finance cost increased to HK\$454.2 million, comparing to HK\$358.1 million last year, or 26.8%. Apart from rising interest rates, debt level has increased resulting in higher finance cost for the year.

## REVIEW OF OPERATIONS

### Manufacture and Sale of Steel Products



The Group operates in this business segment through a 76%-owned Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") and a wholly-owned subsidiary Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"). This segment has contributed 80% of the Group's turnover (2007: 79%). During the first half year under review, steel prices surged, enabling much profitability

for steel manufacturing enterprises. We were hurt by the sharp deterioration of global economy in the second half of the year which caused rapid slowdown in demand, in addition to comparatively higher cost of raw materials on hand at that time. This core segment has realized HK\$1,485.7 million in net profit, comparing to HK\$933.0 million last year, rising by 59%. Summary of production and sales quantities during this year and last year of the two manufacturing plants under this segment is as follows:

| In '000 mt. |                        | Slabs        |       | Heavy Plates |       |
|-------------|------------------------|--------------|-------|--------------|-------|
|             |                        | 2008         | 2007  | 2008         | 2007  |
| (i)         | Production             |              |       |              |       |
|             | Shouqin                | <b>2,650</b> | 2,425 | <b>1,462</b> | 1,218 |
|             | Qinhuangdao Plate Mill | —            | —     | <b>825</b>   | 854   |
|             | Total                  | <b>2,650</b> | 2,425 | <b>2,287</b> | 2,072 |
| (ii)        | Sales                  |              |       |              |       |
|             | Shouqin                | <b>985</b>   | 1,310 | <b>1,444</b> | 1,076 |
|             | Qinhuangdao Plate Mill | —            | —     | <b>763</b>   | 812   |
|             | Total                  | <b>985</b>   | 1,310 | <b>2,207</b> | 1,888 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

#### Manufacture and Sale of Steel Products (continued)

##### *Shouqin*



From 7 February 2007, the Group has held an effective interest of 76% in Shouqin (52% held by the Group directly and 24% through Qinhuangdao Plate Mill), the remaining 20% and 4% were held by Hyundai Heavy Industries Co., Ltd. and Shougang Corporation respectively.

Shouqin is a leading environment-friendly integrated facility encompassing the entire process from iron, steel, slab to plate with 4300mm hot rolling lines imported from Germany. The plant has an annual production capacity of 2.6 million tonnes in steel slabs and 1.8 million tonnes in high value-adding heavy plates (steel slabs are rolled into plates as finished goods). We have increasing varieties of high value-adding heavy plates, especially those tailored for infrastructure, petrochemical industry and construction of heavy machinery. We have also successfully implemented 5S and Six Sigma quality improvements imperatives in Shouqin during the year.

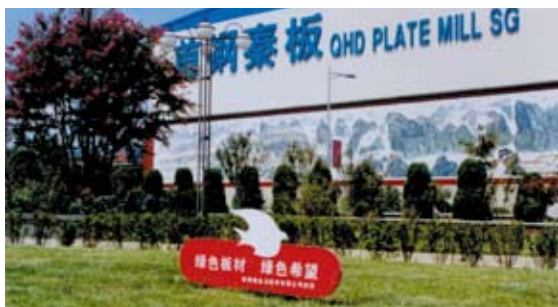
Shouqin achieved good performance in 2008 and recorded a turnover of HK\$14,858.8 million (before elimination of intersegment sales), comparing to HK\$9,141.5 million last year, or a rise of 62.5%. While its plate rolling system only reached design capacity since April 2007, it currently runs at an almost 120% utilization rate. In the year under review, net profit attributable to the Group from Shouqin amounted to HK\$1,278.2 million, versus a profit contribution of HK\$731.2 million last year, registering an increase of 74.8%. Input costs are expected to be much lower in the future through progressive vertical integration, therefore we are confident of Shouqin's results in the forthcoming years.



## REVIEW OF OPERATIONS (continued)

### Manufacture and Sale of Steel Products (continued)

#### *Qinhuangdao Plate Mill*



With a medium plate (upto 3 m. in width) hot rolling facility starting from 1993, Qinhuangdao Plate Mill's results were more than satisfactory. Turnover of Qinhuangdao Plate Mill was HK\$5,756.8 million (before elimination of intersegment sales) for the year, representing an increase of 47.3% from that of last year. With sales volume of major steel products slightly decreased by 6.0%, the average selling price has however increased by approximately 35% over that of last year. As a result, net profit for the current year attributable to the Group was HK\$207.5 million (excluding the share of 24% results in Shouqin), rising by about 3.0% comparing to that of last year.

#### Shipping operations



Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") is mainly engaged in the time charter business and is positioned as a hedge to our steel manufacturing segment. With freight cost as part of cost of imported raw materials, rising freight cost actually can be partially offset by increased charter income, and vice versa. In the current year, its turnover and net profit attributable to shareholders were HK\$499.1 million and HK\$333.0 million respectively, registering a rise of 33.5% and 46.5% comparing to that of last year. In order to lessen profit fluctuation, our strategy remains locking in one vessel at longer term charter. Baltic Dry Index had massive swings in 2008 upto present which in turn bring much pressure to this segment, but we believe this business should still provide a viable hedge to our main activities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

#### Other businesses

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

Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") reported net profit of HK\$34.8 million in the current year, reduced by 67.1% when comparing to that of last year. Following the increase in shareholding in Shougang Century Group from 20.7% to 36.8%, but with loss from realization of its reserves, the Group recorded an attributable loss of HK\$22.5 million in the current year, comparing to net profit of HK\$23.3 million last year.

Amidst intense market competition and economic downturn during the year, Shougang Century Group's sales of steel cord for radial tyres still maintained well, but the gross profit margin dropped from 13.1% to 8.5% in the current year, whilst there was significant net profit on sale of A shares it held. With its expanding businesses and capacity, we believe its financial results will improve in the future.

##### *Trading of steel products; Installation of kitchen and laundry equipment – Discontinued operation*

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported turnover and net profit of HK\$2,887.1 million and HK\$27.9 million respectively for the year ended 31 December 2008, representing an increase of 90.9% and decrease of 5.7% in comparison with last year. Within this segment, trading volume and unit prices of steel products have increased. On the other hand, the installation of kitchen and laundry equipment segment has been disposed of in June 2007, recording a one-off loss of HK\$7.1 million.

##### *Electricity generation – Discontinued operation*

Our 51%-owned Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant") was disposed of entirely in June 2008 and is classified as part of discontinued operation. The consolidated turnover was HK\$209.6 million for the current year and attributable profit was HK\$7.8 million which included gain on disposal of HK\$4.2 million for the year.

## REVIEW OF OPERATIONS (continued)

### Liquidity, Financial Resources and Financing Activities

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

#### 1. *Leverage*

The financial leverage of the Group as at 31 December 2008, as compared to 31 December 2007 is summarized below:

| HK\$ million                             | As at 31 December |        |
|--|-------------------|--------|
|  | 2008              | 2007   |
| Total Debt                               |                   |        |
| – from banks                             | <b>7,280</b>      | 4,160  |
| – from parent company                    | <b>928</b>        | 1,071  |
| Sub-total                                | <b>8,208</b>      | 5,231  |
| Cash and bank deposits                   | <b>4,034</b>      | 3,326  |
| Net debt                                 | <b>4,174</b>      | 1,905  |
| Total capital<br>(Equity and total debt) | <b>15,772</b>     | 12,046 |
| Financial leverage                       |                   |        |
| – Net debt to total capital              | <b>26.5%</b>      | 15.8%  |
| – Net debt to total assets               | <b>19.8%</b>      | 11.5%  |

#### 2. *Currency and Interest Rate Risk*

The Company manages its financial risk under the guidance of its Board of Directors. The objective of treasury policy is to manage the Group's foreign currency, interest and counterparty credit risks. Derivative financial instruments are only employed to managed such risks, but not for speculative purposes. We also dedicate to ensure sufficient financial resources for corporate development.

The Group conducts its businesses mainly in Hong Kong and Mainland China, with equity investments in Australia. Therefore, we are subject to the foreign exchange fluctuations of HK Dollars, US Dollars, Renminbi ("RmB") and Australian Dollars. To minimize currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. The Group's turnover and costs are largely denominated in RmB, which largely offset each other in term of any currency movements. However, there will be a translation gain as a result of the RmB appreciation. For the year ended 31 December 2008, approximately 81% of the Group's turnover was denominated in RmB. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements.



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS (continued)

#### Liquidity, Financial Resources and Financing Activities (continued)

##### 3. *Financing activities*

In February 2008, the Company entered into a club deal for 4-year facilities at approximately HK\$2,480 million (US\$320 million) in Hong Kong. Such facilities entail floating rate of LIBOR + 52 bps. According to the loan agreement, two drawdowns were made in March and June 2008 respectively of HK\$775 million (US\$100 million) each, total drawn amount was HK\$1,550 million, the remaining HK\$930 million (US\$120 million) were still unused as of 31 December 2008.

#### Material acquisition and disposal

In April 2008, the Group entered into a Share Sale Agreement with a wholly owned subsidiary of Shougang Holding (Hong Kong) Limited which is the controlling shareholder of the Company. The transaction contemplated under the said agreement was disposal of our electricity generation segment. This resulted in a one-off gain of HK\$4.2 million. Details of the transaction contemplated under the agreement was disclosed in the circular to shareholders dated 20 May 2008.

In November 2008, the Group entered into a share subscription agreement and an underwriting agreement with Mount Gibson. Details of the transactions contemplated under these agreements were disclosed in the circular to shareholders dated 18 November 2008. After completion of the subscription and underwriting, the Group has already become holder of 14.3% equity interest in Mount Gibson.

Save as disclosed above, there were no other material acquisitions or disposals of the Group during the year.

#### Capital Structure

At the beginning of the current year, the issued share capital of the Company was HK\$1,400.6 million, represented by 7,003.2 million ordinary shares at par value of HK\$0.20 each. During the year, certain employees of the Group exercised the granted options, pursuant to which 280.1 million new ordinary shares were issued. In addition, the Company repurchased 108.0 million ordinary shares from the market in accordance with the general mandate granted at the last annual general meeting, at prices ranging from HK\$0.95 to HK\$1.48 per share. All the repurchased shares were cancelled subsequently. As a result of the aforesaid events, the issued share capital of the Company increased to HK\$1,435.1 million, represented by 7,175.4 million ordinary shares as at 31 December 2008.

## REVIEW OF OPERATIONS (continued)

### Employees and Remuneration Policies

The Group has a total of approximately 3,900 employees as at 31 December 2008.

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

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

## PROSPECTS



The National Stimulus Plan for the Ten Largest Industries has recently been announced. Steel Industry, which usually is considered the “backbone” to industrialization, not only is included as part of the plan, but the stimuli for the remaining nine industries are mostly associated with that of steel.

With subdued global industrial activities, steel demand plunged; the challenges in the market in the short to mid term remain inevitably severe. However, with the progressive integration of value chain, our product quality and cost efficiency are relatively better than most of our competitors.

Following the demand brought forward from downstream industries such as machinery, infrastructure and shipbuilding, with the execution of the Rmb4 trillion investment package and National Stimulus Plan, we believe the steel industry especially that of heavy plates should see an end to its downturn by end of the year and slowly recover. Against this backdrop, the Group is cautiously optimistic to continue to perform well, and we intend to show we are able to continue to generate decent profits.

# CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) during the financial year ended 31 December 2008, except for the following deviation:–

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

The Chairman of the Board of Directors of the Company had not attended the annual general meeting of the Company held on 6 June 2008 (the “Meeting”) as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, together with other members of the Board and the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

## BOARD OF DIRECTORS

### Composition

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

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

## BOARD OF DIRECTORS (continued)

### Composition (continued)

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

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

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

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

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

### Role and function

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

### Board meetings

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



## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS (continued)

#### Board meetings (continued)

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

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

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

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

## BOARD OF DIRECTORS (continued)

### Attendance records

During the financial year ended 31 December 2008, the Directors have made active contribution to the affairs of the Group and five Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of Directors' attendance records in 2008 are as follows:

|  | Meetings attended/Eligible to attend |
|--|--------------------------------------|
| <i>Chairman</i>                            |                                      |
| Wang Qinghai                               | 0/5                                  |
| <i>Executive Directors</i>                 |                                      |
| Cao Zhong                                  | 4/5                                  |
| Chen Zhouping                              | 4/5                                  |
| Zhang Wenhui                               | 4/5                                  |
| Luo Zhenyu                                 | 3/5                                  |
| <i>Non-executive Directors</i>             |                                      |
| Ip Tak Chuen, Edmond                       | 5/5                                  |
| Leung Shun Sang, Tony                      | 5/5                                  |
| <i>Independent Non-executive Directors</i> |                                      |
| Kan Lai Kuen, Alice                        | 4/5                                  |
| Wong Kun Kim                               | 5/5                                  |
| Leung Kai Cheung                           | 5/5                                  |

### Access to information

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

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.





## CORPORATE GOVERNANCE REPORT

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

#### **Appointments and re-election of Directors**

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

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

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

#### **Independent Non-executive Directors**

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

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

#### **Directors' and officers' liability**

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. Cao Zhong serves as the Managing Director of the Company. The Chairman provides leadership for the Board. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

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

## BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

### Executive Committee

An Executive Committee of the Board was established in February 2005 and comprises all Executive Directors of the Company.

As at 31 December 2008, the members of the Executive Committee were as follows:

- Cao Zhong (*Chairman*)
- Chen Zhouping
- Zhang Wenhui
- Luo Zhenyu

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. During the year, thirty meetings of the Executive Committee were held.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEE (continued)

### Audit Committee

An Audit Committee of the Board was established in December 1998 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

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

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

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

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

|                                  | Meetings attended/Eligible to attend |
|----------------------------------|--------------------------------------|
| Wong Kun Kim ( <i>Chairman</i> ) | 2/2                                  |
| Kan Lai Kuen, Alice              | 2/2                                  |
| Leung Kai Cheung                 | 2/2                                  |

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

- reviewing the final results of the Group for the financial year ended 31 December 2007; and
- reviewing the interim results of the Group for the six months ended 30 June 2008.

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

## BOARD COMMITTEE (continued)

### Nomination Committee

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

The principal duties of the Nomination Committee include:

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

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

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

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

|  | Meetings attended/Eligible to attend |
|--|--------------------------------------|
| Cao Zhong ( <i>Chairman</i> )                  | 1/1                                  |
| Leung Shun Sang, Tony ( <i>Vice Chairman</i> ) | 1/1                                  |
| Kan Lai Kuen, Alice                            | 1/1                                  |
| Wong Kun Kim                                   | 1/1                                  |
| Leung Kai Cheung                               | 1/1                                  |

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

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

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEE (continued)

### Remuneration Committee

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

## BOARD COMMITTEE (continued)

### Remuneration Committee (continued)

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

|   | Meetings attended/Eligible to attend |
|---|--------------------------------------|
| Leung Shun Sang, Tony ( <i>Chairman</i> ) | 2/2                                  |
| Cao Zhong ( <i>Vice Chairman</i> )        | 2/2                                  |
| Kan Lai Kuen, Alice                       | 2/2                                  |
| Wong Kun Kim                              | 2/2                                  |
| Leung Kai Cheung                          | 2/2                                  |

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

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

- reviewing the remuneration and terms of service contracts of the Executive Director of the Company;
- determining the bonuses of the Executive Directors of the Company for the years 2007 and 2008; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2008 and 2009.

## INTERNAL CONTROL

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

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





## CORPORATE GOVERNANCE REPORT

### INTERNAL CONTROL (continued)

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

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

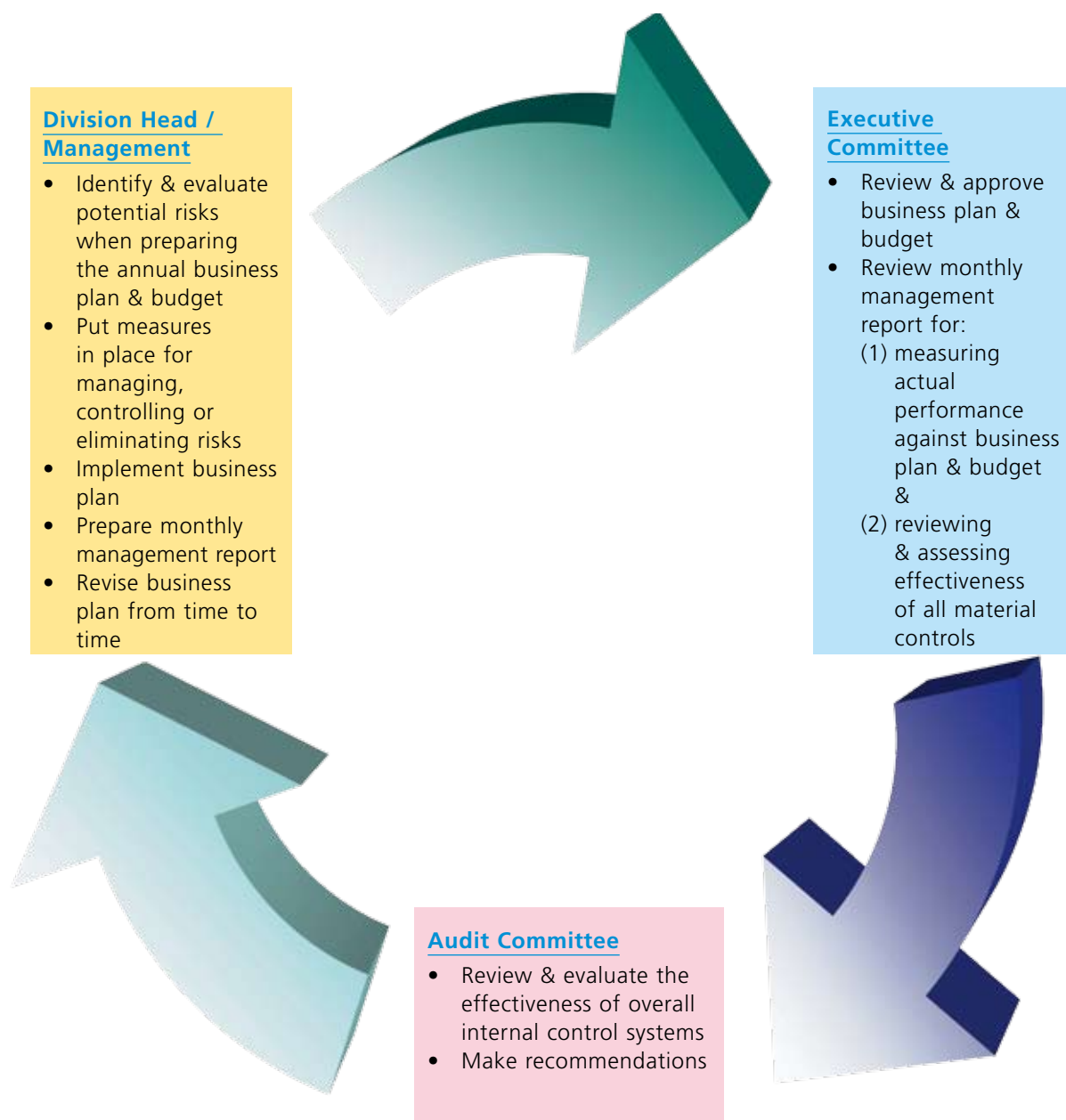
The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and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

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

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

## INTERNAL CONTROL (continued)

### Internal Control System



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

## CORPORATE GOVERNANCE REPORT

### INTERNAL CONTROL (continued)

#### Internal Control System (continued)

To comply with the new code provision C.2.2 of the Code which became effective on 1 January 2009, the Board will include the review of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget in its annual review since 2009.

### MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2008.

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

### AUDITOR'S REMUNERATION

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

| Services rendered   | Fee paid/payable<br>HK\$'000 |
|---|------------------------------|
| Audit services  | 1,637                        |
| Non-audit services:                                       |                              |
| Interim review  | 814                          |
| Professional services rendered for connected transactions | 71                           |
| Review preliminary results announcement for 2007          | 41                           |
|   | <u>2,563</u>                 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 57 to 58 of this annual report.

## COMMUNICATION WITH SHAREHOLDERS

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

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

During the year, separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors.

During the year, details of the poll voting procedures and rights of shareholders to demand a poll were included in the Company's circulars convening a general meeting. The chairman of a general meeting also explained the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll was demanded) revealed how many proxies for and against had been filed in respect of each resolution. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

To comply with the revised Listing Rules which became effective on 1 January 2009, all notices of general meetings despatched by the Company to its shareholders for meetings held on or after 1 January 2009 shall be sent in the case of annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings, and all resolutions put to the vote of a general meeting shall be by way of a poll.



# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 49 to the financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out in the financial statements on pages 59 to 180 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK\$0.03 per share for the year ended 31 December 2008 (2007: final dividend of HK\$0.04 per share and special dividend of HK\$0.04 per share) payable to shareholders whose names appear on the register of members of the Company on Monday, 1 June 2009. This dividend is subject to shareholders’ approval at the Company’s annual general meeting to be held on Monday, 1 June 2009. The register of members of the Company will be closed from Friday, 29 May 2009 to Monday, 1 June 2009 (both days inclusive), during which period no transfer of shares of the Company will be registered. The final dividend is expected to be paid on or about Friday, 12 June 2009.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 181 of this annual report.

## INVESTMENT PROPERTIES

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

Particulars of the major investment properties of the Group as at the balance sheet date are summarised on page 182 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 64 to 65 of this annual report and in note 38 to the financial statements, respectively.

## DONATIONS

Charitable donations made by the Group during the year amounted to HK\$1,124,000.

## DIRECTORS

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

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

\* *Independent Non-executive Directors*

In accordance with clause 103(A) of the Company's articles of association, Mr. Chen Zhouping, Mr. Zhang Wenhui, Ms. Kan Lai Kuen, Alice and Mr. Leung Kai Cheung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS' SERVICE CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## REPORT OF THE DIRECTORS

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

The Directors of the Company who held office at 31 December 2008 had the following interests in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

| Name of Director      | Capacity in which interests are held | Number of shares/underlying shares held in the Company |                                     |                 | Total interests as to % to the issued share capital of the Company as at 31.12.2008 |
|-----------------------|--------------------------------------|--|-------------------------------------|-----------------|---|
|                       |                                      | Interests in shares                                    | Interests under equity derivatives* | Total interests |   |
| Cao Zhong             | Beneficial owner                     | 10,000,000   | 65,000,000                          | 75,000,000      | 1.04%   |
| Chen Zhouping         | Beneficial owner                     | –  | 45,000,000                          | 45,000,000      | 0.62%   |
| Zhang Wenhui          | Beneficial owner                     | –  | 35,000,000                          | 35,000,000      | 0.48%   |
| Luo Zhenyu            | Beneficial owner                     | –  | 25,000,000                          | 25,000,000      | 0.34%   |
| Ip Tak Chuen, Edmond  | Beneficial owner                     | –  | 12,590,000                          | 12,590,000      | 0.17%   |
| Leung Shun Sang, Tony | Beneficial owner                     | 7,590,000  | –                                   | 7,590,000       | 0.10%   |
| Kan Lai Kuen, Alice   | Beneficial owner                     | –  | 1,500,000                           | 1,500,000       | 0.02%   |
| Wong Kun Kim          | Beneficial owner                     | –  | 1,500,000                           | 1,500,000       | 0.02%   |
| Leung Kai Cheung      | Beneficial owner                     | –  | 1,500,000                           | 1,500,000       | 0.02%   |

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

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

(continued)

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

| Name of Director      | Options to subscribe for<br>shares of Shougang Century* |                               |                                 |                           | Date of<br>grant | Exercise<br>period         | Exercise<br>price per<br>share | Capacity<br>in which<br>interest<br>are held | Interests<br>as to % to<br>the issued<br>share capital<br>of Shougang<br>Century as at<br>31.12.2008 |
|-----------------------|---|-------------------------------|---------------------------------|---------------------------|------------------|----------------------------|--------------------------------|--|--|
|                       | At the<br>beginning<br>of the year                      | Granted<br>during<br>the year | Exercised<br>during<br>the year | At the end<br>of the year |                  |                            |                                |  |  |
| Cao Zhong             | 7,652,000   | –                             | –                               | 7,652,000                 | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      | Beneficial<br>owner                          |  |
|                       | 57,350,000  | –                             | –                               | 57,350,000                | 02.10.2003       | 02.10.2003 –<br>01.10.2013 | HK\$0.780                      | Beneficial<br>owner                          |  |
|                       | –   | 17,000,000                    | –                               | 17,000,000                | 28.01.2008       | 28.01.2008 –<br>27.01.2018 | HK\$0.864                      | Beneficial<br>owner                          |  |
|                       | 65,002,000  | 17,000,000                    | –                               | 82,002,000                |                  |                            |                                |  | 4.39%  |
| Chen Zhouping         | 7,652,000   | –                             | –                               | 7,652,000                 | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      | Beneficial<br>owner                          | 0.40%  |
| Luo Zhenyu            | 7,652,000   | –                             | –                               | 7,652,000                 | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.325                      | Beneficial<br>owner                          | 0.40%  |
| Leung Shun Sang, Tony | 4,592,000   | –                             | –                               | 4,592,000                 | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      | Beneficial<br>owner                          |  |
|                       | 3,060,000   | –                             | –                               | 3,060,000                 | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.325                      | Beneficial<br>owner                          |  |
|                       | 4,592,000   | –                             | –                               | 4,592,000                 | 25.08.2003       | 25.08.2003 –<br>24.08.2013 | HK\$0.740                      | Beneficial<br>owner                          |  |
|                       | –   | 12,000,000                    | –                               | 12,000,000                | 28.01.2008       | 28.01.2008 –<br>27.01.2018 | HK\$0.864                      | Beneficial<br>owner                          |  |
|                       | 12,244,000  | 12,000,000                    | –                               | 24,244,000                |                  |                            |                                |  | 1.29%  |
|                       | 92,550,000  | 29,000,000                    | –                               | 121,550,000               |                  |                            |                                |  |  |

\* 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.



## REPORT OF THE DIRECTORS

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

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

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

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

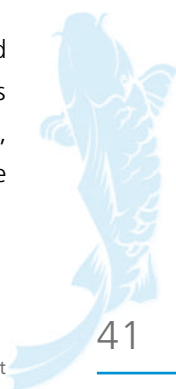
## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

| Name of Director | Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|------------------|---|---|--|
| Wang Qinghai     | Shougang Corporation <sup>#</sup>   | Manufacture, sale and trading of steel products, shipping services and electricity generation                                 | Director   |
| Cao Zhong        | China Shougang International Trade and Engineering Corporation <sup>#</sup>                                     | Manufacture, sale and trading of steel products   | Director   |
|                  | Shougang Holding (Hong Kong) Limited ("Shougang Holding") <sup>#</sup>  | Manufacture, sale and trading of steel products   | Director   |
| Chen Zhouping    | Shougang Holding <sup>#</sup>   | Manufacture, sale and trading of steel products   | Director   |
| Zhang Wenhui     | Shougang Holding <sup>#</sup>   | Manufacture, sale and trading of steel products   | Director   |

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

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



## REPORT OF THE DIRECTORS

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

As at the balance sheet date, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies and persons had interests or short positions of 5% or more in the shares or underlying shares of the Company ("Notifiable Interest") which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

#### (a) 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 % to the issued share capital of the Company as at 31.12.2008 | Note(s) |
|---|--|--------------------------------------|---|---------|
| Shougang Holding                                    | Beneficial owner, interests of controlled corporations | 2,986,232,686                        | 41.61%  | 1       |
| Grand Invest International Limited ("Grand Invest") | Beneficial owner                                       | 768,340,765                          | 10.70%  | 1       |
| China Gate Investments Limited ("China Gate")       | Beneficial owner                                       | 1,529,904,761                        | 21.32%  | 1       |
| Argepa S.A. ("Argepa")                              | Beneficial owner, interests of controlled corporations | 699,000,000                          | 9.74%   | 2       |
| Zygmunt Zaleski Stichting ("ZZS")                   | Interests of controlled corporations                   | 569,000,000                          | 7.92%   | 2       |
| Carlo Tassara S.p.A. ("CT S.p.A.")                  | Interests of controlled corporations                   | 569,000,000                          | 7.92%   | 2       |
| Carlo Tassara International S.A. ("CTI S.A.")       | Beneficial owner                                       | 569,000,000                          | 7.92%   | 2       |

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

### (a) Long positions in the shares of the Company (continued)

| Name of shareholder                                    | Capacity in which interests are held                                  | Number of shares held in the Company | Interests as to % to the issued share capital of the Company as at 31.12.2008 | Note(s) |
|--|---|--------------------------------------|---|---------|
| Cheung Kong (Holdings) Limited ("Cheung Kong")         | Interests of controlled corporations                                  | 455,401,955                          | 6.34%   | 3, 4    |
| Max Same Investment Limited ("Max Same")               | Beneficial owner  | 423,054,586                          | 5.89%   | 3       |
| Li Ka-shing  | Interests of controlled corporations, founder of discretionary trusts | 455,401,955                          | 6.34%   | 4       |
| Li Ka-Shing Unity Trustee Company Limited ("TUT1")     | Trustee   | 455,401,955                          | 6.34%   | 4       |
| Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") | Trustee, beneficiary of a trust                                       | 455,401,955                          | 6.34%   | 4       |
| Li Ka-Shing Unity Trustcorp Limited ("TDT2")           | Trustee, beneficiary of a trust                                       | 455,401,955                          | 6.34%   | 4       |
| Lazard Asset Management LLC                            | Investment manager  | 666,706,000                          | 9.29%   |         |
| Keywise Capital Management (HK) Limited                | Investment manager  | 505,596,000                          | 7.04%   |         |



## REPORT OF THE DIRECTORS

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

#### (b) Lending Pool

| Name of shareholder      | Capacity in which interests are held             | Number of shares held in the Company | Interests as to % to the issued share capital of the Company as at 31.12.2008 |
|--------------------------|--|--------------------------------------|---|
| State Street Corporation | Custodian corporation/<br>approved lending agent | 367,418,500                          | 5.12%   |

#### Notes:

1. Shougang Holding indicated in its disclosure form dated 5 September 2008, being the latest disclosure form filed up to 31 December 2008, that as at 5 September 2008, its interests included 1,529,904,761 and 768,340,765 shares of the Company held by China Gate and Grand Invest respectively, both being wholly-owned subsidiary of Shougang Holding. China Gate was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Holding.
2. Argepa indicated in its disclosure form dated 9 October 2007, being the latest disclosure form filed up to 31 December 2008, that with effect from 8 October 2007, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by Argepa as to 48.8%. Argepa indicated in its disclosure form dated 23 January 2009, being the latest disclosure form filed up to the date of this annual report, that with effect from 30 September 2008, it ceased as a substantial shareholder of the Company.

ZZS indicated in its disclosure form dated 15 August 2007, being the latest disclosure form filed up to 31 December 2008, that with effect from 8 August 2007, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by ZZS as to 47.15%.

CT S.p.A. indicated in its disclosure form dated 15 August 2007, being the latest disclosure form filed up to 31 December 2008, that with effect from 8 August 2007, its interests included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A.

Argepa Participations S.A. ("AP S.A.") indicated in its disclosure form dated 23 January 2009 that with effect from 30 September 2008, it has interest in 569,000,000 shares of the Company. The said interest included 569,000,000 shares of the Company held by CTI S.A., a wholly-owned subsidiary of CT S.p.A. which in turn was controlled by AP S.A. as to 48.8%.

AP S.A., ZZS and CT S.p.A. indicated in their respective disclosure forms all dated 24 March 2009, being the latest disclosure forms filed up to the date of this annual report, that with effect from 22 December 2008, they ceased as substantial shareholders of the Company.

3. Cheung Kong indicated in its disclosure form dated 11 August 2007, being the latest disclosure form filed up to 31 December 2008, that as at 8 August 2007, its interests included 423,054,586 shares of the Company held by Max Same, a wholly-owned subsidiary of Cheung Kong. Max Same was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Cheung Kong.

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

### (b) Lending Pool (continued)

Notes: (continued)

4. 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, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## PUBLIC FLOAT

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

## SHARE OPTION SCHEME

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

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

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

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (continued)

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 225,640,000 which represents approximately 2.92% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 707,894,321, representing approximately 9.16% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of 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.

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

## SHARE OPTION SCHEME (continued)

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

| Category or<br>name of grantees | Options to subscribe for shares of the Company |  |                              |                              | Date of<br>grant | Exercise<br>period         | Exercise<br>price per<br>share |
|---------------------------------|--|--|------------------------------|------------------------------|------------------|----------------------------|--------------------------------|
|                                 | At the<br>beginning<br>of the year             | Exercised<br>during<br>the year <sup>1</sup> | Lapsed<br>during<br>the year | At<br>the end of<br>the year |                  |                            |                                |
| Directors of the Company        |  |  |                              |                              |                  |                            |                                |
| Cao Zhong                       | 22,950,000                                     | (22,950,000)                                 | –                            | –                            | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      |
|                                 | 91,820,000 <sup>2</sup>                        | (91,820,000)                                 | –                            | –                            | 18.11.2003       | 18.11.2003 –<br>17.11.2013 | HK\$0.410                      |
|                                 | 65,000,000 <sup>3</sup>                        | –  | –                            | 65,000,000                   | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 179,779,000                                    | (114,770,000)                                | –                            | 65,000,000                   |                  |                            |                                |
| Chen Zhouping                   | 9,180,000                                      | (9,180,000)                                  | –                            | –                            | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.280                      |
|                                 | 57,388,000 <sup>2</sup>                        | (57,388,000)                                 | –                            | –                            | 18.11.2003       | 18.11.2003 –<br>17.11.2013 | HK\$0.410                      |
|                                 | 45,000,000 <sup>3</sup>                        | –  | –                            | 45,000,000                   | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 111,568,000                                    | (66,568,000)                                 | –                            | 45,000,000                   |                  |                            |                                |
| Zhang Wenhui                    | 22,950,000                                     | (22,950,000)                                 | –                            | –                            | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      |
|                                 | 52,796,000 <sup>2</sup>                        | (52,796,000)                                 | –                            | –                            | 18.11.2003       | 18.11.2003 –<br>17.11.2013 | HK\$0.410                      |
|                                 | 35,000,000 <sup>3</sup>                        | –  | –                            | 35,000,000                   | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 110,746,000                                    | (75,746,000)                                 | –                            | 35,000,000                   |                  |                            |                                |
| Luo Zhenyu                      | 25,000,000 <sup>3</sup>                        | –  | –                            | 25,000,000                   | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |



## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (continued)

| Category or<br>name of grantees | Options to subscribe for shares of the Company |  |                              |                              | Date of<br>grant | Exercise<br>period         | Exercise<br>price per<br>share |
|---------------------------------|--|--|------------------------------|------------------------------|------------------|----------------------------|--------------------------------|
|                                 | At the<br>beginning<br>of the year             | Exercised<br>during<br>the year <sup>1</sup> | Lapsed<br>during<br>the year | At<br>the end of<br>the year |                  |                            |                                |
| Ip Tak Chuen, Edmond            | 8,000,000                                      | –  | –                            | 8,000,000                    | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      |
|                                 | 4,590,000                                      | –  | –                            | 4,590,000                    | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.280                      |
|                                 | 12,590,000                                     | –  | –                            | 12,590,000                   |                  |                            |                                |
| Kan Lai Kuen, Alice             | 1,500,000                                      | –  | –                            | 1,500,000                    | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
| Wong Kun Kim                    | 1,500,000                                      | –  | –                            | 1,500,000                    | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
| Leung Kai Cheung                | 1,500,000                                      | –  | –                            | 1,500,000                    | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 444,174,000                                    | (257,084,000)                                | –                            | 187,090,000                  |                  |                            |                                |
| Employees of the Group          | 110,000  | (110,000)                                    | –                            | –                            | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.280                      |
|                                 | 38,000,000 <sup>3</sup>                        | –  | (500,000)                    | 37,500,000                   | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 38,110,000                                     | (110,000)                                    | (500,000)                    | 37,500,000                   |                  |                            |                                |
| Other participants              | 50,000   | –  | –                            | 50,000                       | 23.08.2002       | 23.08.2002 –<br>22.08.2012 | HK\$0.295                      |
|                                 | 22,950,000                                     | (22,950,000)                                 | –                            | –                            | 12.03.2003       | 12.03.2003 –<br>11.03.2013 | HK\$0.280                      |
|                                 | 1,000,000 <sup>3</sup>                         | –  | –                            | 1,000,000                    | 20.12.2007       | 20.12.2007 –<br>19.12.2014 | HK\$2.944                      |
|                                 | 24,000,000                                     | (22,950,000)                                 | –                            | 1,050,000                    |                  |                            |                                |
|                                 | 506,284,000                                    | (280,144,000)                                | (500,000)                    | 225,640,000                  |                  |                            |                                |

## SHARE OPTION SCHEME (continued)

Notes:

1. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was approximately HK\$2.34 per share.
2. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zhouping and Mr. Zhang Wenhui, all being Directors of the Company as at 31 December 2008, on 18 November 2003 each exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company on 18 November 2003.
3. Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.

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

During the year, the Company repurchased a total of 107,960,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$137,339,440. The repurchases were made with a view to enhance shareholders' value. Details of the repurchases are as follows:

| Month of the repurchases | Total number of ordinary shares repurchased | Highest price paid per share<br>HK\$ | Lowest price paid per share<br>HK\$ | Aggregate consideration (expenses excluded)<br>HK\$ |
|--------------------------|---|--------------------------------------|-------------------------------------|---|
| September 2008           | 94,732,000                                  | 1.48                                 | 1.17                                | 124,518,820   |
| October 2008             | 13,228,000                                  | 0.99                                 | 0.95                                | 12,820,620  |
|                          | <u>107,960,000</u>                          |                                      |                                     | <u>137,339,440</u>                                  |

All the shares repurchased were cancelled during the year. The nominal value of HK\$21,592,000 of all the shares cancelled during the year was credited to the capital redemption reserve and the aggregate consideration for repurchase of shares together with the relevant expenses amounting to HK\$138,073,000 was debited to the Company's accumulated profits.

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

## REPORT OF THE DIRECTORS

### DISTRIBUTION RESERVES

At the balance sheet date, the Company had approximately HK\$559,134,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK\$215,261,000 has been proposed as a final dividend for the year.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 38% of the total sales for the year and sales to the largest customer included therein amounted to 17%. Purchases from the five largest suppliers accounted for 43% of the total purchases for the year and purchases from the largest supplier included therein amounted to 21%. The Company's ultimate holding company has beneficial interests in three of the Group's five largest customers and three of the Group's largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

### CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

#### Continuing connected transactions

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

- (a) An agreement dated 21 September 2007 was entered into between Beijing Shougang Firstlevel Power Co., Ltd. ("BSFPCL"), a non-wholly owned subsidiary of the Company prior to 12 June 2008, and Shougang Corporation, a connected person of the Company by virtue of its being the holding company of Shougang Holding which in turn is the controlling shareholder of the Company (the "BSFPCL Agreement") in relation to (i) sales of energy, raw materials, products (including electricity, steam and hot water) and/or services to Shougang Corporation and/or its associates ("Shougang Group") by BSFPCL or its associates; and (ii) purchases of energy, raw materials (including water, coal, gas, nitrogen, coal gas for high temperature boilers and furnaces, compressed air, steam and chemicals), products (including spare parts and components) and services (including construction, repair and maintenance and daily amenity services) by BSFPCL or its associates from Shougang Group during the three financial years ending 31 December 2009.

## CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

### Continuing connected transactions (continued)

- (b) An agreement dated 21 September 2007 was entered into between Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a 76% owned subsidiary of the Company, and Shougang Corporation (the "Shouqin Agreement") in relation to (i) sales of steel products (including steel slabs and steel plates), services (including processing services) and other related products and/or services to Shougang Group by Shouqin or its associates (the "Shouqin Sales"); and (ii) purchases of raw materials (including ore powders and iron ores), materials (including steel materials, wire-rods, flame durable bricks and flame durable materials), fuel (including coal and coking coal), equipment (including various types of equipment for the production of steel products) and services (including repair and maintenance services) from Shougang Group by Shouqin or its associates (the "Shouqin Purchases") during the three financial years ending 31 December 2009.
- (c) An agreement dated 21 September 2007 was entered into between Qinhuangdao Shougang Plate Mill Co., Ltd. ("QHD Plate Mill"), a wholly-owned subsidiary of the Company, and Shougang Corporation (the "QHD Agreement") in relation to (i) sales of steel products (including steel plates), scrap materials (including scrap metals), services (including processing services) and other related products to Shougang Group by QHD Plate Mill or its associates (the "QHD Sales"); and (ii) purchases of raw materials (including steel billets, iron ingots and steel slabs), spare parts, energy and services (including repair and maintenance services) in relation to production of steel products and other related products by Qinhuangdao Plate Mill or its associates from Shougang Group (the "QHD Purchases") during the three financial years ending 31 December 2009.
- (d) An agreement dated 21 September 2007 was entered into between Shougang Concord Steel International Trading Co., Ltd. ("Shougang Concord Steel"), a wholly-owned subsidiary of the Company, and Shougang Corporation (the "Steel Agreement") in relation to (i) sales of raw materials (including iron ore) and steel products to Shougang Group by Shougang Concord Steel or its associates (the "Steel Sales"); and (ii) purchases of raw materials (including steel slabs) and products (including steel products) by Shougang Concord Steel or its associates from Shougang Group (the "Steel Purchases") during the three financial years ending 31 December 2010.



## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

#### Continuing connected transactions (continued)

- (e) A master agreement dated 7 May 2008 was entered into between the Company and Shougang Corporation (the "Master Agreement") in relation to (i) provision of raw materials, materials, fuel, energy, equipments, spare parts, steel products and services and other related products and/or services to the Company or its subsidiaries by Shougang Group (the "Master Purchases"); and (ii) supply of raw materials, scrap materials, steel products and services and other related products and/or services to Shougang Group by the Company or its subsidiaries (the "Master Sales") during the three financial years ending 31 December, 2010. The Master Sales and the Master Purchases covers the Shouqin Sales, the Shouqin Purchases, the QHD Sales, the QHD Purchases, the Steel Sales and the Steel Purchases and the Master Agreement has superseded the Shouqin Agreement, the QHD Agreement and the Steel Agreement.

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

The Company completed the disposal of its interest in BSFPCL on 12 June 2008 and since then BSFPCL ceased as a subsidiary of the Company. Therefore, the transactions carried out under the BSFPCL Agreement after 12 June 2008 as mentioned in item (a) above ceased to be continuing connected transactions of the Company under the Listing Rules.

Details of the Master Agreement were disclosed in the announcement dated 8 May 2008 and a circular to shareholders dated 20 May 2008 in accordance with Chapter 14A of the Listing Rules. Pursuant to the Master Agreement, the cap amounts of the Master Purchases and the Master Sales for each of the financial years ending 31 December 2010 would not exceed the followings:

| Type of transaction                            | Financial year ended/ending 31 December |               |               |
|--|---|---------------|---------------|
|  | 2008                                    | 2009          | 2010          |
|  | HK\$' million                           | HK\$' million | HK\$' million |
| Aggregate cap amounts for the Master Purchases | 14,230                                  | 18,620        | 23,150        |
| Aggregate cap amounts for the Master Sales     | 12,800                                  | 15,500        | 18,500        |

As Shougang Corporation is one of the largest steel producers in the People's Republic of China (the "PRC"), the transactions with Shougang Corporation contemplated under the Master Agreement would guarantee a stable source of supply of raw materials/steel products and regular sales to one of the largest steel companies in the PRC.

## CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

### Continuing connected transactions (continued)

The Master Agreement and the abovementioned cap amounts were approved by the shareholders of the Company other than Shougang Holding and its associates (the “Independent Shareholders”) on 6 June 2008.

The continuing connected transactions carried out under the BSFPCL Agreement during the period from 1 January 2008 to 11 June 2008 and the continuing connected transactions carried out under the Master Agreement during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

- (1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;
- (2) the transactions were conducted on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties; and
- (3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

### Connected transactions

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

#### (a) *Subscription of new shares of Shougang Century*

As set out in the Company’s circular to shareholders dated 21 December 2007, the Company entered into a subscription agreement (the “Subscription Agreement”) with Shougang Century on 29 November 2007. Pursuant to the Subscription Agreement, the Company conditionally agreed to subscribe for and Shougang Century conditionally agreed to issue, a total of 400,000,000 new ordinary shares of HK\$0.10 each in the share capital of Shougang Century (the “Subscription Shares”) to the Company at the price of HK\$1.03 per Subscription Share (the “Subscription”).



## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

#### Connected transactions (continued)

##### (a) *Subscription of new shares of Shougang Century (continued)*

As at the date of the Subscription Agreement, Shougang Holding and its associates held an aggregate of approximately 35.5% of the issued share capital of Shougang Century and an aggregate of approximately 40.7% of the issued share capital of the Company. The Subscription constituted a connected transaction for the Company under Rule 14A.13(1)(b) (i) of the Listing Rules. The Subscription can strengthen the Company's control over Shougang Century and it is expected that Shougang Century can further contribute to the profitability of the Group having taken into account of the business prospect of Shougang Century. The Subscription Agreement was ratified, approved and confirmed by the Independent Shareholders on 10 January 2008 and was completed on 18 January 2008. Upon completion of the Subscription Agreement, the interests in Shougang Century held by the Company increased from approximately 22.3% as at the date of the Subscription Agreement to approximately 36.4%.

##### (b) *Disposal of Ultra Result Limited*

An agreement dated 30 April 2008 was entered into between Shougang Concord Power Plant Holdings Limited ("SCPPHL"), an indirect wholly-owned subsidiary of the Company, and Honstep Group Limited ("Honstep"), a connected person of the Company by virtue of its being a wholly-owned subsidiary of Shougang Holding which in turn is the controlling shareholder of the Company (the "S&P Agreement"). Pursuant to the S&P Agreement, SCPPHL agreed to sell and Honstep agreed to purchase the entire issued share capital of Ultra Result Limited, an indirect wholly-owned subsidiary of the Company prior to 12 June 2008, at a consideration of HK\$316,500,000 (the "Disposal"). The sole asset of Ultra Result Limited was its 51% interest in the registered capital of BSFPCL which was principally engaged in electricity generation. The Disposal constituted a discloseable and connected transaction for the Company under the Listing Rules. Details of the transaction were disclosed in the announcement dated 5 May 2008 and a circular to shareholders dated 20 May 2008 in accordance with Chapter 14 and Chapter 14A of the Listing Rules. The S&P Agreement was approved, confirmed and ratified by the Independent Shareholders on 6 June 2008 and the Disposal was completed on 12 June 2008. Since then Ultra Result Limited and BSFPCL ceased as subsidiaries of the Company.

## CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

The transactions set out in notes 10, 24 and 28 to the financial statements were connected transactions or incidental to the continuing connected transactions which have been previously approved by the Independent Shareholders of the Company. As far as the transactions mentioned in note 27 to the financial statements are concerned, for those transactions with Shougang Corporation and/or its associates, they were incidental to the continuing connected transactions which have been previously approved by the Independent Shareholders of the Company. The transactions set out in note 34 to the financial statements were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions set out in note 48(I) to the financial statements under the heading of "Related Party Disclosures" are concerned, the transactions as set out in notes (a), (b), (c), (f), (j), (k) and (l) were continuing connected transactions which have been previously approved by the Independent Shareholders of the Company. The transactions as set out in notes (d), (e), (g), (h) and (i) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions set out in note 48(IV) to the financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

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

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

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



## REPORT OF THE DIRECTORS

### DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

- (b) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to term and revolving credit facilities in a total principal amount of US\$320,000,000 made available by the banks to the Company, each of the following will constitute an event of default upon which the facilities will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation, the holding company of Shougang Holding; and (iii) Shougang Corporation ceases to have management control in Shougang Holding. The US\$200,000,000 term loan facility shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. The US\$120,000,000 revolving loan facility may be reborrowed by the Company and the final maturity day is the date falling 48 months after the date of the facility agreement.
- (c) Under the loan agreement dated 26 March 2008 entered into between Bank of China (Hong Kong) Limited and Shouqin in relation to a loan in an amount of RMB350,000,000 and the loan agreement dated 14 August 2008 entered into between Nanyang Commercial Bank (China), Limited and Shouqin in relation to a loan in an amount of RMB250,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreements will constitute an event of default upon which the loans will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loans shall be repaid by Shouqin by instalments with the last instalment due on 23 November 2010.

### CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 35 of this annual report.

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 47 to the financial statements.

By Order of the Board  
**Cao Zhong**  
Managing Director

Hong Kong, 9 April 2009

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**  
**德勤**

TO THE MEMBERS OF

**SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED**

首長國際企業有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 180 which comprise the consolidated balance sheet and Company's balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **Directors' responsibility for the consolidated financial statements**

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **Auditor's responsibility**

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

## INDEPENDENT AUDITOR'S REPORT

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

9 April 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

|  | Notes | 2008<br>HK\$'000    | 2007<br>HK\$'000<br>(restated) |
|--|-------|---------------------|--------------------------------|
| <b>Continuing operations</b>                               |       |                     |                                |
| Revenue  | 5     | <b>17,464,705</b>   | 10,926,391                     |
| Cost of sales  |       | <b>(14,024,858)</b> | (8,737,958)                    |
| Gross profit   |       | <b>3,439,847</b>    | 2,188,433                      |
| Other income   | 6     | <b>155,240</b>      | 150,782                        |
| Other gains and losses                                     |       | <b>(39,098)</b>     | 34,243                         |
| Change in fair value of derivative financial instruments   |       | <b>(208,730)</b>    | 167,985                        |
| Impairment loss on available-for-sale investments          |       | <b>(91,143)</b>     | –                              |
| Distribution and selling expenses                          |       | <b>(287,006)</b>    | (176,540)                      |
| Administrative expenses                                    |       | <b>(643,538)</b>    | (504,846)                      |
| Finance costs  | 7     | <b>(448,748)</b>    | (347,714)                      |
| Share of (loss) profit of associates                       |       | <b>(22,417)</b>     | 23,282                         |
| Gain on disposal of partial interest in a subsidiary       | 8     | –                   | 103,710                        |
| Profit before taxation                                     |       | <b>1,854,407</b>    | 1,639,335                      |
| Income tax expense   | 9     | <b>(39,002)</b>     | (25,430)                       |
| Profit for the year from continuing operations             |       | <b>1,815,405</b>    | 1,613,905                      |
| <b>Discontinued operations</b>                             |       |                     |                                |
| Profit after tax for the year from discontinued operations | 10    | <b>11,237</b>       | 58,914                         |
| Profit for the year  | 11    | <b>1,826,642</b>    | 1,672,819                      |
| Attributable to:   |       |                     |                                |
| Equity holders of the Company                              |       | <b>1,419,463</b>    | 1,404,196                      |
| Minority interests   |       | <b>407,179</b>      | 268,623                        |
|  |       | <b>1,826,642</b>    | 1,672,819                      |

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

|   | Notes | 2008<br>HK\$'000      | 2007<br>HK\$'000<br>(restated) |
|---|-------|-----------------------|--------------------------------|
| Dividends recognised as distribution during the year                    | 13    |                       |                                |
| Interim dividend of HK2.0 cents (2007: nil)<br>per ordinary share       |       | <b>144,350</b>        | —                              |
| Final dividend of HK4.0 cents<br>(2007: HK2.1 cents) per ordinary share |       | <b>291,334</b>        | 123,162                        |
| Special dividend of HK4.0 cents (2007: nil)<br>per ordinary share       |       | <b>291,334</b>        | —                              |
|   |       | <b>727,018</b>        | 123,162                        |
| Earnings per share  | 14    |                       |                                |
| From continuing and discontinued operations:                            |       |                       |                                |
| – Basic   |       | <b>19.67 HK cents</b> | 22.12 HK cents                 |
| – Diluted   |       | <b>19.55 HK cents</b> | 21.10 HK cents                 |
| From continuing operations:   |       |                       |                                |
| – Basic   |       | <b>19.57 HK cents</b> | 21.70 HK cents                 |
| – Diluted   |       | <b>19.45 HK cents</b> | 20.71 HK cents                 |

# CONSOLIDATED BALANCE SHEET

At 31 December 2008

|  | Notes | 2008<br>HK\$'000  | 2007<br>HK\$'000 |
|--|-------|-------------------|------------------|
| <b>NON-CURRENT ASSETS</b>  |       |                   |                  |
| Investment properties  | 15    | <b>37,102</b>     | 32,217           |
| Property, plant and equipment  | 16    | <b>9,078,400</b>  | 7,818,140        |
| Prepaid lease rentals  | 17    | <b>332,945</b>    | 354,243          |
| Intangible assets  | 18    | <b>176,897</b>    | 77               |
| Goodwill   | 19    | <b>218,015</b>    | 283,122          |
| Interests in associates  | 22    | <b>667,905</b>    | 310,368          |
| Available-for-sale investments   | 23    | <b>342,426</b>    | 467,573          |
| Deposits for acquisition of property,<br>plant and equipment           | 24    | <b>311,470</b>    | 319,774          |
|  |       | <b>11,165,160</b> | 9,585,514        |
| <b>CURRENT ASSETS</b>  |       |                   |                  |
| Inventories  | 25    | <b>1,886,251</b>  | 1,299,129        |
| Trade and bill receivables   | 26    | <b>920,131</b>    | 845,043          |
| Trade receivables from related companies                               | 27    | <b>1,722,235</b>  | 662,294          |
| Prepayments, deposits and other receivables                            | 26    | <b>331,641</b>    | 359,709          |
| Prepaid lease rentals  | 17    | <b>5,714</b>      | 9,431            |
| Tax recoverable  |       | <b>1,317</b>      | 8,778            |
| Amounts due from related companies                                     | 27    | <b>508,399</b>    | 17,599           |
| Amount due from a minority shareholder of<br>a subsidiary              | 27    | <b>3,398</b>      | 3,204            |
| Amount due from ultimate holding company<br>of controlling shareholder | 28    | <b>412</b>        | 269,570          |
| Other financial assets   | 29    | <b>449,671</b>    | 177,654          |
| Restricted bank deposits   | 30    | <b>650,619</b>    | 68,779           |
| Bank balances and cash   | 31    | <b>3,382,952</b>  | 3,256,837        |
|  |       | <b>9,862,740</b>  | 6,978,027        |
| <b>CURRENT LIABILITIES</b>   |       |                   |                  |
| Trade and bill payables  | 32    | <b>1,373,611</b>  | 954,829          |
| Other payables and accrued liabilities                                 | 32    | <b>1,377,535</b>  | 1,597,538        |
| Tax payable  |       | <b>33,403</b>     | 16,233           |
| Amounts due to related companies                                       | 27    | <b>694,505</b>    | 546,797          |
| Amount due to ultimate holding company<br>of controlling shareholder   | 28    | <b>172,531</b>    | 209,281          |
| Bank borrowings – due within one year                                  | 33    | <b>3,141,658</b>  | 3,194,900        |
| Other financial liabilities  | 29    | <b>56,666</b>     | 13,949           |
| Loans from ultimate holding company of<br>controlling shareholder      | 34    | <b>928,320</b>    | 1,070,663        |
|  |       | <b>7,778,229</b>  | 7,604,190        |
| <b>NET CURRENT ASSETS (LIABILITIES)</b>                                |       | <b>2,084,511</b>  | (626,163)        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                           |       | <b>13,249,671</b> | 8,959,351        |

# CONSOLIDATED BALANCE SHEET

At 31 December 2008

|  | Notes | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>NON-CURRENT LIABILITIES</b>                       |       |                  |                  |
| Bank borrowings – due after one year                 | 33    | <b>4,138,219</b> | 965,044          |
| Deferred tax liabilities                             | 35    | <b>50,114</b>    | 50,374           |
|  |       | <b>4,188,333</b> | 1,015,418        |
|  |       | <b>9,061,338</b> | 7,943,933        |
| <b>CAPITAL AND RESERVES</b>                          |       |                  |                  |
| Share capital  | 36    | <b>1,435,076</b> | 1,400,639        |
| Share premium and reserves                           |       | <b>6,128,762</b> | 5,414,092        |
| Equity attributable to equity holders of the Company |       | <b>7,563,838</b> | 6,814,731        |
| Minority interests                                   |       | <b>1,497,500</b> | 1,129,202        |
|  |       | <b>9,061,338</b> | 7,943,933        |

The financial statements on pages 59 to 180 were approved and authorised for issue by the Board of Directors on 9 April 2009 and are signed on its behalf by:

**Cao Zhong**  
DIRECTOR

**Chen Zhouping**  
DIRECTOR

# BALANCE SHEET

At 31 December 2008

|  | Notes | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                  |                  |
| Interests in subsidiaries                    | 21    | <b>678,168</b>   | 534,797          |
| Amounts due from subsidiaries                | 21    | <b>3,370,763</b> | 2,466,882        |
|  |       | <b>4,048,931</b> | 3,001,679        |
| <b>CURRENT ASSETS</b>                        |       |                  |                  |
| Other receivables                            | 26    | <b>7,093</b>     | 4,405            |
| Tax recoverable                              |       | <b>1,315</b>     | 870              |
| Amount due from a related company            | 27    | <b>24</b>        | –                |
| Other financial assets                       | 29    | <b>398,918</b>   | –                |
| Bank balances and cash                       | 31    | <b>1,892,297</b> | 1,596,516        |
|  |       | <b>2,299,647</b> | 1,601,791        |
| <b>CURRENT LIABILITIES</b>                   |       |                  |                  |
| Other payables and accrued liabilities       | 32    | <b>17,633</b>    | 15,373           |
| Amount due to a related company              | 27    | –                | 12               |
| Other financial liabilities                  | 29    | <b>22,853</b>    | 20,166           |
|  |       | <b>40,486</b>    | 35,551           |
| <b>NET CURRENT ASSETS</b>                    |       | <b>2,259,161</b> | 1,566,240        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <b>6,308,092</b> | 4,567,919        |
| <b>NON-CURRENT LIABILITIES</b>               |       |                  |                  |
| Bank borrowings – due after one year         | 33    | <b>1,540,964</b> | –                |
|  |       | <b>4,767,128</b> | 4,567,919        |
| <b>CAPITAL AND RESERVES</b>                  |       |                  |                  |
| Share capital                                | 36    | <b>1,435,076</b> | 1,400,639        |
| Share premium and reserves                   | 38    | <b>3,332,052</b> | 3,167,280        |
|  |       | <b>4,767,128</b> | 4,567,919        |

**Cao Zhong**  
DIRECTOR

**Chen Zhouping**  
DIRECTOR



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

|  | Attributable to equity holders of the Company |               |                            |                     |                  |                      |                         |                 |  |                             |                           |                     |           |                    |
|--|---|---------------|----------------------------|---------------------|------------------|----------------------|-------------------------|-----------------|--|-----------------------------|---------------------------|---------------------|-----------|--------------------|
|  | Share capital                                 | Share premium | Capital redemption reserve | Revaluation reserve | Exchange reserve | Share option reserve | Special capital reserve | Capital reserve | Enterprise expansion fund and statutory reserve fund | Security investment reserve | Non-distributable reserve | Accumulated profits | Total     | Minority interests |
|  | HK\$'000                                      | HK\$'000      | 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 c)            |                  |                      | (Note a)                |                 | (Note b)   |                             | (Note d)                  |                     |           |                    |
| At 1 January 2007  | 1,172,811                                     | 418,744       | 1,019                      | 51,395              | 141,882          | -                    | 292,655                 | 431             | 191,375  | -                           | -                         | 673,282             | 2,943,594 | 318,434            |
| Movements in reserves of an associate                              | -   | -             | -                          | 970                 | 10,446           | -                    | -                       | (407)           | -  | 60,366                      | -                         | -                   | 71,375    | -                  |
| Exchange differences arising on translation                        | -   | -             | -                          | -                   | 219,431          | -                    | -                       | -               | -  | -                           | -                         | -                   | 219,431   | 56,483             |
| Effect of changes in tax rate                                      | -   | -             | -                          | (2,877)             | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | (2,877)   | -                  |
| Change in fair value of available-for-sale investments             | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | 255,470                     | -                         | -                   | 255,470   | -                  |
| Net (expenses) income recognised directly in equity                | -   | -             | -                          | (1,907)             | 229,877          | -                    | -                       | (407)           | -  | 315,836                     | -                         | -                   | 543,399   | 56,483             |
| Released on deemed disposal of partial interest in an associate    | -   | -             | -                          | (65)                | (1,521)          | -                    | -                       | (24)            | (875)  | -                           | -                         | 875                 | (1,610)   | -                  |
| Disposal of properties   | -   | -             | -                          | (1,158)             | -                | -                    | -                       | -               | -  | -                           | -                         | 1,158               | -         | -                  |
| Disposal of partial interest in a subsidiary                       | -   | -             | -                          | (17,447)            | (13,660)         | -                    | -                       | -               | (11,325)   | -                           | -                         | 28,772              | (13,660)  | 312,714            |
| Profit for the year  | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | 1,404,196           | 1,404,196 | 268,623            |
| Total recognised income and expense for the year                   | -   | -             | -                          | (20,577)            | 214,696          | -                    | -                       | (431)           | (12,200)   | 315,836                     | -                         | 1,435,001           | 1,932,325 | 637,820            |
| Transfer to enterprise expansion fund and statutory reserve fund   | -   | -             | -                          | -                   | -                | -                    | -                       | -               | 275,713  | -                           | -                         | (275,713)           | -         | -                  |
| Transfer to accumulated profits (Note a)                           | -   | -             | -                          | -                   | -                | -                    | (292,655)               | -               | -  | -                           | -                         | 292,655             | -         | -                  |
| Transfer from enterprise expansion fund and statutory reserve fund | -   | -             | -                          | -                   | -                | -                    | -                       | -               | (51,979)   | -                           | 51,979                    | -                   | -         | -                  |
| Shares issued at premium   | 200,000                                       | 1,808,000     | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | 2,008,000 | -                  |
| Effects of share options   | 27,828  | 16,580        | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | 44,408    | -                  |
| Share issue expenses   | -   | (50,160)      | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | (50,160)  | -                  |
| Dividends paid to minority interests                               | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | -         | (13,949)           |
| Dividends recognised as distribution                               | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | (123,162)           | (123,162) | -                  |
| Recognition of equity-settled share based payment                  | -   | -             | -                          | -                   | -                | 59,726               | -                       | -               | -  | -                           | -                         | -                   | 59,726    | -                  |
| Disposal of subsidiaries   | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | -         | (25)               |
| Contribution from a minority shareholder                           | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -  | -                           | -                         | -                   | -         | 186,922            |
| Sub-total  | 227,828                                       | 1,774,420     | -                          | -                   | -                | 59,726               | (292,655)               | -               | 223,734  | -                           | 51,979                    | (106,220)           | 1,938,812 | 172,948            |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

|   | Attributable to equity holders of the Company |               |                            |                     |                  |                      |                         |                 |   |                             |                           |                     |           |                    |
|---|---|---------------|----------------------------|---------------------|------------------|----------------------|-------------------------|-----------------|---|-----------------------------|---------------------------|---------------------|-----------|--------------------|
|   | Share capital                                 | Share premium | Capital redemption reserve | Revaluation reserve | Exchange reserve | Share option reserve | Special capital reserve | Capital reserve | Enterprise expansion fund and statutory reserve | Security investment reserve | Non-distributable reserve | Accumulated profits | Total     | Minority interests |
|   | HK\$'000                                      | HK\$'000      | 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 c)            |                  |                      | (Note a)                |                 | (Note b)  |                             | (Note d)                  |                     |           |                    |
| At 31 December 2007   | 1,400,639                                     | 2,193,164     | 1,019                      | 30,818              | 356,578          | 59,726               | -                       | -               | 402,909   | 315,836                     | 51,979                    | 2,002,063           | 6,814,731 | 1,129,202          |
| Movements in reserves of an associate   | -   | -             | -                          | 437                 | 27,618           | -                    | -                       | -               | 1,458   | (69,759)                    | -                         | 1,221               | (39,025)  | -                  |
| Exchange differences arising on translation   | -   | -             | -                          | -                   | 218,109          | -                    | -                       | -               | -   | -                           | -                         | -                   | 218,109   | 64,896             |
| Change in fair value of available-for-sale investments                                | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | (247,905)                   | -                         | -                   | (247,905) | -                  |
| Surplus on revaluation of properties  | -   | -             | -                          | 1,332               | -                | -                    | -                       | -               | -   | -                           | -                         | -                   | 1,332     | -                  |
| Net income (expenses) recognised directly in equity                                   | -   | -             | -                          | 1,769               | 245,727          | -                    | -                       | -               | 1,458   | (317,664)                   | -                         | 1,221               | (67,489)  | 64,896             |
| Transfer to profit or loss on sales of available-for-sale investments by an associate | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | (779)                       | -                         | -                   | (779)     | -                  |
| Impairment loss on available-for-sale investments                                     | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | 91,143                      | -                         | -                   | 91,143    | -                  |
| Released on disposal of a subsidiary  | -   | -             | -                          | -                   | (44,357)         | -                    | -                       | -               | -   | -                           | -                         | -                   | (44,357)  | -                  |
| Profit for the year   | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | 1,419,463           | 1,419,463 | 407,179            |
| Total recognised income and expense for the year                                      | -   | -             | -                          | 1,769               | 201,370          | -                    | -                       | -               | 1,458   | (227,300)                   | -                         | 1,420,684           | 1,397,981 | 472,075            |
| Transfer to enterprise expansion fund and statutory reserve fund                      | -   | -             | -                          | -                   | -                | -                    | -                       | -               | 338,320   | -                           | -                         | (338,320)           | -         | -                  |
| Effects of share options  | 56,029  | 49,361        | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | -                   | 105,390   | -                  |
| Share issue expenses  | -   | (50)          | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | -                   | (50)      | -                  |
| Dividends paid to minority interests  | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | -                   | -         | (163,321)          |
| Dividends recognised as distribution  | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | (727,018)           | (727,018) | -                  |
| Shares repurchase   | (21,592)                                      | -             | 21,592                     | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | (138,073)           | (138,073) | -                  |
| Recognition of equity-settled share based payment                                     | -   | -             | -                          | -                   | -                | 110,877              | -                       | -               | -   | -                           | -                         | -                   | 110,877   | -                  |
| Disposal of a subsidiary  | -   | -             | -                          | -                   | -                | -                    | -                       | -               | (13,369)  | -                           | -                         | 13,369              | -         | (279,526)          |
| Contribution from a minority shareholder  | -   | -             | -                          | -                   | -                | -                    | -                       | -               | -   | -                           | -                         | -                   | -         | 339,070            |
| Sub-total   | 34,437  | 49,311        | 21,592                     | -                   | -                | 110,877              | -                       | -               | 324,951   | -                           | -                         | (1,190,042)         | (648,874) | (103,777)          |
| At 31 December 2008   | 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          |

## Notes:

- (a) Special capital reserve of the Group was created through cancellation of share premium and capital reserve accounts (the "Cancellation") pursuant to the order of the High Court of Hong Kong (the "High Court") made on 1 September 2005.

Pursuant to the order of the High Court, subjecting to the provisos of the court order, the Company shall be at liberty to transfer the special capital reserve to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2006, the Company fulfilled one of the provisos of the court order and decided to transfer the special capital reserve to the accumulated profit during the year ended 31 December 2007.

Details of the transfer are set out in note 38.

- (b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after taxation of the Company's subsidiaries and associates under the applicable laws and regulations in the People's Republic of China (other than Hong Kong).
- (c) Revaluation reserve mainly represented the fair value recognised on prepaid lease rentals upon the acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005.
- (d) The non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|------------------|------------------|
| OPERATING ACTIVITIES   |                  |                  |
| Profit before tax from continuing and discontinued operations                              | 1,872,055        | 1,708,424        |
| Adjustments for:   |                  |                  |
| Interest income  | (102,802)        | (94,004)         |
| Interest expenses  | 454,223          | 358,099          |
| Share of results of associates   | 22,417           | (23,282)         |
| Share based payments   | 110,877          | 59,726           |
| Gain on deemed disposal of partial interest in an associate                                | (3,574)          | (5,166)          |
| Decrease (increase) in fair value of investment properties                                 | 1,642            | (3,033)          |
| Gain on disposal of partial interest in a subsidiary                                       | –                | (103,710)        |
| (Gain) loss on disposal of subsidiaries  | (4,229)          | 7,053            |
| Loss on disposal of property, plant and equipment  | 13,942           | 3,066            |
| Depreciation of property, plant and equipment  | 547,719          | 439,149          |
| Amortisation of intangible assets  | 80               | 414              |
| Discount on acquisition of additional equity interest in an associate                      | (12,840)         | –                |
| Amortisation of prepaid lease rentals  | 7,401            | 9,169            |
| Fair value changes on derivative financial instruments                                     | 147,314          | (167,985)        |
| Impairment loss on available-for-sale investment   | 91,143           | –                |
| Allowance (reversal of allowance) for inventories  | 117,319          | (10,606)         |
| Write-back of amount due to related company  | –                | (13)             |
| Reversal of provision for impairment of trade receivables, net                             | (3,833)          | (16,240)         |
| Operating cash flows before movements in working capital                                   | 3,258,854        | 2,161,061        |
| Decrease in amounts due from customers for contract work                                   | –                | 186              |
| Increase in inventories  | (649,100)        | (381,441)        |
| Increase in trade and bill receivables   | (26,578)         | (480,002)        |
| Decrease (increase) in prepayments, deposits and other receivables                         | 42,495           | (272,269)        |
| Increase in amounts due from related companies   | (1,312,979)      | (488,814)        |
| Decrease (increase) in amount due from ultimate holding company of controlling shareholder | 284,096          | (266,702)        |
| (Increase) decrease in other financial assets/liabilities                                  | (376,614)        | 5,285            |
| Decrease in amounts due to customers for contract work                                     | –                | (562)            |
| Increase in trade and bill payables  | 408,143          | 399,075          |
| (Decrease) increase in other payables and accrued liabilities                              | (99,516)         | 931,116          |
| (Decrease) increase in amount due to ultimate holding company of controlling shareholder   | (31,221)         | 96,522           |
| Increase (decrease) in amounts due to related companies                                    | 284,765          | (212,007)        |
| Cash generated from operations   | 1,782,345        | 1,491,448        |
| Interest paid  | (464,193)        | (354,374)        |
| Income taxes paid  | (21,857)         | (25,318)         |
| Income taxes refunded  | –                | 531              |
| NET CASH FROM OPERATING ACTIVITIES   | 1,296,295        | 1,112,287        |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

|  | Note | 2008<br>HK\$'000   | 2007<br>HK\$'000   |
|--|------|--------------------|--------------------|
| <b>INVESTING ACTIVITIES</b>  |      |                    |                    |
| Purchase of property, plant and equipment  |      | (1,423,249)        | (1,010,377)        |
| Purchase of investment properties  |      | (1,939)            | (1,249)            |
| Deposits paid for acquisition of property, plant and equipment                             |      | (383,517)          | (306,498)          |
| Addition of prepaid lease rentals  |      | (37,803)           | (75,332)           |
| Purchase of available-for-sale investments   |      | (121,297)          | (212,103)          |
| (Increase) decrease in restricted bank deposits  |      | (577,869)          | 56,339             |
| Acquisition of intangible assets   |      | (63,480)           | –                  |
| Decrease in pledged deposits   |      | –                  | 10,123             |
| Interest received  |      | 102,802            | 91,573             |
| Decrease (increase) in amount due from ultimate holding company of controlling shareholder |      | 624                | (1,036)            |
| Proceeds from disposal of property, plant and equipment                                    |      | 3,394              | 2,121              |
| (Increase) decrease in amounts due from related companies                                  |      | (490,800)          | 1,275              |
| Capital contribution to associates   |      | (415,678)          | –                  |
| Proceeds from disposal of partial interest in a subsidiary                                 |      | –                  | 411,812            |
| Net cash inflow (outflow) from disposal of subsidiaries                                    | 10   | 143,807            | (394)              |
| Dividends received from an associate   |      | 13,731             | 2,867              |
| Proceeds from disposal of investment properties  |      | –                  | 17,910             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   |      | <b>(3,251,274)</b> | <b>(1,012,969)</b> |
| <b>FINANCING ACTIVITIES</b>  |      |                    |                    |
| New borrowings raised  |      | 7,055,139          | 3,806,102          |
| Proceeds from issue of shares  |      | 105,390            | 2,052,408          |
| Expenses on issue of shares  |      | (50)               | (50,160)           |
| Payment for repurchase of shares   |      | (138,073)          | –                  |
| Repayment of loan from ultimate holding company of controlling shareholder                 |      | (204,152)          | (139,395)          |
| Capital contribution from minority shareholders  |      | 62,332             | 186,922            |
| Repayment of bank borrowings   |      | (4,169,660)        | (4,480,663)        |
| Increase in amounts due to related companies   |      | 57,646             | 78,564             |
| (Decrease) increase in amount due to ultimate holding company of controlling shareholder   |      | (17,228)           | 51,774             |
| Payment of dividend  |      | (727,018)          | (123,162)          |
| Dividend paid to minority shareholders of a subsidiary                                     |      | –                  | (13,949)           |
| Repayment of a finance lease   |      | –                  | (267)              |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>  |      | <b>2,024,326</b>   | <b>1,368,174</b>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |      | <b>69,347</b>      | <b>1,467,492</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>                                  |      | <b>3,256,837</b>   | <b>1,728,222</b>   |
| Effect of foreign exchange rate changes  |      | 56,768             | 61,123             |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b> |      | <b>3,382,952</b>   | <b>3,256,837</b>   |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 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 controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange) is Shougang Holding (Hong Kong) Limited (“Shougang HK”) and the ultimate holding company of the Company’s controlling shareholder is Shougang Corporation, a company established in the People’s Republic of China (the “PRC”). Shougang Corporation, together with its subsidiaries other than members of 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 49.

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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are or have become effective.

|                                |  |
|--------------------------------|--|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets   |
| HK(IFRIC) – Int 11             | HKFRS 2: Group and Treasury Share Transactions   |
| HK(IFRIC) – Int 12             | Service Concession Arrangements  |
| HK(IFRIC) – Int 14             | HKAS 19 – The Limit on a Defined Benefit Asset,<br>Minimum Funding Requirements and<br>their Interaction |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

|  |  |
|--|--|
| HKFRSs (Amendments)                      | Improvements to HKFRSs <sup>1</sup>  |
| HKAS 1 (Revised)                         | Presentation of Financial Statements <sup>2</sup>  |
| HKAS 23 (Revised)                        | Borrowing Costs <sup>2</sup>   |
| HKAS 27 (Revised)                        | Consolidated and Separate Financial Statements <sup>3</sup>                                |
| HKAS 32 & 1 (Amendments)                 | Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>         |
| HKAS 39 (Amendment)                      | Eligible hedged items <sup>3</sup>   |
| HKFRS 1 & HKAS 27 (Amendments)           | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup> |
| HKFRS 2 (Amendment)                      | Vesting Conditions and Cancellations <sup>2</sup>  |
| HKFRS 3 (Revised)                        | Business Combinations <sup>3</sup>   |
| HKFRS 7 (Amendment)                      | Improving Disclosures about Financial Instruments <sup>2</sup>                             |
| HKFRS 8                                  | Operating Segments <sup>2</sup>  |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives <sup>4</sup>  |
| HK(IFRIC) – Int 13                       | Customer Loyalty Programmes <sup>5</sup>   |
| HK(IFRIC) – Int 15                       | Agreements for the Construction of Real Estate <sup>2</sup>                                |
| HK(IFRIC) – Int 16                       | Hedges of a Net Investment in a Foreign Operation <sup>6</sup>                             |
| HK(IFRIC) – Int 17                       | Distribution of Non-cash Assets to Owners <sup>3</sup>                                     |
| HK(IFRIC) – Int 18                       | Transfers of Assets from Customers <sup>7</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>4</sup> Effective for annual periods ending on or after 30 June 2009

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>6</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>7</sup> Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The Directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 income statement from the effective date of acquisition or 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 on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations

The 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 meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### 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).





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Goodwill (continued)

#### 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.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, 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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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 carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. 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. An additional share of losses is provided for and a liability is 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 the associate recognised at the date of acquisition 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 fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Service and agency income is recognised when services are rendered.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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.

Sales of electricity are recognised when electricity is generated and supplied to the power grid operated by the customers.

Sales of steam and hot water are recognised based on steam and hot water supplied as recorded by meter readings during the year.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the costs of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

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

Construction in progress includes property, plant and equipment in the course of construction for production for the Group's own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is 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.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured 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 year in which they arise.

An owner-occupied property is transferred to investment property at fair value when it is evidenced by the end of owner occupation. The difference between the fair value and the carrying amount at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 *Property, Plant and Equipment*. On the subsequent sale or retirement of assets, the relevant revaluation reserve will be transferred directly to accumulated profits.

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 the consolidated income statement in the year 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 the consolidated income statement on a straight line basis over the term of the relevant lease.

#### The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leasing (continued)

##### Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases, except for those that are classified and accounted for as an 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 the income statement 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 its 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 each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. 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, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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 the 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 income statement 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 balance sheet date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (continued)

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which 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 arising on 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 each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Intangible assets

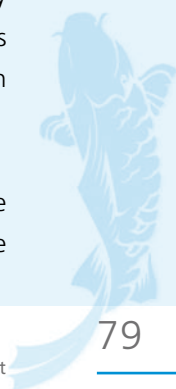
#### Deferred product design fees

Deferred product design fees acquired separately and with finite useful lives are recognised 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.

#### Mining Rights

Mining rights 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 rights using the units of production method over the total proven and probable reserves of the iron mines.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Inventories**

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

### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet 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 and 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 as 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. 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.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, bank balances and deposits, amounts due from related companies, amount due from a minority shareholder of a subsidiary and ultimate holding company of controlling 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.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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 each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Impairment of financial assets (continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amounts due 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 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 equity.

#### Financial liabilities and equity

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial liabilities and equity (continued)

##### *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.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

##### *Other financial liabilities*

Other financial liabilities including trade and bill payables, other payables, bank borrowings, other financial liabilities, amounts due to related companies, loans from ultimate holding company of controlling shareholder and amount due to ultimate holding company of controlling shareholder are subsequently measured at amortised cost, using the effective interest rate method.

##### *Equity instruments*

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

##### *Repurchase of equity instruments*

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase or cancellation of the Company's own equity instruments.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. 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 contract 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, 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 directly 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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**

For share options granted before and after 7 November 2002 and vested prior to 1 January 2005, share based payment expenses are not recognised in accordance with the transitional provisions of HKFRS 2.

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 the consolidated income statement 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Equity settled share-based payment transactions (continued)

#### 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 each balance sheet date, 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 or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will continue to be held in the share option reserve.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Estimated impairment of trade receivables

In determining whether 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 impairment recognised during the year is set out in note 26.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Allowance for inventories

As at 31 December 2008, the carrying amount of the Group's inventories is HK\$1,886,251,000 (2007: HK\$1,299,129,000). The management of the Group reviews an aging analysis at each balance sheet date, 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 each balance sheet date 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\$456 million, of which HK\$324 million is subject to Hong Kong Inland Revenue Department's ("IRD") confirmation (2007: HK\$451 million, of which HK\$293 million was subject to IRD's confirmation) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, a deferred tax asset may be recognised.

### Fair value of option to subscribe for shares of a listed company in Australia

The fair value for the option to subscribe for shares of a listed company in Australia 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 volatility of share price and dividend yield of Australasian Resources Limited ("ARH"), 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 option to subscribe for shares. The carrying amount of the option to subscribe for shares of a listed company in Australia is HK\$3,300,000 (2007: HK\$150,409,000). Details of the assumptions used are set out in note 29.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### 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\$354,200,000. Details of the commodity forward contract are disclosed in note 29.

##### Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2008 was approximately HK\$9,078,400,000 (2007: HK\$7,818,140,000). The Group depreciates the property, plant and equipment on a straight-line basis over their estimated useful lives of 4 to 50 years, and 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 true useful life, additional depreciation may be required.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue arising from sales of steel products, electricity, steam and hot water, installation of kitchen and laundry equipment, leasing income, charter hire income and management services income during the year, for both continuing and discontinued operations, is as follows:

|  | 2008<br>HK\$'000  | 2007<br>HK\$'000<br>(restated) |
|--|-------------------|--------------------------------|
| <b>Continuing operations</b>   |                   |                                |
| Sale of steel products   | 16,963,360        | 10,550,620                     |
| Vessel chartering and floating cranes leasing income                         | 499,113           | 373,773                        |
| Management services income   | 2,232             | 1,998                          |
|  | <b>17,464,705</b> | 10,926,391                     |
| <b>Discontinued operations</b>   |                   |                                |
| Electricity, steam and hot water generation income                           | 209,644           | 481,179                        |
| Revenue from manufacturing and installation of kitchen and laundry equipment | –                 | 70,330                         |
|  | <b>17,674,349</b> | 11,477,900                     |

### Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information:

|                     |   |
|---------------------|---|
| Steel manufacturing | – manufacture and sale of steel products;               |
| Shipping operations | – vessel chartering and the leasing of floating cranes; |
| Steel trading       | – trading of steel products; and                        |
| Others              | – management services business.                         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Business segments (continued)

During the year, the electricity generation operation was discontinued on 12 June 2008. In addition, the kitchen and laundry equipment operation was discontinued on 27 June 2007. Details of the discontinued operation are set out in note 10.

Segment information about these businesses is presented below:

### INCOME STATEMENT

For the year ended 31 December 2008

|                                  | Continuing operations           |                                 |                           |                    |                         | Discontinued operation |                                    | Consolidated |
|----------------------------------|---------------------------------|---------------------------------|---------------------------|--------------------|-------------------------|------------------------|------------------------------------|--------------|
|                                  | Steel manufacturing<br>HK\$'000 | Shipping operations<br>HK\$'000 | Steel trading<br>HK\$'000 | Others<br>HK\$'000 | Elimination<br>HK\$'000 | Total<br>HK\$'000      | Electricity generation<br>HK\$'000 |              |
| Revenue                          |                                 |                                 |                           |                    |                         |                        |                                    |              |
| External customers               | 14,076,252                      | 499,113                         | 2,887,108                 | 2,232              | –                       | 17,464,705             | 209,644                            | 17,674,349   |
| Inter-segment sales              | 1,643,365                       | –                               | –                         | –                  | (1,643,365)             | –                      | –                                  | –            |
| Total                            | 15,719,617                      | 499,113                         | 2,887,108                 | 2,232              | (1,643,365)             | 17,464,705             | 209,644                            | 17,674,349   |
| Segment results                  | 2,363,229                       | 323,067                         | 27,926                    | 2,240              | –                       | 2,716,462              | 18,882                             | 2,735,344    |
| Unallocated other income         |                                 |                                 |                           |                    |                         | 122,521                | 12                                 | 122,533      |
| Unallocated corporate expenses   |                                 |                                 |                           |                    |                         | (513,411)              | –                                  | (513,411)    |
| Finance costs                    |                                 |                                 |                           |                    |                         | (448,748)              | (5,475)                            | (454,223)    |
| Share of loss of associates      | (22,417)                        | –                               | –                         | –                  | –                       | (22,417)               | –                                  | (22,417)     |
| Profit before taxation           |                                 |                                 |                           |                    |                         | 1,854,407              | 13,419                             | 1,867,826    |
| Income tax expense               |                                 |                                 |                           |                    |                         | (39,002)               | (6,411)                            | (45,413)     |
| Gain on disposal of a subsidiary |                                 |                                 |                           |                    |                         | –                      | 4,229                              | 4,229        |
| Profit for the year              |                                 |                                 |                           |                    |                         | 1,815,405              | 11,237                             | 1,826,642    |

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Business segments (continued)

#### BALANCE SHEET

At 31 December 2008

|                                   | Steel<br>manufacturing<br>HK\$'000 | Shipping<br>operations<br>HK\$'000 | Steel<br>trading<br>HK\$'000 | Others<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-----------------------------------|------------------------------------|------------------------------------|------------------------------|--------------------|--------------------------|
| ASSETS                            |                                    |                                    |                              |                    |                          |
| Segment assets                    | 14,758,538                         | 23,568                             | 226,515                      | 15,578             | 15,024,199               |
| Interests in associates           | 664,843                            | –                                  | –                            | 3,062              | 667,905                  |
| Unallocated corporate assets      |                                    |                                    |                              |                    | 5,335,796                |
| Consolidated total assets         |                                    |                                    |                              |                    | 21,027,900               |
| LIABILITIES                       |                                    |                                    |                              |                    |                          |
| Segment liabilities               | 3,136,034                          | 45,347                             | 71,158                       | 19,868             | 3,272,407                |
| Unallocated corporate liabilities |                                    |                                    |                              |                    | 8,694,155                |
| Consolidated total liabilities    |                                    |                                    |                              |                    | 11,966,562               |

#### OTHER INFORMATION

For the year ended 31 December 2008

|   | Continuing operations  |                        |                  |          |           | Discontinued<br>operation |              |
|---|------------------------|------------------------|------------------|----------|-----------|---------------------------|--------------|
|   | Steel<br>manufacturing | Shipping<br>operations | Steel<br>trading | Others   | Total     | Electricity<br>generation | Consolidated |
|   | HK\$'000               | HK\$'000               | HK\$'000         | HK\$'000 | HK\$'000  | HK\$'000                  | HK\$'000     |
| Capital additions                                   | 1,929,720              | 659                    | 541              | 4,235    | 1,935,155 | –                         | 1,935,155    |
| Depreciation of property,<br>plant and equipment    | 537,976                | 1,513                  | 84               | 1,094    | 540,667   | 7,052                     | 547,719      |
| Amortisation of intangible assets                   | 80                     | –                      | –                | –        | 80        | –                         | 80           |
| Amortisation of prepaid lease rental                | 5,321                  | –                      | 135              | –        | 5,456     | 1,945                     | 7,401        |
| Impairment loss on available-for-sale<br>investment | –                      | –                      | –                | 91,143   | 91,143    | –                         | 91,143       |
| Loss on disposal of property<br>plant and equipment | 3,549                  | 45                     | –                | –        | 3,594     | 10,348                    | 13,942       |
| Allowance for inventories                           | 117,319                | –                      | –                | –        | 117,319   | –                         | 117,319      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Business segments (continued)

#### INCOME STATEMENT

For the year ended 31 December 2007 (restated)

|   | Continuing operations  |                        |                  |          |             | Discontinued operations |                           |                          |                    |            |
|---|------------------------|------------------------|------------------|----------|-------------|-------------------------|---------------------------|--------------------------|--------------------|------------|
|   | Steel<br>manufacturing | Shipping<br>operations | Steel<br>trading | Others   | Elimination | Total                   | Kitchen                   |                          | Total Consolidated |            |
|   |                        |                        |                  |          |             |                         | Electricity<br>generation | and laundry<br>equipment |                    |            |
|   | HK\$'000               | HK\$'000               | HK\$'000         | HK\$'000 | HK\$'000    | HK\$'000                | HK\$'000                  | HK\$'000                 | HK\$'000           | HK\$'000   |
| Revenue   |                        |                        |                  |          |             |                         |                           |                          |                    |            |
| External customers  | 9,108,887              | 373,773                | 1,441,733        | 1,998    | -           | 10,926,391              | 481,179                   | 70,330                   | 551,509            | 11,477,900 |
| Inter-segment sales   | 813,576                | -                      | -                | -        | (813,576)   | -                       | -                         | -                        | -                  | -          |
| Total   | 9,922,463              | 373,773                | 1,441,733        | 1,998    | (813,576)   | 10,926,391              | 481,179                   | 70,330                   | 551,509            | 11,477,900 |
| Inter-segment sales are charged at prevailing market rates. |                        |                        |                  |          |             |                         |                           |                          |                    |            |
| Segment results   | 1,441,131              | 218,773                | 29,846           | 1,998    | -           | 1,691,748               | 86,949                    | (296)                    | 86,653             | 1,778,401  |
| Unallocated other income                                    |                        |                        |                  |          |             | 288,506                 | (97)                      | (29)                     | (126)              | 288,380    |
| Unallocated corporate expenses                              |                        |                        |                  |          |             | (120,197)               | -                         | -                        | -                  | (120,197)  |
| Finance costs   |                        |                        |                  |          |             | (347,714)               | (10,369)                  | (16)                     | (10,385)           | (358,099)  |
| Share of profit of an associate                             | 23,282                 | -                      | -                | -        | -           | 23,282                  | -                         | -                        | -                  | 23,282     |
| Gain on disposal of partial interest in a subsidiary        | 103,710                | -                      | -                | -        | -           | 103,710                 | -                         | -                        | -                  | 103,710    |
| Profit (loss) before taxation                               |                        |                        |                  |          |             | 1,639,335               | 76,483                    | (341)                    | 76,142             | 1,715,477  |
| Income tax expense  |                        |                        |                  |          |             | (25,430)                | (9,697)                   | (478)                    | (10,175)           | (35,605)   |
| Loss on disposal of subsidiaries                            |                        |                        |                  |          |             | -                       | -                         | (7,053)                  | (7,053)            | (7,053)    |
| Profit (loss) for the year                                  |                        |                        |                  |          |             | 1,613,905               | 66,786                    | (7,872)                  | 58,914             | 1,672,819  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Business segments (continued)

#### BALANCE SHEET

At 31 December 2007

|                                   | Steel<br>manufacturing | Shipping<br>operations | Electricity<br>generation | Steel<br>trading | Others   | Consolidated |
|-----------------------------------|------------------------|------------------------|---------------------------|------------------|----------|--------------|
|                                   | HK\$'000               | HK\$'000               | HK\$'000                  | HK\$'000         | HK\$'000 | HK\$'000     |
| <b>ASSETS</b>                     |                        |                        |                           |                  |          |              |
| Segment assets                    | 10,917,626             | 16,754                 | 797,146                   | 242,563          | 12,294   | 11,986,383   |
| Interests in an associate         | 310,368                | –                      | –                         | –                | –        | 310,368      |
| Unallocated corporate assets      |                        |                        |                           |                  |          | 4,266,790    |
| Consolidated total assets         |                        |                        |                           |                  |          | 16,563,541   |
| <b>LIABILITIES</b>                |                        |                        |                           |                  |          |              |
| Segment liabilities               | 2,875,775              | 70,521                 | 34,812                    | 29,302           | 17,870   | 3,028,280    |
| Unallocated corporate liabilities |                        |                        |                           |                  |          | 5,591,328    |
| Consolidated total liabilities    |                        |                        |                           |                  |          | 8,619,608    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Business segments (continued)

#### OTHER INFORMATION

For the year ended 31 December 2007 (restated)

|   | Continuing operations  |                        |                  |          |          | Discontinued operations   |                                     |          |              |
|---|------------------------|------------------------|------------------|----------|----------|---------------------------|-------------------------------------|----------|--------------|
|   | Steel<br>manufacturing | Shipping<br>operations | Steel<br>trading | Others   | Total    | Electricity<br>generation | Kitchen<br>and laundry<br>equipment | Total    | Consolidated |
|   | HK\$'000               | HK\$'000               | HK\$'000         | HK\$'000 | HK\$'000 | HK\$'000                  | HK\$'000                            | HK\$'000 | HK\$'000     |
| Capital additions                                       | 909,205                | 6                      | 101              | 84       | 909,396  | 12,165                    | –                                   | 12,165   | 921,561      |
| Depreciation of property,<br>plant and equipment        | 418,852                | 1,580                  | 120              | 981      | 421,533  | 17,288                    | 328                                 | 17,616   | 439,149      |
| Amortisation of<br>intangible assets                    | 414                    | –                      | –                | –        | 414      | –                         | –                                   | –        | 414          |
| Amortisation of<br>prepaid lease rental                 | 4,654                  | –                      | 121              | –        | 4,775    | 4,343                     | 51                                  | 4,394    | 9,169        |
| Loss on disposal of<br>property, plant and<br>equipment | 2,994                  | 43                     | 18               | 4        | 3,059    | –                         | 7                                   | 7        | 3,066        |





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Geographical segments

The Group's operations are located in the PRC including Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services:

|                                | Revenue           |            |
|--------------------------------|-------------------|------------|
|                                | 2008              | 2007       |
|                                | HK\$'000          | HK\$'000   |
|                                |                   | (restated) |
| <b>Continuing operations</b>   |                   |            |
| PRC, excluding Hong Kong       | <b>12,639,939</b> | 8,588,643  |
| Hong Kong                      | <b>3,582,645</b>  | 1,523,400  |
| Others                         | <b>1,242,121</b>  | 814,348    |
|                                | <b>17,464,705</b> | 10,926,391 |
| <b>Discontinued operations</b> |                   |            |
| PRC, excluding Hong Kong       | <b>209,644</b>    | 541,263    |
| Hong Kong                      | <b>—</b>          | 10,246     |
|                                | <b>209,644</b>    | 551,509    |
| Total                          | <b>17,674,349</b> | 11,477,900 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

|                          | Carrying amount<br>of segment assets |            | Capital additions |          |
|--------------------------|--------------------------------------|------------|-------------------|----------|
|                          | 2008                                 | 2007       | 2008              | 2007     |
|                          | HK\$'000                             | HK\$'000   | HK\$'000          | HK\$'000 |
| PRC, excluding Hong Kong | <b>14,566,111</b>                    | 11,493,456 | <b>1,930,910</b>  | 921,376  |
| Hong Kong                | <b>458,088</b>                       | 492,927    | <b>4,245</b>      | 185      |
|                          | <b>15,024,199</b>                    | 11,986,383 | <b>1,935,155</b>  | 921,561  |

## 6. OTHER INCOME

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|--|------------------|--------------------------------|
| <b>Continuing operations</b>                                   |                  |                                |
| Interest income on bank deposits                               | <b>102,678</b>   | 93,878                         |
| Discount on acquisition of partial interest in an associate    | <b>16,414</b>    | –                              |
| Refund of value added tax                                      | <b>7,893</b>     | 4,210                          |
| Scrap sales income   | <b>5,392</b>     | 3,604                          |
| Compensation income  | <b>222</b>       | 217                            |
| Gain on deemed disposal of partial interest<br>in an associate | –                | 5,166                          |
| Sundry income  | <b>22,641</b>    | 23,678                         |
| Tax refund on reinvestment of dividends to subsidiaries        | –                | 20,029                         |
|  | <b>155,240</b>   | 150,782                        |
| <b>Discontinued operations</b>                                 | <b>21</b>        | 1,659                          |
| Total  | <b>155,261</b>   | 152,441                        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 7. FINANCE COSTS

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|--|------------------|--------------------------------|
| <b>Continuing operations</b>   |                  |                                |
| Interest on:   |                  |                                |
| Bank borrowings wholly repayable within five years                       | 403,167          | 265,441                        |
| Other borrowings wholly repayable within five years                      | 51,976           | 75,847                         |
| Cost of arrangement of bank borrowings                                   | 3,575            | 10,151                         |
| Total borrowing costs  | 458,718          | 351,439                        |
| Less: amounts capitalised  | (9,970)          | (3,725)                        |
|  | 448,748          | 347,714                        |
| <b>Discontinued operations</b>   |                  |                                |
| Interest on bank and other borrowings wholly repayable within five years | 5,475            | 10,369                         |
| Interest on finance leases   | –                | 16                             |
|  | 5,475            | 10,385                         |
| Total  | 454,223          | 358,099                        |

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate at 7.20% (2007: 6.57%) per annum to expenditure on qualifying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 8. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 8 November 2006, the Company and Central Pro Investments Limited ("Central Pro"), a wholly owned subsidiary of the Company, entered into an equity interest transfer agreement ("Agreement") with an independent third party, Hyundai Heavy Industries Co., Ltd. ("HHI"), pursuant to which Central Pro transferred 20% of the registered capital of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") to HHI at a consideration of RMB410 million (equivalent to approximately HK\$412 million) ("Purchase Price") ("Disposal"). The transaction was completed on 7 February 2007 and the interests of the Group in Shouqin were reduced from 96% to 76%. The gain on Disposal amounting to approximately HK\$104 million.

The Company has granted a put option to HHI to require the Company to purchase or procure a third party to purchase from HHI the entire equity interest in Shouqin held by HHI by giving one month's notice at the Purchase Price plus interest calculated at 7% per annum, compounded annually, with adjustments for dividends received, at any time within 42 months from the date on which Shouqin received the approval from the People's Republic of China ("PRC") approval authority in connection with the transaction (i.e. 17 January 2007), if any of the following conditions occurs:

- (1) Central Pro or the Company is in material breach of any of its representations, warranties, undertakings and/or obligations under the Agreement or any other documents executed in connection therewith;
- (2) Shouqin fails to implement the business plan approved by board of Shouqin from time to time in any material aspect otherwise than as a result of a force majeure event;
- (3) Any termination or suspension of the purchase agreements and product take-off contracts between Shouqin and Shougang Corporation and/or its direct or indirect subsidiaries or affiliates without prior approval of HHI which is of material adverse effect to Shouqin;
- (4) Shouqin ceases or suspends its business for more than six months, in the aggregate, during any continuous twelve-month period otherwise than as a result of a force majeure event; or
- (5) Shouqin is in violation of any applicable laws and regulations in material respects such that Shouqin may not continue to conduct ordinary business activities in the reasonable judgment of HHI.

The Directors are of the opinion that the above put option represents general performance warranty provisions which are within the control of the Group and which did not have any financial impact on the Group during the year ended 31 December 2008 and 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 9. INCOME TAX EXPENSE

|                                    | Continuing operations |            | Discontinued operations |            | Consolidated   |          |
|------------------------------------|-----------------------|------------|-------------------------|------------|----------------|----------|
|                                    | 2008                  | 2007       | 2008                    | 2007       | 2008           | 2007     |
|                                    | HK\$'000              | HK\$'000   | HK\$'000                | HK\$'000   | HK\$'000       | HK\$'000 |
|                                    |                       | (restated) |                         | (restated) |                |          |
| Current tax:                       |                       |            |                         |            |                |          |
| Hong Kong                          | –                     | 492        | –                       | –          | –              | 492      |
| PRC Enterprise                     |                       |            |                         |            |                |          |
| Income Tax                         | <b>40,790</b>         | 23,616     | <b>6,374</b>            | 9,990      | <b>47,164</b>  | 33,606   |
| Underprovision in prior years:     |                       |            |                         |            |                |          |
| PRC Enterprise                     |                       |            |                         |            |                |          |
| Income Tax                         | –                     | –          | <b>37</b>               | 185        | <b>37</b>      | 185      |
|                                    | <b>40,790</b>         | 24,108     | <b>6,411</b>            | 10,175     | <b>47,201</b>  | 34,283   |
| Deferred tax (note 35):            |                       |            |                         |            |                |          |
| Current year                       | <b>(1,760)</b>        | (2,114)    | –                       | –          | <b>(1,760)</b> | (2,114)  |
| Attributable to change in tax rate | <b>(28)</b>           | 3,436      | –                       | –          | <b>(28)</b>    | 3,436    |
| Income tax expense                 | <b>39,002</b>         | 25,430     | <b>6,411</b>            | 10,175     | <b>45,413</b>  | 35,605   |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 9. INCOME TAX EXPENSE (CONTINUED)

Shouqin and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. The PRC income tax charges are arrived at after taking into account these tax incentives.

On 16 March 2007, the PRC promulgated the Law on Enterprise Income Tax (the "New Law") by Order No. 63 issued by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations change the tax rate for the current year. The New Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the New 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 9. INCOME TAX EXPENSE (CONTINUED)

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

|   | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|---|------------------|--------------------------------|
| Profit before taxation:   |                  |                                |
| Continuing operations   | 1,854,407        | 1,639,335                      |
| Discontinued operation  | 17,648           | 69,089                         |
|   | <b>1,872,055</b> | <b>1,708,424</b>               |
| Taxation at the income tax rate of 25%<br>(2007: 27%) (Note a)  | 468,014          | 461,274                        |
| Tax effect of share of results of associates  | 5,605            | (6,286)                        |
| Tax effect of expenses not deductible for tax purposes  | 124,167          | 52,698                         |
| Tax effect of income not taxable for tax purposes   | (118,335)        | (138,420)                      |
| Underprovision in respect of prior years  | 37               | 185                            |
| Tax effect of tax loss not recognised   | 34,002           | 7,557                          |
| Tax effect of deductible temporary differences<br>not recognised                                      | 31,611           | 2,123                          |
| Tax effect of utilisation of tax losses previously<br>not recognised                                  | (16,140)         | (1,403)                        |
| Tax effect of utilisation of deferred tax assets previously<br>not recognised                         | –                | (4,216)                        |
| Tax effect of tax credit granted to a subsidiary (Note b)   | (96,199)         | (22,162)                       |
| Income tax on concessionary rate  | (386,803)        | (302,894)                      |
| Effect of different tax rates of subsidiaries   | (518)            | (16,287)                       |
| (Decrease) increase in opening deferred tax<br>liability resulting from change in applicable tax rate | (28)             | 3,436                          |
| Tax expense for the year  | <b>45,413</b>    | <b>35,605</b>                  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 9. INCOME TAX EXPENSE (CONTINUED)

Notes:

- a. The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.
- b. It represents tax credit granted by the PRC Tax Authority for purchase of plants and machineries manufactured domestically in PRC.

## 10. DISCONTINUED OPERATIONS

On 30 April 2008, the Group entered into a sale agreement to dispose of the entire interest in Ultra Result Limited ("URL") and its subsidiary, which carried out all of the Group's electricity generation operation, to a subsidiary of the Company's controlling shareholder. The disposal was completed on 12 June 2008 (the "Completion Date"), on which date control of URL and its subsidiary was passed to the acquirer. Due to the disposal of the electricity generation operation during the year ended 31 December 2008, the comparative figures have been restated to present the electricity generation operation as discontinued operation for the year ended 31 December 2007.

On 27 June 2007, the Group entered into a sale agreement to dispose of Radnor Limited and its subsidiaries, which carried out all of the Group's kitchen and laundry equipment operations, to a third party. The disposal was completed on 27 June 2007, on which date control of Radnor Limited and its subsidiaries was passed to the acquirer.

The profit (loss) for the period/year from the discontinued operations are analysed as follows:

|  | <b>2008</b><br><b>HK\$'000</b> | 2007<br>HK\$'000<br>(restated) |
|--|--------------------------------|--------------------------------|
| Profit of electricity generation operation for the period/year | <b>7,008</b>                   | 66,786                         |
| Gain on disposal of electricity generation operation           | <b>4,229</b>                   | –                              |
| Loss of kitchen and laundry equipment operation for the period | –                              | (819)                          |
| Loss on disposal of kitchen and laundry equipment operation    | –                              | (7,053)                        |
|  | <b>11,237</b>                  | 58,914                         |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

The results of the period/year from the discontinued operations were as follows:

|                            | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|----------------------------|------------------|--------------------------------|
| Revenue                    | 209,644          | 551,509                        |
| Cost of sales              | (162,471)        | (426,720)                      |
| Other income               | 21               | 1,659                          |
| Distribution costs         | –                | (1,119)                        |
| Administrative expenses    | (28,300)         | (38,802)                       |
| Finance costs              | (5,475)          | (10,385)                       |
| Profit before tax          | 13,419           | 76,142                         |
| Income tax expense         | (6,411)          | (10,175)                       |
| Profit for the period/year | 7,008            | 65,967                         |

Cash flows for the period/year from the discontinued operations:

|   | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|---|------------------|--------------------------------|
| Net cash inflows from operating activities            | 177,579          | 32,145                         |
| Net cash inflows (outflows) from investing activities | 1,488            | (12,039)                       |
| Net cash outflows from financing activities           | (174,236)        | (36,472)                       |
| Net cash inflows (outflows)                           | 4,831            | (16,366)                       |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

### Electricity generation operation

The results of the electricity generation operation were as follows:

|                            | 1 January 2008<br>to<br>12 June 2008<br>HK\$'000 | 1 January 2007<br>to<br>31 December 2007<br>HK\$'000 |
|----------------------------|--|--|
| Revenue                    | 209,644  | 481,179  |
| Cost of sales              | (162,471)  | (361,270)  |
| Other income               | 21   | 1,495  |
| Administrative expenses    | (28,300)   | (34,552)   |
| Finance costs              | (5,475)  | (10,369)   |
| Profit before tax          | 13,419   | 76,483   |
| Income tax expense         | (6,411)  | (9,697)  |
| Profit for the period/year | 7,008  | 66,786   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

### Electricity generation operation (continued)

The net assets of URL and its subsidiary at the date of disposal were as follows:

|  | 12 June 2008<br>HK\$'000 |
|--|--------------------------|
| Net assets disposed of:  |                          |
| Property, plant and equipment  | 260,592                  |
| Prepaid lease payments   | 68,782                   |
| Inventories  | 17,356                   |
| Prepayment, deposits and other receivables                               | 1,267                    |
| Amounts due from related companies                                       | 451,112                  |
| Bank balances and cash   | 14,443                   |
| Trade and bill payables  | (3,931)                  |
| Other payables and accrued liabilities                                   | (28,074)                 |
| Tax payable  | (921)                    |
| Amounts due to related companies   | (209,579)                |
|  | 571,047                  |
| Minority interests   | (279,526)                |
| Attributable goodwill  | 65,107                   |
| Reserve realised   | (44,357)                 |
| Gain on disposal   | 4,229                    |
| Total consideration  | 316,500                  |
| Satisfied by:  |                          |
| Cash consideration   | 158,250                  |
| Consideration receivable (included in amount due from related companies) | 158,250                  |
|  | 316,500                  |
| Net cash inflow arising on disposal:                                     |                          |
| Cash consideration   | 158,250                  |
| Bank balances and cash on disposal                                       | (14,443)                 |
|  | 143,807                  |

The consideration receivable is expected to be settled in cash by the acquirer within 12 months from the Completion Date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

### Electricity generation operation (continued)

|   | 1 January 2008<br>to<br>12 June 2008<br>HK\$'000 | 1 January 2007<br>to<br>31 December 2007<br>HK\$'000 |
|---|--|--|
| Cash flows from URL and its subsidiary:               |  |  |
| Net cash inflows from operating activities            | 177,579  | 38,596   |
| Net cash inflows (outflows) from investing activities | 1,488  | (12,101)   |
| Net cash outflows from financing activities           | (174,236)  | (31,434)   |
| Net cash inflows (outflows)                           | 4,831  | (4,939)  |

### Kitchen and laundry equipment operation

The results of the kitchen and laundry equipment operation were as follows:

|                         | 1 January 2007<br>to<br>27 June 2007<br>HK\$'000 |
|-------------------------|--|
| Revenue                 | 70,330   |
| Cost of sales           | (65,450)   |
| Other income            | 164  |
| Distribution costs      | (1,119)  |
| Administrative expenses | (4,250)  |
| Finance costs           | (16)   |
| Loss before tax         | (341)  |
| Income tax expense      | (478)  |
| Loss for the period     | (819)  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

### Kitchen and laundry equipment operation (continued)

The net assets of Radnor Limited and its subsidiaries at the date of disposal were as follows:

|                                       | 27 June 2007<br>HK\$'000 |
|---------------------------------------|--------------------------|
| Net assets disposed of:               |                          |
| Property, plant and equipment         | 1,493                    |
| Prepaid lease rentals                 | 239                      |
| Inventories                           | 4,075                    |
| Trade and other receivables           | 40,219                   |
| Bank balances and cash                | 4,014                    |
| Trade and other payables              | (38,039)                 |
| Bank overdrafts                       | (681)                    |
| Tax payable                           | (622)                    |
|                                       | 10,698                   |
| Minority interests                    | (25)                     |
| Loss on disposal                      | (7,053)                  |
| Total consideration                   | 3,620                    |
| Satisfied by:                         |                          |
| Cash consideration                    | 3,620                    |
| Net cash outflow arising on disposal: |                          |
| Cash consideration                    | 3,620                    |
| Bank balances and cash on disposal    | (4,014)                  |
|                                       | (394)                    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DISCONTINUED OPERATIONS (CONTINUED)

### Kitchen and laundry equipment operation (continued)

1 January 2007  
to  
27 June 2007  
HK\$'000

Cash flows from Radnor Limited and its subsidiaries:

|   |          |
|---|----------|
| Net cash outflows from operating activities | (6,451)  |
| Net cash inflows from investing activities  | 62       |
| Net cash outflows from financing activities | (5,038)  |
| Net cash outflows                           | (11,427) |

## 11. PROFIT FOR THE YEAR

|   | Continuing operations |            | Discontinued operations |            | Consolidated |          |
|---|-----------------------|------------|-------------------------|------------|--------------|----------|
|   | 2008                  | 2007       | 2008                    | 2007       | 2008         | 2007     |
|   | HK\$'000              | HK\$'000   | HK\$'000                | HK\$'000   | HK\$'000     | HK\$'000 |
|   |                       | (restated) |                         | (restated) |              |          |
| Profit for the year has been arrived at after charging (crediting):     |                       |            |                         |            |              |          |
| Staff costs, including Directors' emoluments                            |                       |            |                         |            |              |          |
| – basic salaries and allowances   | 338,611               | 240,161    | 7,332                   | 23,765     | 345,943      | 263,926  |
| – retirement benefits scheme contributions                              | 41,962                | 27,949     | 1,002                   | 4,319      | 42,964       | 32,268   |
| – share-based payments  | 110,877               | 59,726     | –                       | –          | 110,877      | 59,726   |
|   | 491,450               | 327,836    | 8,334                   | 28,084     | 499,784      | 355,920  |
| Amortisation of intangible assets (included in administrative expenses) | 80                    | 414        | –                       | –          | 80           | 414      |
| Depreciation of property, plant and equipment                           | 540,667               | 421,533    | 7,052                   | 17,616     | 547,719      | 439,149  |
| Total depreciation and amortisation                                     | 540,747               | 421,947    | 7,052                   | 17,616     | 547,799      | 439,563  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 11. PROFIT FOR THE YEAR (CONTINUED)

|   | Continuing<br>operations<br>2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) | Discontinued<br>operations<br>2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) | Consolidated<br>2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|--|--------------------------------|--|--------------------------------|----------------------------------|------------------|
| Profit for the year has been arrived<br>at after charging (crediting):  |  |                                |  |                                |                                  |                  |
| Change in fair value of derivative<br>financial instruments   |  |                                |  |                                |                                  |                  |
| – change in fair value of foreign<br>currency forward contracts   | 86,660                                       | (17,576)                       | –  | –                              | 86,660                           | (17,576)         |
| – change in fair value of option to<br>subscribe for shares of a listed<br>company in Australia                             | 147,109                                      | (150,409)                      | –  | –                              | 147,109                          | (150,409)        |
| – change in fair value of commodity<br>forward contracts  | (25,039)                                     | –                              | –  | –                              | (25,039)                         | –                |
|   | 208,730                                      | (167,985)                      | –  | –                              | 208,730                          | (167,985)        |
| Auditor's remuneration  | 2,911  | 2,700                          | –  | 216                            | 2,911                            | 2,916            |
| Cost of inventories recognised as<br>expenses   | 13,855,272                                   | 8,590,499                      | 162,471  | 424,467                        | 14,017,743                       | 9,014,966        |
| Loss on disposal of property,<br>plant and equipment (Note)   | 3,594  | 3,059                          | 10,348   | 7                              | 13,942                           | 3,066            |
| Change in fair value of investment<br>properties (Note)   | 1,642  | (3,033)                        | –  | –                              | 1,642                            | (3,033)          |
| Minimum lease payments under<br>operating leases in respect of<br>land and buildings  | 5,109  | 3,026                          | –  | 146                            | 5,109                            | 3,172            |
| Amortisation of prepaid lease rentals   | 5,456  | 4,775                          | 1,945  | 4,394                          | 7,401                            | 9,169            |
| Allowance (reversal of allowance)<br>for inventories  | 117,319                                      | (13,324)                       | –  | 2,718                          | 117,319                          | (10,606)         |
| Rental income from investment<br>properties under operating leases,<br>less outgoings of HK\$251,000<br>(2007: HK\$124,000) | (1,161)                                      | (495)                          | –  | –                              | (1,161)                          | (495)            |
| (Reversal of) provision for impairment<br>of trade receivables, net (Note)  | (3,833)                                      | (16,264)                       | –  | 24                             | (3,833)                          | (16,240)         |
| Exchange loss (gain), net (Note)  | 37,695                                       | (18,005)                       | –  | 253                            | 37,695                           | (17,752)         |

During the year ended 31 December 2007, there was significant increase in net realisable value of finished goods because the market price of certain finished goods increased. As a result, a reversal of allowance for inventories of HK\$13,324,000 attributable to continuing operations had been recognised in cost of sales in that year.

Note: Amounts included in other gains and losses

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the ten (2007: ten) Directors were as follows:

|  | Wang<br>Qinghai<br>HK\$'000 | Cao<br>Zhong<br>HK\$'000 | Chen<br>Zhouping<br>HK\$'000 | Zhang<br>Wenhui<br>HK\$'000 | Luo<br>Zhenyu<br>HK\$'000 | Ip<br>Tak Chuen,<br>Edmond<br>HK\$'000 | Leung<br>Shun Sang,<br>Tony<br>HK\$'000 | Kan<br>Lai Kuen,<br>Alice<br>HK\$'000 | Wong<br>Kun Kim<br>HK\$'000 | Leung<br>Kai<br>Cheung<br>HK\$'000 | Total<br>2008<br>HK\$'000 |
|--|-----------------------------|--------------------------|------------------------------|-----------------------------|---------------------------|--|---|---------------------------------------|-----------------------------|------------------------------------|---------------------------|
| <b>2008</b>                                      |                             |                          |                              |                             |                           |  |   |                                       |                             |                                    |                           |
| Fees   | 150                         | -                        | -                            | -                           | -                         | 150                                    | 230                                     | 330                                   | 330                         | 330                                | 1,520                     |
| Other emoluments                                 |                             |                          |                              |                             |                           |  |   |                                       |                             |                                    |                           |
| Salaries and other benefits                      | -                           | 3,810                    | 2,794                        | 1,982                       | 1,708                     | -                                      | -                                       | -                                     | -                           | -                                  | 10,294                    |
| Contributions to retirement<br>benefits schemes  | -                           | 536                      | 272                          | 195                         | 155                       | -                                      | -                                       | -                                     | -                           | -                                  | 1,158                     |
| Performance related incentive<br>payments (Note) | -                           | 6,900                    | 2,640                        | 1,920                       | 1,400                     | -                                      | -                                       | -                                     | -                           | -                                  | 12,860                    |
| Share-based payments                             | -                           | 34,569                   | 23,932                       | 18,614                      | 13,296                    | -                                      | -                                       | -                                     | -                           | -                                  | 90,411                    |
| <b>Total emoluments</b>                          | <b>150</b>                  | <b>45,815</b>            | <b>29,638</b>                | <b>22,711</b>               | <b>16,559</b>             | <b>150</b>                             | <b>230</b>                              | <b>330</b>                            | <b>330</b>                  | <b>330</b>                         | <b>116,243</b>            |
|  | Wang<br>Qinghai<br>HK\$'000 | Cao<br>Zhong<br>HK\$'000 | Chen<br>Zhouping<br>HK\$'000 | Zhang<br>Wenhui<br>HK\$'000 | Luo<br>Zhenyu<br>HK\$'000 | Ip<br>Tak Chuen,<br>Edmond<br>HK\$'000 | Leung<br>Shun Sang,<br>Tony<br>HK\$'000 | Kan<br>Lai Kuen,<br>Alice<br>HK\$'000 | Wong<br>Kun Kim<br>HK\$'000 | Leung<br>Kai<br>Cheung<br>HK\$'000 | Total<br>2007<br>HK\$'000 |
| <b>2007</b>                                      |                             |                          |                              |                             |                           |  |   |                                       |                             |                                    |                           |
| Fees   | 120                         | -                        | -                            | -                           | -                         | 120                                    | 120                                     | 150                                   | 150                         | 150                                | 810                       |
| Other emoluments                                 |                             |                          |                              |                             |                           |  |   |                                       |                             |                                    |                           |
| Salaries and other benefits                      | 228                         | 2,876                    | 2,070                        | 2,053                       | 1,680                     | -                                      | -                                       | -                                     | -                           | -                                  | 8,907                     |
| Contributions to retirement<br>benefits schemes  | -                           | 430                      | 210                          | 188                         | 126                       | -                                      | -                                       | -                                     | -                           | -                                  | 954                       |
| Performance related incentive<br>payments (Note) | -                           | 6,000                    | 2,250                        | 1,800                       | 960                       | -                                      | -                                       | -                                     | -                           | -                                  | 11,010                    |
| Share-based payments                             | -                           | 16,872                   | 11,681                       | 9,085                       | 6,489                     | -                                      | -                                       | 1,825                                 | 1,825                       | 1,825                              | 49,602                    |
| <b>Total emoluments</b>                          | <b>348</b>                  | <b>26,178</b>            | <b>16,211</b>                | <b>13,126</b>               | <b>9,255</b>              | <b>120</b>                             | <b>120</b>                              | <b>1,975</b>                          | <b>1,975</b>                | <b>1,975</b>                       | <b>71,283</b>             |

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2007: four) were Directors of the Company whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining one (2007: one) individual are as follows:

|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits                   | 1,778            | 1,136            |
| Retirement benefits scheme contributions      | 159              | 100              |
| Performance related incentive payments (Note) | 1,400            | 960              |
| Share-based payment                           | 13,296           | 6,489            |
|   | <b>16,633</b>    | <b>8,685</b>     |

*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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 13. DIVIDENDS

|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|------------------|------------------|
| Dividends recognised as distribution during the year:       |                  |                  |
| Interim – HK2 cents (2007: nil) per ordinary share          | 144,350          | –                |
| Final – HK4 cents (2007: HK2.1 cents)<br>per ordinary share | 291,334          | 123,162          |
| Special – HK4 cents (2007: nil) per ordinary share          | 291,334          | –                |
|   | <b>727,018</b>   | <b>123,162</b>   |

The final dividend of HK3 cents per ordinary share for the year ended 31 December 2008 (2007: final dividend of HK4 cents and special dividend of HK4 cents per ordinary share) have been proposed by the Directors and are subject to approval by shareholders at the forthcoming annual general meeting of the Company.

The proposed dividends for 2008 are payable to all shareholders whose names appear on the register of members on 1 June 2009.

## 14. EARNINGS PER SHARE

### From continuing and discontinued operations

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

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|------------------|------------------|
| <b>Earnings</b>  |                  |                  |
| Earnings for the purpose of basic earnings per share<br>(Profit for the year attributable to equity holders of<br>the Company) | 1,419,463        | 1,404,196        |
| Effect of dilutive potential ordinary shares:  |                  |                  |
| Adjustment to the share of profit of an associate<br>based on dilution of its earnings per share                               | (343)            | (1,548)          |
| Earnings for the purpose of diluted earnings per share   | <b>1,419,120</b> | <b>1,402,648</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 14. EARNINGS PER SHARE (CONTINUED)

### From continuing and discontinued operations (continued)

|  | 2008                 | 2007          |
|--|----------------------|---------------|
| <b>Number of shares</b>  |                      |               |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | <b>7,214,737,209</b> | 6,349,475,407 |
| Effect of dilutive potential ordinary shares on share options                            | <b>42,404,625</b>    | 297,559,030   |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <b>7,257,141,834</b> | 6,647,034,437 |

### From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000<br>(restated) |
|--|------------------|--------------------------------|
| Earnings figures are calculated as follow:   |                  |                                |
| Profit for the year attributable to equity holders of the Company  | <b>1,419,463</b> | 1,404,196                      |
| Less: Profit from discontinued operations  | <b>(7,801)</b>   | (26,100)                       |
| Earnings for the purpose of basic earnings per share from continuing operations  | <b>1,411,662</b> | 1,378,096                      |
| Effect of dilutive potential ordinary shares:<br>Adjustment to the share of profit of an associate based on dilution of its earnings per share | <b>(343)</b>     | (1,548)                        |
| Earnings for the purpose of diluted earnings per share from continuing operations  | <b>1,411,319</b> | 1,376,548                      |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 14. EARNINGS PER SHARE (CONTINUED)

### From discontinued operations

Basic earnings per share from discontinued operations is HK0.10 cent per share (2007: HK0.42 cent per share) and diluted earnings per share from the discontinued operations is HK0.10 cent per share (2007: HK0.39 cent per share), based on the profit for the year from the discontinued operations of HK\$7,801,000 (2007: HK\$26,100,000) and the denominators detailed above for both basic and diluted earnings per share.

## 15. INVESTMENT PROPERTIES

|   | THE GROUP          |
|---|--------------------|
|   | HK\$'000           |
| FAIR VALUE  |                    |
| At 1 January 2007   | 35,660             |
| Addition  | 10,235             |
| Transfer from prepaid lease rentals                                   | 277                |
| Disposal  | (17,910)           |
| Exchange adjustments  | 922                |
| Changes in fair value recognised in the consolidated income statement | 3,033              |
|   | <hr/>              |
| At 31 December 2007   | 32,217             |
| Addition  | 2,480              |
| Transfer from prepaid lease rentals                                   | 2,489              |
| Exchange adjustments  | 1,558              |
| Changes in fair value recognised in the consolidated income statement | (1,642)            |
|   | <hr/>              |
| At 31 December 2008   | <hr/> <hr/> 37,102 |

The fair value of the Group's investment properties at 31 December 2008 and 2007 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, and has appropriate qualifications in the valuation of similar properties in the relevant locations. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 15. INVESTMENT PROPERTIES (CONTINUED)

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

The investment properties shown above are situated in:

|  | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|------------------|------------------|
| Hong Kong and held under long-term lease | 8,986            | 6,861            |
| The PRC and held under                   |                  |                  |
| – medium-term lease                      | 18,340           | 12,867           |
| – long-term lease                        | 9,776            | 12,489           |
|  | <b>37,102</b>    | 32,217           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 16. PROPERTY, PLANT AND EQUIPMENT

|  | Buildings<br>and<br>structure | Leasehold<br>improvements | Furniture,<br>fixtures and<br>equipment | Plant and<br>machinery | Motor<br>vehicles | Vessels | Construction<br>in progress | Total      |
|--|-------------------------------|---------------------------|---|------------------------|-------------------|---------|-----------------------------|------------|
|  | HK\$'000                      | HK\$'000                  | HK\$000                                 | HK\$'000               | HK\$'000          | HK\$000 | HK\$'000                    | HK\$'000   |
| <b>THE GROUP</b>   |                               |                           |   |                        |                   |         |                             |            |
| <b>COST</b>  |                               |                           |   |                        |                   |         |                             |            |
| At 1 January 2007  | 3,031,958                     | 52,578                    | 69,473                                  | 4,335,587              | 56,277            | 27,932  | 409,105                     | 7,982,910  |
| Exchange adjustments                                     | 230,493                       | 3,703                     | 4,776                                   | 329,070                | 3,835             | 1,553   | 31,370                      | 604,800    |
| Additions  | 1,346                         | –                         | 3,921                                   | 26,482                 | 17,768            | –       | 796,712                     | 846,229    |
| Transfer from construction<br>in progress                | 156,999                       | –                         | –                                       | 340,877                | 6,680             | –       | (504,556)                   | –          |
| Disposals  | (782)                         | –                         | (151)                                   | (8,844)                | (1,828)           | –       | –                           | (11,605)   |
| Disposals of subsidiaries                                | –                             | –                         | (767)                                   | (7,056)                | (665)             | –       | –                           | (8,488)    |
| At 31 December 2007                                      | 3,420,014                     | 56,281                    | 77,252                                  | 5,016,116              | 82,067            | 29,485  | 732,631                     | 9,413,846  |
| Exchange adjustments                                     | 129,478                       | 3,025                     | 8,018                                   | 277,815                | 4,500             | 1,408   | 42,502                      | 466,746    |
| Additions  | 217                           | 3,808                     | 10,789                                  | 22,141                 | 108,566           | –       | 1,572,454                   | 1,717,975  |
| Transfer from construction<br>in progress                | –                             | –                         | –                                       | 1,318,082              | –                 | –       | (1,318,082)                 | –          |
| Disposals  | –                             | (289)                     | (16,538)                                | (41,157)               | (2,647)           | –       | –                           | (60,631)   |
| Disposals of subsidiaries                                | (112,724)                     | –                         | (70)                                    | (255,616)              | (12)              | –       | –                           | (368,422)  |
| At 31 December 2008                                      | 3,436,985                     | 62,825                    | 79,451                                  | 6,337,381              | 192,474           | 30,893  | 1,029,505                   | 11,169,514 |
| <b>DEPRECIATION,<br/>AMORTISATION<br/>AND IMPAIRMENT</b> |                               |                           |   |                        |                   |         |                             |            |
| At 1 January 2007  | 152,823                       | 33,239                    | 29,024                                  | 823,948                | 12,887            | 19,742  | –                           | 1,071,663  |
| Exchange adjustments                                     | 16,319                        | 2,464                     | 2,329                                   | 75,157                 | 1,071             | 967     | –                           | 98,307     |
| Provided for the year                                    | 112,400                       | 288                       | 6,476                                   | 309,570                | 9,251             | 1,164   | –                           | 439,149    |
| Eliminated on disposals                                  | (231)                         | –                         | (102)                                   | (4,294)                | (1,791)           | –       | –                           | (6,418)    |
| Disposal of subsidiaries                                 | –                             | –                         | (730)                                   | (5,886)                | (379)             | –       | –                           | (6,995)    |
| At 31 December 2007                                      | 281,311                       | 35,991                    | 36,997                                  | 1,198,495              | 21,039            | 21,873  | –                           | 1,595,706  |
| Exchange adjustments                                     | 16,569                        | 2,016                     | 5,716                                   | 72,104                 | 1,461             | 948     | –                           | 98,814     |
| Provided for the year                                    | 56,518                        | 328                       | 7,641                                   | 434,593                | 47,405            | 1,234   | –                           | 547,719    |
| Eliminated on disposals                                  | –                             | (247)                     | (12,253)                                | (28,867)               | (1,928)           | –       | –                           | (43,295)   |
| Disposal of subsidiaries                                 | (21,783)                      | –                         | (70)                                    | (85,965)               | (12)              | –       | –                           | (107,830)  |
| At 31 December 2008                                      | 332,615                       | 38,088                    | 38,031                                  | 1,590,360              | 67,965            | 24,055  | –                           | 2,091,114  |
| <b>CARRYING VALUES</b>                                   |                               |                           |   |                        |                   |         |                             |            |
| At 31 December 2008                                      | 3,104,370                     | 24,737                    | 41,420                                  | 4,747,021              | 124,509           | 6,838   | 1,029,505                   | 9,078,400  |
| At 31 December 2007                                      | 3,138,703                     | 20,290                    | 40,255                                  | 3,817,621              | 61,028            | 7,612   | 732,631                     | 7,818,140  |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 17. PREPAID LEASE RENTALS

|  | THE GROUP      |          |
|--|----------------|----------|
|  | 2008           | 2007     |
|  | HK\$'000       | HK\$'000 |
| The Group's prepaid lease rentals comprise:  |                |          |
| Medium-term leasehold land outside Hong Kong | 336,869        | 360,592  |
| Medium-term leasehold land in Hong Kong      | 1,790          | 3,082    |
|  | <b>338,659</b> | 363,674  |
| Analysed for reporting purposes as:          |                |          |
| Current asset                                | 5,714          | 9,431    |
| Non-current asset                            | 332,945        | 354,243  |
|  | <b>338,659</b> | 363,674  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 18. INTANGIBLE ASSETS

|                        | THE GROUP                 |  |                   |
|------------------------|---------------------------|--|-------------------|
|                        | Mining rights<br>HK\$'000 | Deferred product design fees<br>HK\$'000 | Total<br>HK\$'000 |
| <b>COST</b>            |                           |  |                   |
| At 1 January 2007      | –                         | 8,448                                    | 8,448             |
| Exchange adjustments   | –                         | 642                                      | 642               |
| At 31 December 2007    | –                         | 9,090                                    | 9,090             |
| Additions              | 176,897                   | –  | 176,897           |
| Exchange adjustments   | –                         | 525                                      | 525               |
| At 31 December 2008    | 176,897                   | 9,615                                    | 186,512           |
| <b>AMORTISATION</b>    |                           |  |                   |
| At 1 January 2007      | –                         | 7,976                                    | 7,976             |
| Exchange adjustments   | –                         | 623                                      | 623               |
| Charge for the year    | –                         | 414                                      | 414               |
| At 31 December 2007    | –                         | 9,013                                    | 9,013             |
| Exchange adjustments   | –                         | 522                                      | 522               |
| Charge for the year    | –                         | 80                                       | 80                |
| At 31 December 2008    | –                         | 9,615                                    | 9,615             |
| <b>CARRYING VALUES</b> |                           |  |                   |
| At 31 December 2008    | 176,897                   | –  | 176,897           |
| At 31 December 2007    | –                         | 77                                       | 77                |

During the year ended 31 December 2008, the Group acquired Chagou Iron Ore Mine from the minority shareholder of Qinhuangdao Shouqin Longhui Mining Co., Ltd. ("Shouqin Longhui"), amounting to approximately HK\$51 million (equivalent to RMB45 million).

Details of the Group's mining rights 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     |

No amortisation was made during the year as the mines are in development stage and no mining activity is conducted in these mines. The Directors are of opinion that the expiry date of the mining rights can be extended with minimal cost.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 19. GOODWILL

|   | <b>THE GROUP</b> |
|---|------------------|
|   | HK\$'000         |
| COST  |                  |
| At 1 January 2007   | 292,170          |
| Release on disposal of a partial interest in a subsidiary | (9,048)          |
| At 31 December 2007                                       | 283,122          |
| Release on disposal of a subsidiary                       | (65,107)         |
| At 31 December 2008                                       | 218,015          |

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 segment, which includes the Group's subsidiaries – Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill") and Shouqin after the disposal of the electricity generation business segment during the year. The carrying amounts of goodwill as at 31 December 2008 allocated to these units are as follows:

|   | <b>Goodwill</b> |          |
|---|-----------------|----------|
|   | <b>2008</b>     | 2007     |
|   | <b>HK\$'000</b> | HK\$'000 |
| Steel manufacturing – Qinhuangdao Plate Mill (Unit A)                         | <b>194,489</b>  | 194,489  |
| Steel manufacturing – Shouqin (Unit B)  | <b>23,526</b>   | 23,526   |
| Electricity generation – Beijing Shougang Firstlevel Power Co., Ltd. (Unit C) | –               | 65,107   |
|   | <b>218,015</b>  | 283,122  |

During the year ended 31 December 2008, management of the Group determine that there were no impairments of any of its CGUs containing goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 20. IMPAIRMENT TESTING ON GOODWILL (CONTINUED)

The recoverable amounts of the Units A and B have been determined on the basis of 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 15.02% (2007: 9.71%) for Unit A and B and 13.07% for Unit C in 2007. 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 SUBSIDIARIES

|                                    | THE COMPANY      |           |
|------------------------------------|------------------|-----------|
|                                    | 2008             | 2007      |
|                                    | HK\$'000         | HK\$'000  |
| Unlisted shares, at cost           | 527,477          | 527,477   |
| Deemed capital contribution (Note) | 686,015          | 548,799   |
| Less: Impairment loss recognised   | (535,324)        | (541,479) |
|                                    | <b>678,168</b>   | 534,797   |
| Amounts due from subsidiaries      | 3,708,652        | 2,804,771 |
| Less: Impairment losses recognised | (337,889)        | (337,889) |
|                                    | <b>3,370,763</b> | 2,466,882 |

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 but will be repayable within 3 years from 31 December 2008.

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 49.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 22. INTERESTS IN ASSOCIATES

|  | THE GROUP      |          |
|--|----------------|----------|
|  | 2008           | 2007     |
|  | HK\$'000       | HK\$'000 |
| Cost of investment in associates   |                |          |
| Listed in Hong Kong  | 683,111        | 254,656  |
| Unlisted   | 3,062          | –        |
| Share of post-acquisition profits and reserves,<br>net of dividends received | (18,268)       | 55,712   |
|  | <b>667,905</b> | 310,368  |
| Fair value of listed investment  | <b>236,896</b> | 309,588  |

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

|  | 2008             | 2007      |
|--|------------------|-----------|
|  | HK\$'000         | HK\$'000  |
| Total assets                                       | 2,117,908        | 1,879,938 |
| Total liabilities                                  | (259,021)        | (380,009) |
| Net assets   | <b>1,858,887</b> | 1,499,929 |
| Group's share of net assets of associates          | <b>667,905</b>   | 310,368   |
| Revenue  | <b>831,640</b>   | 704,716   |
| Profit for the year                                | <b>34,762</b>    | 105,762   |
| Group's share of result of associates for the year | <b>(22,417)</b>  | 23,282    |

Details of the associates are set out in note 49.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 23. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|------------------|------------------|
| Equity securities listed in Australia, at fair value (Note a) | 315,659          | 442,267          |
| Unlisted equity securities, at cost (Note b)                  | 26,767           | 25,306           |
| Total   | 342,426          | 467,573          |

Notes:

- a. The above equity investments represent investments in listed securities issued by companies listed on Australian Securities Exchange, including ARH of HK\$55,654,000 and Mount Gibson Iron Limited ("MGI") of HK\$260,005,000.

On 20 March 2007, Timefull Investments Limited ("Timefull"), a subsidiary of the Company entered into a share and option subscription agreement with ARH, whereby Timefull subscribed 28,000,000 newly-issued shares of ARH ("ARH Shares") at one Australian Dollar ("AUD") 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 disclosed in note 29.

In November 2008, the Company entered into a subscription agreement, commodity forward contracts and an underwriting agreement (the "Underwriting Agreement") with MGI, whereby the Company subscribed for 110 million shares of MGI at AUD0.6 per share (the "Subscription"), agreed to purchase certain production of MGI's iron ore mines at Talling Peak, Koolan Island and Extension Hill ("the Mines") and underwrite a maximum of 50 million shares of MGI under the One for Five Renounceable Rights Issue ("Rights Issue") at AUD0.6 per share. The Group has assigned Sky Choice International Limited, a wholly owned subsidiary of the Company, to subscribe for the shares under the Subscription and the Underwriting Agreement. During the year ended 31 December 2008, the Company has paid approximately AUD66 million (equivalent to approximately HK\$353 million) to MGI for the Subscription.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 23. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Notes: (continued)

a. (Continued)

The shares subscribed represent approximately 12% of the enlarged issued share capital of MGI, and was recognised as available-for-sale investments. The Directors consider that the market value of MGI shares as at 22 November 2008 amounting to AUD22 million (equivalent to approximately HK\$118 million) was the fair value of such available-for-sale investments at initial recognition, while the remaining of AUD44 million (equivalent to approximately HK\$235 million) have been allocated to the commodity forward contracts and the Underwriting Agreement upon initial recognition as other financial assets and other financial liabilities of approximately HK\$329 million and HK\$94 million respectively, details of which are 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 each balance sheet date 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\$86,712,000 (2007: HK\$195,855,000) was paid to the Shougang Group.

## 25. INVENTORIES

|                  | THE GROUP        |                  |
|------------------|------------------|------------------|
|                  | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Raw materials    | 972,114          | 733,645          |
| Work in progress | 555,035          | 366,841          |
| Finished goods   | 359,102          | 198,643          |
|                  | <b>1,886,251</b> | <b>1,299,129</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

|   | <b>THE GROUP</b> |                 |
|---|------------------|-----------------|
|   | <b>2008</b>      | <b>2007</b>     |
|   | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Trade and bill receivables                    | <b>1,112,130</b> | 1,042,484       |
| Less: Provision for impairment of receivables | <b>(191,999)</b> | (197,441)       |
|   | <b>920,131</b>   | 845,043         |
| Prepayments and deposits                      | <b>316,326</b>   | 352,663         |
| Other receivables                             | <b>15,315</b>    | 7,046           |
|   | <b>331,641</b>   | 359,709         |
|   | <b>1,251,772</b> | 1,204,752       |

For most customers, in particular in steel manufacturing segment, 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 of receivables at the balance sheet date:

|                | <b>THE GROUP</b> |                 |
|----------------|------------------|-----------------|
|                | <b>2008</b>      | <b>2007</b>     |
|                | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Within 60 days | <b>920,111</b>   | 720,504         |
| 61 – 90 days   | <b>20</b>        | 3,336           |
| 91 – 180 days  | –                | 121,160         |
| 181 – 365 days | –                | 43              |
|                | <b>920,131</b>   | 845,043         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

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

Included in the Group's trade and bill receivable balance are debtors with an aggregate carrying amount of HK\$856,000 (2007: HK\$127,157,000) which are past due at the reporting date for which the Group has not provided for impairment loss as continuous repayment was noted subsequent to the balance sheet date. The Group does not hold any collateral over these balances. The average age of these receivables is 46 days (2007: 132 days).

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

|                | THE GROUP |          |
|----------------|-----------|----------|
|                | 2008      | 2007     |
|                | HK\$'000  | HK\$'000 |
| Within 60 days | 836       | 2,620    |
| 61 – 90 days   | 20        | 3,334    |
| 91 – 120 days  | –         | 121,160  |
| 181 – 365 days | –         | 43       |
| Total          | 856       | 127,157  |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

### Movement in the provision for impairment of receivables

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Balance at beginning of the year            | 197,441          | 221,054          |
| Impairment losses recognised on receivables | 162              | 434              |
| Amounts written off as uncollectible        | (3,357)          | (4,998)          |
| Impairment losses reversed                  | (3,612)          | (15,285)         |
| Disposal of subsidiaries                    | –                | (8,279)          |
| Exchange adjustments                        | 1,365            | 4,515            |
| Balance at end of the year                  | 191,999          | 197,441          |

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 each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. Accordingly, the Directors believe that no further provision is required in excess of the provision for impairment of receivables.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 27. AMOUNTS DUE FROM (TO) RELATED COMPANIES AND AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

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

|                | THE GROUP        |                  |
|----------------|------------------|------------------|
|                | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Within 60 days | 1,486,237        | 513,274          |
| 61 – 90 days   | –                | 38,219           |
| 91 – 180 days  | 18,316           | 91,777           |
| 181 – 365 days | 217,682          | 18,858           |
| 1 – 2 years    | –                | 166              |
|                | <b>1,722,235</b> | <b>662,294</b>   |

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 balance sheet date.

Included in these trade receivables from related companies are receivables with an aggregate carrying amount of HK\$235,998,000 (2007: HK\$149,020,000) which are past due at the reporting date but not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 262 days (2007: 154 days).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 27. AMOUNTS DUE FROM (TO) RELATED COMPANIES AND AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY (CONTINUED)

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

|                | <b>THE GROUP</b> |                 |
|----------------|------------------|-----------------|
|                | <b>2008</b>      | <b>2007</b>     |
|                | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| 61 – 90 days   | –                | 38,219          |
| 91 – 180 days  | <b>18,316</b>    | 91,777          |
| 181 – 365 days | <b>217,682</b>   | 18,858          |
| 1 – 2 years    | –                | 166             |
| Total          | <b>235,998</b>   | 149,020         |

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

### Movement in the provision for impairment of trade receivables from related companies

|   | <b>THE GROUP</b> |                 |
|---|------------------|-----------------|
|   | <b>2008</b>      | <b>2007</b>     |
|   | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Balance at beginning of the year            | <b>25,229</b>    | 24,314          |
| Impairment losses recognised on receivables | <b>281</b>       | 107             |
| Impairment losses reversed                  | <b>(731)</b>     | (993)           |
| Exchange adjustments                        | <b>1,192</b>     | 1,801           |
| Balance at end of the year                  | <b>25,971</b>    | 25,229          |

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 respective balance sheet dates. Accordingly, the Directors believe that no further provision is required in excess of the provision for impairment of trade receivables from related companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 27. AMOUNTS DUE FROM (TO) RELATED COMPANIES AND AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY (CONTINUED)

The trade payables to related companies and an aged analysis of such balances are as follows:

|                | THE GROUP      |                |
|----------------|----------------|----------------|
|                | 2008           | 2007           |
|                | HK\$'000       | HK\$'000       |
| Within 90 days | 412,911        | 346,330        |
| 91 – 180 days  | 15,005         | 3,945          |
| 181 – 365 days | 2,634          | 418            |
| 1 – 2 years    | 7,387          | 6,568          |
| Over 2 years   | 5,156          | 5,985          |
|                | <b>443,093</b> | <b>363,246</b> |

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

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

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

The trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) ultimate holding company of controlling shareholder are unsecured, interest-free and are repayable on demand.

Trade receivables from the ultimate holding company of the controlling shareholder as at 31 December, 2007 is approximately HK\$268,534,000 (2008: Nil) and aged within 60 days.

The Group allows a range of a credit periods normally not more than 60 days for sales to the ultimate holding company of its controlling shareholder.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 28. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER (CONTINUED)

In determining the recoverability of trade and non-trade receivables from ultimate holding company of controlling shareholder, 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 respective balance sheet dates. No impairment is considered necessary as the counterparty has good credit rating and majority of the balance has been repaid subsequent to the balance sheet date.

The trade payables to the ultimate holding company of the controlling shareholder and an aged analysis of such balance are as follows:

|                | THE GROUP        |                  |
|----------------|------------------|------------------|
|                | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Within 90 days | 78,142           | 51,952           |
| 91 – 180 days  | –                | 23,454           |
| 181 – 365 days | –                | 25,417           |
| 1 – 2 years    | –                | 121              |
| Over 2 years   | 26               | –                |
|                | <b>78,168</b>    | <b>100,944</b>   |

## 29. OTHER FINANCIAL ASSETS/LIABILITIES

### Other financial assets

|   | THE GROUP        |                  | THE COMPANY      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Foreign currency forward contracts<br>(Note a)                              | 44,718           | 27,245           | 44,718           | –                |
| Option to subscribe for shares of<br>a listed company in Australia (Note b) | 3,300            | 150,409          | –                | –                |
| Commodity forward contracts<br>(Note c)                                     | 354,200          | –                | 354,200          | –                |
| Underwriting Agreement (Note d)   | 47,453           | –                | –                | –                |
|   | <b>449,671</b>   | <b>177,654</b>   | <b>398,918</b>   | <b>–</b>         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 29. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Notes:

- a. At 31 December 2008, the Group and the Company entered into forward foreign currency contracts with banks, the major terms of the outstanding contracts are as follows:

| Notional amount   | Maturity                      | Forward exchange rates                         |
|---|-------------------------------|--|
| Sell United States Dollar ("USD") 7.5 million for each maturity date and total notional amount is USD30 million | From 14.04.2009 to 13.07.2009 | Ranged from RMB7.02 to USD1 to RMB7.09 to USD1 |
| Buy USD5 million to USD15 million for each maturity date and total notional amount is USD114 million            | From 08.01.2009 to 29.07.2009 | Ranged from RMB6.45 to USD1 to RMB6.67 to USD1 |

At 31 December 2007, the Group entered into forward foreign currency contracts with banks, the major terms of the outstanding contracts are as follows:

| Notional amount  | Maturity                      | Forward exchange rates                             |
|--|-------------------------------|--|
| Sell USD3 million to USD5 million for each maturity date and total notional amount is USD125 million | From 29.01.2008 to 03.11.2008 | Ranged from RMB7.0844 to USD1 to RMB7.3975 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.

- b. 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 2008, the fair value of the ARH Option was 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 of each ARH Option is AUD0.0441. For the year ended 31 December 2008, a loss of HK\$147,109,000 (2007: gain of HK\$150,409,000) has been recognised in the consolidated income statement.

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

|                | 31 December<br>2008 | 31 December<br>2007 |
|----------------|---------------------|---------------------|
| Stock price    | AUD0.37             | AUD2.30             |
| Exercise price | AUD1.50             | AUD1.50             |
| Volatility     | 96.46%              | 97.87%              |
| Dividend yield | 0%                  | 0%                  |
| Option life    | 1.43 years          | 2.44 years          |
| Risk free rate | 2.743%              | 6.85%               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 29. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Notes: (continued)

- c. At 31 December 2008, the major terms of the outstanding commodity forward contracts entered separately by the Company with MGI together with the Underwriting Agreement and subscription agreement in November 2008 are as follows:

| Notional amount   | Period                                 | Forward price   |
|---|--|---|
| Purchase approximately<br>50% of total production<br>of the Mines | 01.01.2009 to<br>30.06.2009            | USD56 per wet metric tonne  |
| Purchase approximately<br>50% of total production<br>of the Mines | 01.07.2009 to the<br>life of the Mines | 10% discount on Hamersley<br>Benchmark Iron Ore Prices<br>for lump and fines ore products<br>per dead weight metric tonne |

The total value of the commodity forward contracts on initial recognition was approximately HK\$329,161,000. As at 31 December 2008, 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\$354,200,000. For the year ended 31 December 2008, a gain of HK\$25,039,000 has been recognised in the consolidated income statement.

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 4.03%, the life of the Mines of 9 years and a range of iron ore market prices throughout the contracts period based on management's best estimate.

- d. The Underwriting Agreement with MGI was considered as a put option written by the Group on the shares of MGI upon initial recognition measured at fair value through profit and loss. In December 2008, the Group has paid approximately HK\$141 million with respect to the Underwriting Agreement. The Company assigned Sky Choice International Limited, a wholly owned subsidiary of the Company, to subscribe for the shares under the Underwriting Agreement.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 29. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

### Other financial liabilities

|  | THE GROUP        |                  | THE COMPANY      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Foreign currency forward contracts,<br>current liability | 56,666           | 13,949           | 20,782           | 13,949           |
| Financial guarantee contracts                            | —                | —                | 2,071            | 6,217            |
|  | <b>56,666</b>    | <b>13,949</b>    | <b>22,853</b>    | <b>20,166</b>    |

At 31 December 2008, the Group and the Company entered into forward foreign currency contracts, the major terms of the outstanding contracts are as follows:

| Notional amount   | Maturity                      | Forward exchange rates                           |
|---|-------------------------------|--|
| <b>THE GROUP</b>  |                               |  |
| Buy USD2 million for each maturity date and total notional amount is USD10 million                    | From 16.01.2009 to 18.05.2009 | HKD7.746 to USD1                                 |
| Buy USD2 million for each maturity date and total notional amount is USD4 million                     | From 22.01.2009 to 24.02.2009 | HKD7.725 to USD1                                 |
| Sell USD5 million to USD15 million for each maturity date and total notional amount is USD174 million | From 08.01.2009 to 27.07.2009 | Ranged from RMB6.523 to USD1 to RMB6.981 to USD1 |
| <b>THE COMPANY</b>  |                               |  |
| Buy USD2 million for each maturity date and total notional amount is USD10 million                    | From 16.01.2009 to 18.05.2009 | HKD7.746 to USD1                                 |
| Buy USD2 million for each maturity date and total notional amount is USD4 million                     | From 22.01.2009 to 24.02.2009 | HKD7.725 to USD1                                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 29. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

### Other financial liabilities (continued)

At 31 December 2007, the Group and the Company entered into forward foreign currency contracts, the major terms of the outstanding contracts are as follows:

| Notional amount   | Maturity                         | Forward exchange rates                              |
|---|----------------------------------|---|
| Buy USD34 million   | 18.05.2009                       | HKD7.746 to USD1                                    |
| Buy AUD11,250,000 (Note)  | 07.11.2008                       | Ranged from USD0.824 to AUD1 to<br>USD0.860 to AUD1 |
| Buy USD3.9 million to USD8 million<br>for each maturity date and total<br>notional amount is USD125 million | From 29.01.2008<br>to 03.11.2008 | Ranged from RMB6.953 to USD1<br>to RMB7.335 to USD1 |

The fair values 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.

Note: This forward contract was early terminated on 23 January 2008.

## 30. RESTRICTED BANK DEPOSITS

The amounts represent the bank deposits pledged to certain banks to secure the issuance of letters of credit. The deposits carry interest ranged from 0.72% to 1.15% (2007: 0.72% to 0.81%) 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 0.01% to 4.25% (2007: 0.65% to 6.95%) per annum.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

The following is an aged analysis of trade and bill payables at the balance sheet date:

|                | THE GROUP        |                  |
|----------------|------------------|------------------|
|                | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Within 90 days | 1,151,219        | 806,873          |
| 91 – 180 days  | 202,006          | 136,819          |
| 181 – 365 days | 13,977           | 6,652            |
| 1 – 2 years    | 5,015            | 2,236            |
| Over 2 years   | 1,394            | 2,249            |
|                | <b>1,373,611</b> | <b>954,829</b>   |

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 repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 33. BANK BORROWINGS

Bank borrowings are repayable as follows:

|   | THE GROUP          |             | THE COMPANY      |          |
|---|--------------------|-------------|------------------|----------|
|   | 2008               | 2007        | 2008             | 2007     |
|   | HK\$'000           | HK\$'000    | HK\$'000         | HK\$'000 |
| Within one year   | <b>3,141,658</b>   | 3,194,900   | –                | –        |
| In the second year  | <b>2,831,530</b>   | 536,136     | <b>381,717</b>   | –        |
| In the third to fifth years inclusive                               | <b>1,306,689</b>   | 428,908     | <b>1,159,247</b> | –        |
|   | <b>7,279,877</b>   | 4,159,944   | <b>1,540,964</b> | –        |
| Less: Amount due within one year<br>shown under current liabilities | <b>(3,141,658)</b> | (3,194,900) | –                | –        |
| Amount due after one year   | <b>4,138,219</b>   | 965,044     | <b>1,540,964</b> | –        |
| Secured   | <b>1,540,964</b>   | 132,307     | <b>1,540,964</b> | –        |
| Unsecured   | <b>5,738,913</b>   | 4,027,637   | –                | –        |
|   | <b>7,279,877</b>   | 4,159,944   | <b>1,540,964</b> | –        |

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

|  | THE GROUP      |           | THE COMPANY |          |
|--|----------------|-----------|-------------|----------|
|  | 2008           | 2007      | 2008        | 2007     |
|  | HK\$'000       | HK\$'000  | HK\$'000    | HK\$'000 |
| Fixed-rate borrowings                                |                |           |             |          |
| Within one year                                      | <b>646,478</b> | 2,535,921 | –           | –        |
| In more than one year but not<br>more than two years | <b>124,759</b> | 536,136   | –           | –        |
|  | <b>771,237</b> | 3,072,057 | –           | –        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 33. BANK BORROWINGS (CONTINUED)

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

|   | THE GROUP        |                  | THE COMPANY      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Variable-rate borrowings                            |                  |                  |                  |                  |
| Within one year                                     | <b>2,495,180</b> | 658,979          | –                | –                |
| In more than one year but not more than two years   | <b>2,706,771</b> | –                | <b>381,717</b>   | –                |
| In more than two years but not more than five years | <b>1,306,689</b> | 428,908          | <b>1,159,247</b> | –                |
|   | <b>6,508,640</b> | 1,087,887        | <b>1,540,964</b> | –                |

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 4.54% to 7.10% (2007: from 5.08% to 7.29%) per annum.

The variable-rate bank borrowings of approximately HK\$1,541 million (2007: HK\$68 million and HK\$66 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.52% (2007: LIBOR plus 0.5% and LIBOR plus 0.4%, respectively) per annum, which are ranged from 2.02% to 4.40% (2007: from 4.73% to 5.46%) per annum. The remaining variable-rate borrowings carry interest at the People's Bank of China's lending rate ("lending rate"), or with a 5% to 10% reduction on the lending rate, which are ranged from 5.04% to 7.47% (2007: from 6.16% to 7.10%) per annum.

In 2008 and 2007, the Group's borrowings were secured by certain assets and are guaranteed by the ultimate holding company of the controlling shareholder. Details are set out in notes 46 and 48 respectively.

In 2008, the Company's borrowings were secured by certain assets of subsidiaries (details are set out in note 46), and are guaranteed by a wholly-owned subsidiary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 33. BANK BORROWINGS (CONTINUED)

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

|                        | THE GROUP<br>US\$'000 | THE COMPANY<br>US\$'000 |
|------------------------|-----------------------|-------------------------|
| As at 31 December 2008 | 200,000               | 200,000                 |
| As at 31 December 2007 | 17,122                | –                       |

## 34. LOANS FROM ULTIMATE HOLDING COMPANY OF CONTROLLING SHAREHOLDER

The amounts are unsecured, interest bearing at fixed-rates ranged from 5.76% to 7.47% (2007: 5.76% to 6.84%) per annum, except for HK\$136,100,000 which are non-interest bearing. The amounts are repayable within twelve months from the balance sheet date.

## 35. DEFERRED TAX

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

|                                     | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Fair value<br>adjustment and<br>revaluation of<br>properties<br>HK\$'000 | Tax<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------|--|--|---------------------------|-------------------|
| <b>THE GROUP</b>                    |  |  |                           |                   |
| At 1 January 2007                   | 30,619   | 16,382   | (2,848)                   | 44,153            |
| Exchange differences                | 2,095  | –  | (73)                      | 2,022             |
| (Credit) charge to income statement |  |  |                           |                   |
| for the year (note 9)               | (1,861)  | (1,592)  | 1,339                     | (2,114)           |
| Disposal of subsidiaries            | (15)   | –  | 15                        | –                 |
| Effect of change in tax rate        | (2,968)  | 9,281  | –                         | 6,313             |
| At 31 December 2007                 | 27,870   | 24,071   | (1,567)                   | 50,374            |
| Exchange differences                | 1,570  | –  | (42)                      | 1,528             |
| Charge (credit) to income statement |  |  |                           |                   |
| for the year (note 9)               | (2,080)  | (584)  | 904                       | (1,760)           |
| Effect of change in tax rate        | (19)   | (9)  | –                         | (28)              |
| At 31 December 2008                 | 27,341   | 23,478   | (705)                     | 50,114            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 35. DEFERRED TAX (CONTINUED)

At 31 December 2008, the Group has unused tax losses of approximately HK\$456 million, of which HK\$324 million is subject to IRD's confirmation (2007: HK\$451 million of which HK\$293 million was subject to Inland Revenue Department's confirmation) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$3 million (2007: HK\$5 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$453 million (2007: HK\$446 million) due to the unpredictability of future profit streams. During the year, a subsidiary with unused tax losses of HK\$66 million was deregistered. The tax losses may be carried forward indefinitely. These deferred tax assets have not been recognised due to the unpredictability of future profit streams.

At 31 December 2008, the Group has deductible temporary differences, which mainly represents allowance for inventories, of approximately HK\$254 million (2007: HK\$126 million) and tax credit of approximately HK\$318 million (2007: HK\$414 million). 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 New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. 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\$1,054,273,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### THE COMPANY

At the balance sheet date, the Company has unused tax losses of approximately HK\$26 million of which HK\$26 million was subject to IRD's confirmation (2007: HK\$65 million of which HK\$65 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 36. SHARE CAPITAL

|   | Number<br>of shares | Amount<br>HK\$'000 |
|---|---------------------|--------------------|
| Ordinary shares of HK\$0.20 each                            |                     |                    |
| Authorised:   |                     |                    |
| At 1 January 2007, 31 December 2007<br>and 31 December 2008 | 10,000,000,000      | 2,000,000          |
| Issued and fully paid:                                      |                     |                    |
| At 1 January 2007   | 5,864,057,214       | 1,172,811          |
| Issue of shares upon exercise of share options (Note a)     | 139,140,000         | 27,828             |
| Issue of shares on subscription (Note b)                    | 1,000,000,000       | 200,000            |
| At 31 December 2007   | 7,003,197,214       | 1,400,639          |
| Issue of shares upon exercise of share options (Note c)     | 280,144,000         | 56,029             |
| Shares repurchased and cancelled (Note d)                   | (107,960,000)       | (21,592)           |
| At 31 December 2008   | 7,175,381,214       | 1,435,076          |

### Notes:

- (a) During the year ended 31 December 2007, 139,140,000 share options were exercised at the prices ranging from HK\$0.28 to HK\$0.66 per share, resulting in the issuance of 139,140,000 ordinary shares of HK\$0.2 each in the Company.
- (b) On 29 May 2007, the Company, China Gate Investments Limited ("China Gate"), a subsidiary of Shougang HK, Shougang HK and a placing agent entered into a placing and subscription agreement. Pursuant to the placing and subscription agreement, the placing agent agreed to, on a fully underwritten basis, procure purchasers to acquire, and China Gate agreed to sell 200,000,000 shares of HK\$0.2 each of the Company at the placing price of HK\$1.00 per share. China Gate also conditionally agreed to subscribe for 200,000,000 shares of HK\$0.2 each of the Company at the subscription price of HK\$1.00 per share, raising net proceeds of HK\$197,348,000. Such proceeds would be used as general working capital of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 36. SHARE CAPITAL (CONTINUED)

*Notes: (continued)*

On 25 July 2007, the Company, Shougang HK and two of its subsidiaries, China Gate and Grand Invest International Limited ("Grand Invest"), (Shougang HK, China Gate and Grand Invest collectively known as the "Vendors"), and two independent placing agents entered into a placing, underwriting and subscription agreement (the "Placing and Subscription Agreement"). Pursuant to the Placing and Subscription Agreement, the placing agents agreed, on a fully underwritten basis, to procure purchasers to acquire, and the Vendors agreed to sell 800,000,000 shares of HK\$0.2 each of the Company at the placing price of HK\$2.26 per share. The Vendors also conditionally agreed to subscribe for 800,000,000 ordinary shares of HK\$0.2 each of the Company at the subscription price of HK\$2.26 per share, raising net proceeds of HK\$1,760,524,000. The Company intends to apply approximately HK\$600,000,000 as additional capital for Shouqin for product quality improvement facilities and approximately HK\$150,000,000 as additional capital for Shouqin for deep processing facilities for plates and the balance as general working capital of the Group or other projects as may be identified by the Company.

- (c) During the year ended 31 December 2008, 280,144,000 share options were exercised at the prices ranging from HK\$0.28 to HK\$0.41 per share, resulting in the issuance of 280,144,000 ordinary shares of HK\$0.2 each in the Company.
- (d) During the year ended 31 December 2008, 107,960,000 shares were repurchased at the prices ranging from HK\$0.95 to HK\$1.48 per share, resulting in the cancellation of 107,960,000 ordinary shares of HK\$0.2 each in the Company.

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.



## 37. SHARE OPTION SCHEME (CONTINUED)

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 125,100,000 share options granted during the year ended 31 December 2007 are vested as at 31 December 2008.

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.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2008:

| Grantees                 | Number of share options |                        |                           |               | Date of grant | Exercise period          | Exercise price per share HK\$ |
|--------------------------|-------------------------|------------------------|---------------------------|---------------|---------------|--------------------------|-------------------------------|
|                          | At 1.1.2008             | Lapsed during the year | Exercised during the year | At 31.12.2008 |               |                          |                               |
| Directors of the Company | 53,900,000              | –                      | (45,900,000)              | 8,000,000     | 23.8.2002     | 23.8.2002 to 22.8.2012   | 0.295                         |
|                          | 13,770,000              | –                      | (9,180,000)               | 4,590,000     | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                          | 202,004,000             | –                      | (202,004,000)             | –             | 18.11.2003    | 18.11.2003 to 17.11.2013 | 0.410                         |
|                          | 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                         |
|                          | 444,174,000             | –                      | (257,084,000)             | 187,090,000   |               |                          |                               |
|                          |                         |                        |                           |               |               |                          |                               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

| Grantees                           | Number of share options |                        |                           |               | Date of grant | Exercise period          | Exercise price per share HK\$ |
|------------------------------------|-------------------------|------------------------|---------------------------|---------------|---------------|--------------------------|-------------------------------|
|                                    | At 1.1.2008             | Lapsed during the year | Exercised during the year | At 31.12.2008 |               |                          |                               |
| Other employees of the Group       | 110,000                 | –                      | (110,000)                 | –             | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                                    | 7,600,000               | (100,000)              | –                         | 7,500,000     | 20.12.2007    | 20.12.2007 to 19.12.2014 | 2.944                         |
|                                    | 7,600,000               | (100,000)              | –                         | 7,500,000     | 20.12.2007    | 20.12.2008 to 19.12.2014 | 2.944                         |
|                                    | 7,600,000               | (100,000)              | –                         | 7,500,000     | 20.12.2007    | 20.12.2009 to 19.12.2014 | 2.944                         |
|                                    | 7,600,000               | (100,000)              | –                         | 7,500,000     | 20.12.2007    | 20.12.2010 to 19.12.2014 | 2.944                         |
|                                    | 7,600,000               | (100,000)              | –                         | 7,500,000     | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                                    | 38,110,000              | (500,000)              | (110,000)                 | 37,500,000    |               |                          |                               |
| Other eligible participants (Note) | 50,000                  | –                      | –                         | 50,000        | 23.8.2002     | 23.8.2002 to 22.8.2012   | 0.295                         |
|                                    | 22,950,000              | –                      | (22,950,000)              | –             | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                                    | 200,000                 | –                      | –                         | 200,000       | 20.12.2007    | 20.12.2007 to 19.12.2014 | 2.944                         |
|                                    | 200,000                 | –                      | –                         | 200,000       | 20.12.2007    | 20.12.2008 to 19.12.2014 | 2.944                         |
|                                    | 200,000                 | –                      | –                         | 200,000       | 20.12.2007    | 20.12.2009 to 19.12.2014 | 2.944                         |
|                                    | 200,000                 | –                      | –                         | 200,000       | 20.12.2007    | 20.12.2010 to 19.12.2014 | 2.944                         |
|                                    | 200,000                 | –                      | –                         | 200,000       | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                                    | 24,000,000              | –                      | (22,950,000)              | 1,050,000     |               |                          |                               |
|                                    | 506,284,000             | (500,000)              | (280,144,000)             | 225,640,000   |               |                          |                               |
| Exercisable at the end of the year |                         |                        |                           | 100,540,000   |               |                          |                               |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

The following tables disclose details of the share options held by Directors, employees and other eligible participants and movements in such holdings during the year ended 31 December 2007:

| Grantees                 | Number of share options |                         |                           |               | Date of grant | Exercise period          | Exercise price per share HK\$ |
|--------------------------|-------------------------|-------------------------|---------------------------|---------------|---------------|--------------------------|-------------------------------|
|                          | At 1.1.2007             | Granted during the year | Exercised during the year | At 31.12.2007 |               |                          |                               |
| Directors of the Company | 84,850,000              | –                       | (30,950,000)              | 53,900,000    | 23.8.2002     | 23.8.2002 to 22.8.2012   | 0.295                         |
|                          | 18,360,000              | –                       | (4,590,000)               | 13,770,000    | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                          | 202,004,000             | –                       | –                         | 202,004,000   | 18.11.2003    | 18.11.2003 to 17.11.2013 | 0.410                         |
|                          | –                       | 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                         |
|                          | –                       | –                       | –                         | –             | –             | –                        | –                             |
|                          | –                       | –                       | –                         | –             | –             | –                        | –                             |
|                          | 305,214,000             | 174,500,000             | (35,540,000)              | 444,174,000   |               |                          |                               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

| Grantees                     | Number of share options |                         |                           |               | Date of grant | Exercise period          | Exercise price per share HK\$ |
|------------------------------|-------------------------|-------------------------|---------------------------|---------------|---------------|--------------------------|-------------------------------|
|                              | At 1.1.2007             | Granted during the year | Exercised during the year | At 31.12.2007 |               |                          |                               |
| Other employees of the Group | 110,000                 | –                       | –                         | 110,000       | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                              | 6,000,000               | –                       | (6,000,000)               | –             | 18.3.2004     | 18.3.2004 to 17.3.2014   | 0.660                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2007 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2008 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2009 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2010 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                              | –                       | 7,600,000               | –                         | 7,600,000     | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                              | 6,110,000               | 38,000,000              | (6,000,000)               | 38,110,000    |               |                          |                               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

| Grantees                           | Number of share options |                         |                           |               | Date of grant | Exercise period          | Exercise price per share HK\$ |
|------------------------------------|-------------------------|-------------------------|---------------------------|---------------|---------------|--------------------------|-------------------------------|
|                                    | At 1.1.2007             | Granted during the year | Exercised during the year | At 31.12.2007 |               |                          |                               |
| Other eligible participants (Note) | 53,750,000              | –                       | (53,700,000)              | 50,000        | 23.8.2002     | 23.8.2002 to 22.8.2012   | 0.295                         |
|                                    | 61,850,000              | –                       | (38,900,000)              | 22,950,000    | 12.3.2003     | 12.3.2003 to 11.3.2013   | 0.280                         |
|                                    | 5,000,000               | –                       | (5,000,000)               | –             | 18.3.2004     | 18.3.2004 to 17.3.2014   | 0.660                         |
|                                    | –                       | 200,000                 | –                         | 200,000       | 20.12.2007    | 20.12.2007 to 19.12.2014 | 2.944                         |
|                                    | –                       | 200,000                 | –                         | 200,000       | 20.12.2007    | 20.12.2008 to 19.12.2014 | 2.944                         |
|                                    | –                       | 200,000                 | –                         | 200,000       | 20.12.2007    | 20.12.2009 to 19.12.2014 | 2.944                         |
|                                    | –                       | 200,000                 | –                         | 200,000       | 20.12.2007    | 20.12.2010 to 19.12.2014 | 2.944                         |
|                                    | –                       | 200,000                 | –                         | 200,000       | 20.12.2007    | 20.12.2011 to 19.12.2014 | 2.944                         |
|                                    | 120,600,000             | 1,000,000               | (97,600,000)              | 24,000,000    |               |                          |                               |
|                                    | 431,924,000             | 213,500,000             | (139,140,000)             | 506,284,000   |               |                          |                               |
| Exercisable at the end of the year |                         |                         |                           | 339,084,000   |               |                          |                               |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of 213,500,000 share options granted to the relevant option holders during the year ended 31 December 2007:

| Grant date       | Number<br>of options<br>granted | Exercise<br>price<br>HK\$ | Vesting period                          | Exercise period                         | Fair value<br>per option<br>HK\$ |
|------------------|---------------------------------|---------------------------|---|---|----------------------------------|
| 20 December 2007 | 46,300,000                      | 2.944                     | Nil                                     | 20 December 2007 to<br>19 December 2014 | 1.2168                           |
| 20 December 2007 | 41,800,000                      | 2.944                     | 20 December 2007 to<br>19 December 2008 | 20 December 2008 to<br>19 December 2014 | 1.2493                           |
| 20 December 2007 | 41,800,000                      | 2.944                     | 20 December 2007 to<br>19 December 2009 | 20 December 2009 to<br>19 December 2014 | 1.3054                           |
| 20 December 2007 | 41,800,000                      | 2.944                     | 20 December 2007 to<br>19 December 2010 | 20 December 2010 to<br>19 December 2014 | 1.3475                           |
| 20 December 2007 | 41,800,000                      | 2.944                     | 20 December 2007 to<br>19 December 2011 | 20 December 2011 to<br>19 December 2014 | 1.3724                           |
|                  | <u>213,500,000</u>              |                           |   |   |                                  |

The share options granted during the year ended 31 December 2007 will expire on 20 December 2014.

During the year ended 31 December 2008, 280,144,000 share options were exercised at prices ranging from HK\$0.28 to HK\$0.41 per share, resulting in the issuance of 280,144,000 ordinary shares of HK\$0.2 each in the Company.

During the year ended 31 December 2007, 139,140,000 share options were exercised at the prices ranging from HK\$0.28 to HK\$0.66 per share, resulting in the issuance of 139,140,000 ordinary shares of HK\$0.2 each in the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 37. SHARE OPTION SCHEME (CONTINUED)

The fair values of the share options granted during the year ended 31 December 2007 were calculated using the Binominal Option Pricing Model. The inputs into the model were as follows:

|                           | 2007      |
|---------------------------|-----------|
| Share price on grant date | HK\$2.85  |
| Exercise price            | HK\$2.944 |
| Expected volatility       | 59.36%    |
| Contractual life          | 7 years   |
| Risk-free rate            | 3.103%    |
| Expected dividend yield   | 2.6%      |

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 HK110,877,000 for the year ended 31 December 2008 (2007: HK\$59,726,000) 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 38. RESERVES

|                                      | Share<br>premium<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Special<br>capital<br>reserve<br>HK\$'000<br>(Note) | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------------------|------------------------------|--|--|---|------------------------------------|-------------------|
| <b>THE COMPANY</b>                   |                              |  |  |   |                                    |                   |
| At 1 January 2007                    | 418,744                      | –                                      | 1,019  | 292,655   | 117,080                            | 829,498           |
| Shares issued at premium             | 1,808,000                    | –                                      | –  | –   | –                                  | 1,808,000         |
| Effects of share options             | 16,580                       | –                                      | –  | –   | –                                  | 16,580            |
| Share issue expenses                 | (50,160)                     | –                                      | –  | –   | –                                  | (50,160)          |
| Recognition of equity-settled        |                              |  |  |   |                                    |                   |
| share based payments                 | –                            | 59,726                                 | –  | –   | –                                  | 59,726            |
| Dividends recognised as distribution | –                            | –                                      | –  | –   | (123,162)                          | (123,162)         |
| Recovery of advances to a subsidiary | –                            | –                                      | –  | 9,569   | (9,569)                            | –                 |
| Transfer from special capital        |                              |  |  |   |                                    |                   |
| reserve                              | –                            | –                                      | –  | (302,224)   | 302,224                            | –                 |
| Profit for the year                  | –                            | –                                      | –  | –   | 626,798                            | 626,798           |
| At 31 December 2007                  | 2,193,164                    | 59,726                                 | 1,019  | –   | 913,371                            | 3,167,280         |
| Effects of share options             | 49,361                       | –                                      | –  | –   | –                                  | 49,361            |
| Share issue expenses                 | (50)                         | –                                      | –  | –   | –                                  | (50)              |
| Recognition of equity-settled        |                              |  |  |   |                                    |                   |
| share based payments                 | –                            | 110,877                                | –  | –   | –                                  | 110,877           |
| Dividends recognised as distribution | –                            | –                                      | –  | –   | (727,018)                          | (727,018)         |
| Shares repurchased and cancelled     | –                            | –                                      | 21,592                                       | –   | (138,073)                          | (116,481)         |
| Profit for the year                  | –                            | –                                      | –  | –   | 848,083                            | 848,083           |
| At 31 December 2008                  | 2,242,475                    | 170,603                                | 22,611                                       | –   | 896,363                            | 3,332,052         |

Note: Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 13 June 2005 and the subsequent order of the High Court of Hong Kong (the "High Court") made on 1 September 2005, the entire amounts of approximately HK\$1,412,855,000 and HK\$1,800,000,000 standing to the credit of the Company's share premium and capital reserve account as at 31 March 2005 respectively were cancelled in accordance with Section 60 of the Hong Kong Companies Ordinance (the "Cancellation").



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 38. RESERVES (CONTINUED)

Out of the credit arising from the Cancellation, approximately HK\$2,920,200,000 was applied to eliminate the accumulated losses of the Company as at 30 June 2004. An undertaking was given by the Company in connection with the Cancellation. Pursuant to the undertaking, the balance of approximately HK\$292,655,000 of the credit arising from the Cancellation has been credited to a special capital reserve in the accounting records of the Company. Secondly, in the event of making any future recoveries (by revaluation) in respect of the property, plant and equipment of the Company (against which depreciation in value was recorded in the accounts of the Company as at 30 June 2004), then such sum realised in excess of the written down value up to an aggregate amount of approximately HK\$124,000 will be credited to the special capital reserve. Finally, any future recoveries (by realisation) in respect of any advances of the Company as at 30 June 2004 amounted to approximately HK\$2,755,579,000 will be credited to the special capital reserve.

While any debt or claim against the Company at the date of the Cancellation remains outstanding and the persons entitled to the benefit thereof have not agreed otherwise, the special capital reserve shall not be treated as realised profits for the purposes of Section 79B of the Hong Kong Companies Ordinance and shall (for so long as the Company shall remain a listed company) be treated as an undistributed reserve for the purposes of Section 79C of the Hong Kong Companies Ordinance. The undertaking, however, is subject to the following provisos:

- (a) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied;
- (b) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration or capitalisation of distributable profits and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the same shall become available for distribution;
- (c) the overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase in the paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration or capitalisation of distributable profits and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the same shall become available for distribution;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 38. RESERVES (CONTINUED)

- (d) the overall aggregate limit in respect of the special capital reserve may be reduced upon the disposal of property, plant and equipment and/or realisation of the advances by the amount of the total provision made in relation to the property, plant and equipment and the advances as at 30 June 2004 less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and
- (e) in the event that the amount standing to the credit of the special capital reserve exceeds the overall aggregate limit of HK\$292,654,712, after any reduction of such overall aggregate limit pursuant to provisos (c) and/or (d) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2007, advances of the Company amounting to approximately HK\$9,569,000 were recovered from a subsidiary. Pursuant to proviso (d) above, such amount is credited to the special capital reserve as a result of such realisation.

During the year ended 31 December 2006, the Company issued 930,000,000 shares. The Company's paid up share capital increased by HK\$186,000,000 and share premium account increased by HK\$306,665,000. Pursuant to proviso (c) above, the special capital reserve may be reduced by the amount of any increase of the Company's paid up share capital or share premium account resulting from the payment up of shares by the receipt of the new consideration and the Company shall be at liberty to transfer the amount of such reduction to the general reserves of the Company and the amount shall become available for distribution. As the aggregate increase in the paid up share capital and share premium account amounting to HK\$492,665,000 has exceeded the special capital reserve of HK\$302,224,000, the Company transferred the total special capital reserve of HK\$302,224,000 to accumulated profits during the year ended 31 December 2007.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 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 controlling shareholder disclosed in note 34, net of cash and cash equivalents and equity attributable to equity holders 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

|   | <b>THE GROUP</b>  |           |
|---|-------------------|-----------|
|   | <b>2008</b>       | 2007      |
|   | <b>HK\$'000</b>   | HK\$'000  |
| <b>Financial assets</b>                                     |                   |           |
| Held for trading  | <b>449,671</b>    | 177,654   |
| Loans and receivables (including cash and cash equivalents) | <b>7,203,461</b>  | 5,130,372 |
| Available-for-sale financial assets                         | <b>342,426</b>    | 467,573   |
|   |                   |           |
| <b>Financial liabilities</b>                                |                   |           |
| Held for trading  | <b>56,666</b>     | 13,949    |
| Amortised cost  | <b>10,866,646</b> | 7,441,445 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

### 40a. Categories of financial instruments (continued)

|   | THE COMPANY      |           |
|---|------------------|-----------|
|   | 2008             | 2007      |
|   | HK\$'000         | HK\$'000  |
| <b>Financial assets</b>                                     |                  |           |
| Held for trading  | <b>398,918</b>   | –         |
| Loans and receivables (including cash and cash equivalents) | <b>5,265,246</b> | 4,066,543 |
| <b>Financial liabilities</b>                                |                  |           |
| Held for trading  | <b>20,782</b>    | 13,949    |
| Amortised cost  | <b>1,541,427</b> | 114       |
| Financial guarantee contracts                               | <b>2,071</b>     | 6,217     |

### 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 controlling shareholder, bank balances and deposits, amount due from (to) ultimate holding company of controlling shareholder, amount due from a minority shareholder of a subsidiary, trade and bill payables, other payables, bank borrowings and derivative financial instruments.

The Company's major financial instruments include amounts due from subsidiaries, other receivables, bank balances, other payables, amount due from (to) a related company, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Market risk

##### (i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. Certain trade receivables, amount due from (to) related companies, bank balances, trade payables and bank borrowings of the Group are denominated in foreign currencies other than the functional currencies of the relevant group entities, which expose the Group to foreign currency risk. Approximately 19% (2007: 21%) of the Group's sales and 21% (2007: 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           |                  |
|              | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| AUD          | –                | 437              | 18,787           | 12,442           |
| USD          | 1,699,415        | 173,872          | 2,128,169        | 925,891          |
| HKD          | 9,114            | 115              | 222,298          | 1,036,863        |
| Euro ("EUR") | –                | –                | 1,409            | 5,190            |

|     | THE COMPANY      |                  |                  |                  |
|-----|------------------|------------------|------------------|------------------|
|     | Liabilities      |                  | Assets           |                  |
|     | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| AUD | –                | 437              | 18,787           | 12,442           |
| USD | 1,550,200        | 19,496           | 1,811,214        | 546,194          |
| HKD | 464              | 743              | 63,071           | 1,036,025        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Market risk (continued)

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

##### Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of 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 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          |          |       |
|                     | 2008      | 2007     | 2008         | 2007     | 2008         | 2007     |       |
|                     | HK\$'000  | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000     | HK\$'000 |       |
| Profit for the year | (784)     | (488)    | (i) (13,705) | (20,629) | (ii) (9,221) | (42,731) | (iii) |

|                     | THE COMPANY |          |          |          |          |          |         |          |       |
|---------------------|-------------|----------|----------|----------|----------|----------|---------|----------|-------|
|                     | AUD         |          | USD      |          | HKD      |          |         |          |       |
|                     | 2008        | 2007     | 2008     | 2007     | 2008     | 2007     |         |          |       |
|                     | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |         |          |       |
| Profit for the year | (784)       | (488)    | (i)      | (10,897) | (21,812) | (ii)     | (2,614) | (42,705) | (iii) |

- (i) This is mainly attributable to the exposure outstanding on AUD receivables and payables at year end in the Group and the Company.
- (ii) This is mainly attributable to the exposure outstanding on USD receivables and payables at year end in the Group and the Company.
- (iii) This is mainly attributable to the exposure outstanding HKD receivables and payables at the year end in the Group and the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Market risk (continued)

##### (ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, bank borrowings (see note 33 for details of these borrowings) and loans from ultimate holding company of controlling 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 arises.

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. The sensitivity to interest rate used is considered reasonable given the market forecasts available at balance sheet date 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 balance sheet date 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 balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used which 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 profit for the year ended 31 December 2008 would decrease/increase by HK\$17,931,000 (2007: increase/decrease by HK\$18,673,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings, restricted bank deposits and bank balances.

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Market risk (continued)

##### (ii) Interest rate risk (continued)

###### *Sensitivity analysis (continued)*

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2008 would increase/decrease by HK\$2,934,000 (2007: increase/decrease by HK\$13,171,000). 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 foreign currency forward contracts, listed equity securities, option to subscribe for shares of ARH, underwriting of shares of MGI and commodity forward contracts to purchase iron ore. The directors considered that the exposure to foreign currency risk on foreign currency forward contracts and the exposure to equity price risk on Underwriting Agreement is insignificant. The Group does not engage into trading in equity securities as such investments are only held for long term strategic purpose.

###### *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\$110,481,000 (2007: increase/decrease by HK\$154,793,000) 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\$15,783,000 (2007: decrease/increase by HK\$22,113,000) for the Group.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Market risk (continued)

##### (iii) Other price risk (continued)

###### *Sensitivity analysis of ARH option*

Besides, the Group is required to estimate the fair value of option to subscribe for shares of ARH at each balance sheet date with change in fair value to be recognised in the consolidated income statements. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the equity's market price and share price volatility.

The sensitivity analysis below have been determined based on the exposure to the share price risks of ARH at the reporting date only as the Directors of the Company consider that change in market interest rate and share price volatility may not have significant financial impact on the fair value of the respective option.

Based on Binomial Option Pricing Model, if the share price of ARH had been 35% higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK\$3,106,000/HK\$2,143,000 (2007: increase/decrease by HK\$69,282,000/HK\$65,484,000) as a result of the change in fair value of option to subscribe for shares of a listed company in Australia. In addition, if there is a 5% increase/decrease in HKD against AUD, the Group's profit for the year would decrease/increase by HK\$166,000 (2007: decrease/increase by HK\$7,520,000).

###### *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 each balance sheet date with change in fair value to be recognised in the consolidated income statements. 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 ores had been 5% higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK\$79,900,000 (2007: nil) 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, the Group's profit for the year would decrease/increase by HK\$16,670,000 (2007: nil).

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Credit risk

As at 31 December 2008, 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 balance sheet; 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 each balance sheet date 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 segment. 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 limited credit risk on amounts due from subsidiaries. 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. 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### 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 relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK\$1,676 million (2007: HK\$1,589 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments to be settled on a net basis, undiscounted net cash (inflows)/outflows are presented. For derivative instruments to be settled on a gross basis, the undiscounted gross (inflows) and outflows on these derivatives are shown in the table.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Liquidity risk (continued)

#### Liquidity tables

|  |   | THE GROUP                         |                           |                                   |                       |                       |                             |  |  |
|--|---|-----------------------------------|---------------------------|-----------------------------------|-----------------------|-----------------------|-----------------------------|--|--|
|  | Weighted<br>average<br>interest rate<br>% | Less than<br>3 months<br>HK\$'000 | 3-6<br>months<br>HK\$'000 | 6 months<br>to 1 year<br>HK\$'000 | 1-2 years<br>HK\$'000 | 2-5 years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash<br>flows<br>HK\$'000 | Carrying<br>amount<br>at<br>31.12.2008<br>HK\$'000 |
| 2008   |   |                                   |                           |                                   |                       |                       |                             |  |  |
| Non-derivative   |   |                                   |                           |                                   |                       |                       |                             |  |  |
| financial liabilities  |   |                                   |                           |                                   |                       |                       |                             |  |  |
| Trade and bill payables  |   | 1,373,611                         | –                         | –                                 | –                     | –                     | –                           | 1,373,611  | 1,373,611  |
| Other payables   |   | 417,802                           | –                         | –                                 | –                     | –                     | –                           | 417,802  | 417,802  |
| Amount due to<br>ultimate holding<br>company of controlling<br>shareholder |   | 172,531                           | –                         | –                                 | –                     | –                     | –                           | 172,531  | 172,531  |
| Amounts due to related<br>companies  |   | 694,505                           | –                         | –                                 | –                     | –                     | –                           | 694,505  | 694,505  |
| Loans from ultimate<br>holding company of controlling<br>shareholder       | 5.21                                      | 12,860                            | 158,148                   | 798,534                           | –                     | –                     | –                           | 969,542  | 928,320  |
| Bank loans   |   |                                   |                           |                                   |                       |                       |                             |  |  |
| – fixed rate   | 4.92                                      | 383,261                           | 276,656                   | 4,000                             | 128,092               | –                     | –                           | 792,009  | 771,237  |
| – variable rate  | 5.41                                      | 460,451                           | 1,463,058                 | 857,674                           | 2,845,894             | 1,323,672             | –                           | 6,950,749  | 6,508,640  |
|  |   | <u>3,515,021</u>                  | <u>1,897,862</u>          | <u>1,660,208</u>                  | <u>2,973,986</u>      | <u>1,323,672</u>      | <u>–</u>                    | <u>11,370,749</u>                                  | <u>10,866,646</u>                                  |
| Derivatives settled net  |   |                                   |                           |                                   |                       |                       |                             |  |  |
| Foreign exchange<br>forward contracts                                      |   | <u>8,445</u>                      | <u>8,445</u>              | <u>2,816</u>                      | <u>–</u>              | <u>–</u>              | <u>–</u>                    | <u>19,706</u>                                      | <u>19,706</u>                                      |
| Derivatives settled gross  |   |                                   |                           |                                   |                       |                       |                             |  |  |
| Foreign exchange forward<br>contracts                                      |   |                                   |                           |                                   |                       |                       |                             |  |  |
| – inflow   |   | (636,228)                         | (605,517)                 | (190,791)                         | –                     | –                     | –                           | (1,432,536)  | (1,432,536)  |
| – outflow  |   | <u>652,362</u>                    | <u>620,239</u>            | <u>196,895</u>                    | <u>–</u>              | <u>–</u>              | <u>–</u>                    | <u>1,469,496</u>                                   | <u>1,469,496</u>                                   |
|  |   | <u>16,134</u>                     | <u>14,722</u>             | <u>6,104</u>                      | <u>–</u>              | <u>–</u>              | <u>–</u>                    | <u>36,960</u>                                      | <u>36,960</u>                                      |
| Derivatives settled gross  |   |                                   |                           |                                   |                       |                       |                             |  |  |
| Commodity forward contracts  |   |                                   |                           |                                   |                       |                       |                             |  |  |
| – outflow (Note)   |   | <u>433,929</u>                    | <u>572,259</u>            | <u>1,153,319</u>                  | <u>2,957,253</u>      | <u>9,335,574</u>      | <u>4,694,171</u>            | <u>19,146,505</u>                                  | <u>9,431,758</u>                                   |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Liquidity risk (continued)

#### Liquidity tables (continued)

|  | THE GROUP                            |                       |                  |                       |                |                | Total                         | Carrying                   |
|--|--------------------------------------|-----------------------|------------------|-----------------------|----------------|----------------|-------------------------------|----------------------------|
|  | Weighted<br>average<br>interest rate | Less than<br>3 months | 3-6<br>months    | 6 months<br>to 1 year | 1-2 years      | 2-5 years      | undiscounted<br>cash<br>flows | amount<br>at<br>31.12.2007 |
|  |                                      |                       |                  |                       |                |                |                               |                            |
|  |                                      |                       |                  |                       |                |                |                               |                            |
|  | %                                    | HK\$'000              | HK\$'000         | HK\$'000              | HK\$'000       | HK\$'000       | HK\$'000                      | HK\$'000                   |
| <b>2007</b>  |                                      |                       |                  |                       |                |                |                               |                            |
| <b>Non-derivative financial liabilities</b>                          |                                      |                       |                  |                       |                |                |                               |                            |
| Trade and bill payables  |                                      | 932,448               | 14,198           | 8,183                 | –              | –              | 954,829                       | 954,829                    |
| Other payables   |                                      | 499,931               | –                | –                     | –              | –              | 499,931                       | 499,931                    |
| Amount due to ultimate holding<br>company of controlling shareholder |                                      | 209,281               | –                | –                     | –              | –              | 209,281                       | 209,281                    |
| Amounts due to related companies                                     |                                      | 546,797               | –                | –                     | –              | –              | 546,797                       | 546,797                    |
| Loans from ultimate holding company<br>of controlling shareholder    | 6.52                                 | 196,795               | 289,312          | 626,441               | –              | –              | 1,112,548                     | 1,070,663                  |
| Bank loans   |                                      |                       |                  |                       |                |                |                               |                            |
| – fixed rate   | 6.59                                 | 253,671               | 2,123,178        | 261,535               | 566,681        | –              | 3,205,065                     | 3,072,057                  |
| – variable rate  | 6.65                                 | 426,577               | 246,669          | 25,537                | 28,836         | 454,742        | 1,182,361                     | 1,087,887                  |
|  |                                      | <u>3,065,500</u>      | <u>2,673,357</u> | <u>921,696</u>        | <u>595,517</u> | <u>454,742</u> | <u>7,710,812</u>              | <u>7,441,445</u>           |
| <b>Derivatives settled net</b>                                       |                                      |                       |                  |                       |                |                |                               |                            |
| Foreign exchange forward contracts                                   |                                      | (698)                 | 3,707            | 13,140                | –              | –              | 16,149                        | 16,149                     |
| <b>Derivatives settled gross</b>                                     |                                      |                       |                  |                       |                |                |                               |                            |
| Foreign exchange forward contracts                                   |                                      |                       |                  |                       |                |                |                               |                            |
| – inflow   |                                      | (51,957)              | (46,806)         | (93,612)              | (78,010)       | –              | (270,385)                     | (270,385)                  |
| – outflow  |                                      | 51,297                | 46,476           | 92,952                | 77,460         | –              | 268,185                       | 268,185                    |
|  |                                      | <u>(660)</u>          | <u>(330)</u>     | <u>(660)</u>          | <u>(550)</u>   | <u>–</u>       | <u>(2,200)</u>                | <u>(2,200)</u>             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Liquidity risk (continued)

#### Liquidity tables (continued)

| THE COMPANY                      |          |               |               |               |                |                  |              |                  |                  |
|----------------------------------|----------|---------------|---------------|---------------|----------------|------------------|--------------|------------------|------------------|
|                                  | Weighted |               |               |               |                |                  | Total        | Carrying         |                  |
|                                  | average  | Less than     | 3-6           | 6 months      |                |                  | undiscounted | amount           |                  |
| interest rate                    | 3 months | months        | to 1 year     | 1-2 years     | 2-5 years      | 5 years          | cash         | at               |                  |
| %                                | HK\$'000 | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000       | HK\$'000         | flows        | 31.12.2008       | HK\$'000         |
|                                  |          |               |               |               |                |                  |              |                  |                  |
| <b>2008</b>                      |          |               |               |               |                |                  |              |                  |                  |
| <b>Non-derivative</b>            |          |               |               |               |                |                  |              |                  |                  |
| <b>financial liabilities</b>     |          |               |               |               |                |                  |              |                  |                  |
| Other payables                   |          | 463           | –             | –             | –              | –                | 463          | 463              |                  |
| Bank loans                       |          |               |               |               |                |                  |              |                  |                  |
| – variable rate                  | 3.12     | 12,073        | 12,073        | 24,146        | 431,707        | 1,175,788        | –            | 1,655,787        | 1,540,964        |
|                                  |          | <u>12,536</u> | <u>12,073</u> | <u>24,146</u> | <u>431,707</u> | <u>1,175,788</u> | <u>–</u>     | <u>1,656,250</u> | <u>1,541,427</u> |
| <b>Derivatives settled net</b>   |          |               |               |               |                |                  |              |                  |                  |
| Foreign exchange                 |          |               |               |               |                |                  |              |                  |                  |
| forward contracts                |          | 8,445         | 8,445         | 2,816         | –              | –                | –            | 19,706           | 19,706           |
|                                  |          | <u>8,445</u>  | <u>8,445</u>  | <u>2,816</u>  | <u>–</u>       | <u>–</u>         | <u>–</u>     | <u>19,706</u>    | <u>19,706</u>    |
| <b>Derivatives settled gross</b> |          |               |               |               |                |                  |              |                  |                  |
| Foreign exchange forward         |          |               |               |               |                |                  |              |                  |                  |
| contracts                        |          |               |               |               |                |                  |              |                  |                  |
| – inflow                         |          | (77,510)      | (31,004)      | –             | –              | –                | –            | (108,514)        | (108,514)        |
| – outflow                        |          | 78,542        | 31,048        | –             | –              | –                | –            | 109,590          | 109,590          |
|                                  |          | <u>1,032</u>  | <u>44</u>     | <u>–</u>      | <u>–</u>       | <u>–</u>         | <u>–</u>     | <u>1,076</u>     | <u>1,076</u>     |
| <b>Derivatives settled gross</b> |          |               |               |               |                |                  |              |                  |                  |
| Commodity forward                |          |               |               |               |                |                  |              |                  |                  |
| contracts                        |          |               |               |               |                |                  |              |                  |                  |
| – outflow (Note)                 |          | 433,929       | 572,259       | 1,153,319     | 2,957,253      | 9,335,574        | 4,694,171    | 19,146,505       | 9,431,758        |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Liquidity risk (continued)

#### Liquidity tables (continued)

|   | THE COMPANY                               |                                   |                           |                                   |                       |  |
|---|---|-----------------------------------|---------------------------|-----------------------------------|-----------------------|--|
|   | Weighted<br>average<br>interest rate<br>% | Less than<br>3 months<br>HK\$'000 | 3-6<br>months<br>HK\$'000 | 6 months<br>to 1 year<br>HK\$'000 | 1-2 years<br>HK\$'000 | Total<br>undiscounted<br>cash<br>flows<br>HK\$'000 |
|   |   |                                   |                           |                                   |                       | Carrying<br>amount<br>at<br>31.12.2007<br>HK\$'000 |
|   |   |                                   |                           |                                   |                       |  |
| <b>2007</b>                                     |   |                                   |                           |                                   |                       |  |
| <b>Non-derivative<br/>financial liabilities</b> |   |                                   |                           |                                   |                       |  |
| Other payables                                  |   | 102                               | –                         | –                                 | –                     | 102  |
| Amount due to a<br>related company              |   | 12                                | –                         | –                                 | –                     | 12   |
|   |   | <u>114</u>                        | <u>–</u>                  | <u>–</u>                          | <u>–</u>              | <u>114</u>   |
| <b>Derivatives settled net</b>                  |   |                                   |                           |                                   |                       |  |
| Foreign exchange<br>forward contracts           |   | (698)                             | 3,707                     | 13,140                            | –                     | 16,149   |
|   |   | <u>(698)</u>                      | <u>3,707</u>              | <u>13,140</u>                     | <u>–</u>              | <u>16,149</u>                                      |
| <b>Derivatives settled gross</b>                |   |                                   |                           |                                   |                       |  |
| Foreign exchange forward<br>contracts           |   |                                   |                           |                                   |                       |  |
| – inflow  |   | (51,957)                          | (46,806)                  | (93,612)                          | (78,010)              | (270,385)  |
| – outflow                                       |   | 51,297                            | 46,476                    | 92,952                            | 77,460                | 268,185  |
|   |   | <u>(660)</u>                      | <u>(330)</u>              | <u>(660)</u>                      | <u>(550)</u>          | <u>(2,200)</u>                                     |

At 31 December 2008 and 2007, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the carrying amount of financial guarantee contract of HK\$2,071,000 (2007: HK\$6,217,000) for the Company has not been presented above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

### 40c. Fair value

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- 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 using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is 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 Directors consider the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate to their fair values.

## 41. MAJOR NON-CASH TRANSACTIONS

- (a) During the year ended 31 December 2008, a debtor transferred an investment property to the Group to settle a long outstanding debt of HK\$541,000 (2007: HK\$8,986,000). The debt was fully impaired in prior years.
- (b) On 6 November 2008, the Group and the minority shareholders of Shouqin Longhui agreed to raise HK\$284 million (equivalent to RMB250 million) additional paid-in capital to Shouqin Longhui. The minority shareholder of Shouqin Longhui contributed the mining rights of Hongda Iron Ore Mine (see note 18) to Shouqin Longhui as the capital contribution, which amounted to HK\$113 million (equivalent to RMB100 million).
- (c) During the year ended 31 December 2008, Shouqin declared HK\$163,321,000 (equivalent to RMB144,000,000) dividend to the minority shareholders, HHI and Shougang Corporation, for which the entire amount was contributed by HHI and Shougang Corporation to Shouqin as additional capital contribution.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 42. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

|  | THE GROUP      |                |
|--|----------------|----------------|
|  | 2008           | 2007           |
|  | HK\$'000       | HK\$'000       |
| Minimum lease payments paid under operating leases during the year are as follows: |                |                |
| Land and buildings   | 5,109          | 3,172          |
| Vessels time charter hire  | 139,234        | 128,930        |
|  | <b>144,343</b> | <b>132,102</b> |

At the balance sheet date, 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          |                |
|--|---------------------------|----------------|--------------------|--------------|----------------|----------------|
|  | 2008                      | 2007           | 2008               | 2007         | 2008           | 2007           |
|  | HK\$'000                  | HK\$'000       | HK\$'000           | HK\$'000     | HK\$'000       | HK\$'000       |
| Within one year                        | 146,532                   | 139,234        | 4,592              | 666          | 151,124        | 139,900        |
| In the second to fifth years inclusive | 435,315                   | 588,119        | –                  | 5,213        | 435,315        | 593,332        |
| After five years                       | –                         | –              | –                  | 1,534        | –              | 1,534          |
|  | <b>581,847</b>            | <b>727,353</b> | <b>4,592</b>       | <b>7,413</b> | <b>586,439</b> | <b>734,766</b> |

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 2008, leases for properties are negotiated for terms ranging from one to two years.

The Company had no non-cancellable operating lease commitments at the balance sheet date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 42. OPERATING LEASE ARRANGEMENTS (CONTINUED)

### The Group as lessor

|  | THE GROUP        |                  |
|--|------------------|------------------|
|  | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Minimum lease payments received under operating leases during the year are as follows: |                  |                  |
| Land and buildings   | 1,412            | 619              |
| Vessels time charter hire  | 493,475          | 367,954          |
|  | <b>494,887</b>   | <b>368,573</b>   |

At 31 December 2008, the Group had contracted with tenants for the following future minimum lease payments:

|  | Vessels time charter hire |                  | Land and buildings |                  | Total            |                  |
|--|---------------------------|------------------|--------------------|------------------|------------------|------------------|
|  | 2008<br>HK\$'000          | 2007<br>HK\$'000 | 2008<br>HK\$'000   | 2007<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| Within one year                        | 56,698                    | 141,937          | 597                | 567              | 57,295           | 142,504          |
| In the second to fifth years inclusive | –                         | –                | 1,798              | 302              | 1,798            | 302              |
| After five years                       | –                         | –                | 39                 | –                | 39               | –                |
|  | <b>56,698</b>             | <b>141,937</b>   | <b>2,434</b>       | <b>869</b>       | <b>59,132</b>    | <b>142,806</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 43. COMMITMENTS

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
| <b>CAPITAL COMMITMENTS</b>  |                  |                  |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | <b>1,094,289</b> | –                |
| <b>OTHER COMMITMENTS</b>  |                  |                  |
| Capital injection in respect of an investee   | <b>124,419</b>   | 101,222          |

The Company had no significant commitment at the balance sheet date.

## 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 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.

## 45. CONTINGENT LIABILITIES

### THE GROUP

The Group had no significant contingent liabilities at the balance sheet date.

### THE COMPANY

As at 31 December 2008, the financial guarantee given to banks in respect of banking facilities unutilised by subsidiaries (2007: utilised by subsidiaries amounted to HK\$133,566,000) of which HK\$2,071,000 (2007: HK\$6,217,000) was recognised in the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 46. PLEDGE OF ASSETS

### THE GROUP

At 31 December 2008, the following items were used to secure banking facilities granted to the Group:

- (a) Restricted bank deposits amounting to HK\$650,619,000 (2007: HK\$68,779,000).
- (b) Pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Group, with total assets amounting to HK\$156,320,000 and HK\$183,596,000 respectively. The Group had no such pledge of assets as at 31 December 2007.
- (c) As at 31 December 2007, pledge of the Group's plant and machinery with net book value of HK\$302,180,000. The Group had no such pledge of assets as at 31 December 2008.

### THE COMPANY

At 31 December 2008, the following items were used to secure banking facilities granted to the Company:

- (a) Pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Group, with total assets amounting to HK\$156,320,000 and HK\$183,596,000 respectively. The Company had no such pledge of assets as at 31 December 2007.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 47. POST BALANCE SHEET EVENTS

- (a) On 22 November 2008, the Company entered into an underwriting agreement with MGI, whereby the Company committed to underwrite a maximum of 50 million shares of the Rights Issue undertaken by MGI to its existing shareholders.

The Rights Issue was completed on 12 January 2009 and with approximately 44 million shares remained unsubscribed and were taken up by the Group. Upon completion of the Rights Issue, the equity interest in MGI held by the Group is approximately 14.34%.

- (b) 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 (the "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 the 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 of Hong Kong Limited, 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 or HK\$2.18 per share (the "Acquisition"). The consideration of the Acquisition 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. The Acquisition was completed on 24 February 2009 and the investment was classified as available-for-sale investment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 48. RELATED PARTY DISCLOSURES

Other than disclosed in notes 10, 24, 27, 28, 34, 41(b), and 41(c), the significant transactions with related parties during the year, and significant balances with them at the balance sheet date are as follows:

### (I) Transactions

|  | Notes | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>THE GROUP</b>   |       |                  |                  |
| <b>Shougang Group</b>                                      |       |                  |                  |
| Sales of goods by the Group                                | (a)   | 3,734,577        | 2,193,665        |
| Provision of electricity, steam and hot water by the Group | (b)   | 209,644          | 481,179          |
| Purchases of goods by the Group                            | (c)   | 5,240,438        | 3,613,264        |
| Lease rentals charged to the Group                         | (d)   | 4,948            | 2,749            |
| Management fee charged to the Group                        | (e)   | 960              | 960              |
| Purchases of spare parts by the Group                      | (f)   | 159,071          | 116,051          |
| Management fees charged by the Group                       | (g)   | 144              | 120              |
| Rental income charged by the Group                         | (h)   | 151              | 151              |
| Interest charged to the Group                              | (i)   | 51,976           | 75,847           |
| Service fees charged to the Group                          | (j)   | 175,884          | 147,453          |
| Service fees charged by the Group                          | (k)   | 83,440           | 123,034          |
| Purchase of property, plant and equipment by the Group     | (l)   | 382,186          | 555,663          |
| <b>THE COMPANY</b>   |       |                  |                  |
| <b>Shougang Group</b>                                      |       |                  |                  |
| Management fee charged to the Company                      | (e)   | 960              | 960              |
| Management fee charged by the Company                      | (g)   | 144              | 120              |

Notes:

- (a) Qinhuangdao Plate Mill, a wholly-owned subsidiary of the Company, and Shouqin, a non-wholly owned subsidiary of the Company, sold steel products and scrap materials to Shougang Group.
- (b) Beijing Power Plant, a non-wholly owned subsidiary of the Company which was disposed of during the year, sold electricity, steam and hot water to Shougang Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 48. RELATED PARTY DISCLOSURES (CONTINUED)

### (I) Transactions (continued)

Notes: (continued)

- (c) The Group purchased materials and steel products from Shougang Group.
- (d) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.
- (e) Management fees were paid to Shougang HK, the Company's controlling shareholder, for the provision of management services.
- (f) The Group purchased spare parts from Shougang Group.
- (g) The Group/the Company provided business and strategic development services to Shougang Group.
- (h) 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.
- (i) The interest expenses were charged by the Shougang Group in respect of loans granted to the Group at interest rates from 5.76% to 7.47% (2007: 5.76% to 6.84%) per annum.
- (j) Shougang Group charged Qinhuangdao Plate Mill, Beijing Power Plant and Shouqin service fees in respect of processing, repair and maintenance and transportation services.
- (k) The Group charged Shougang Group service fees in respect of processing of steel plates, transportation and administration services provided.
- (l) The Group acquired property, plant and equipment from Shougang Group.

### (II) Balances

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

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

Details of balances with the Group's ultimate holding company of controlling 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 2008, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$5,540,433,000 (2007: HK\$3,919,151,000).

In addition, details of share options held by Directors as at 31 December 2008 were disclosed in note 37.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 48. RELATED PARTY DISCLOSURES (CONTINUED)

### (III) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government.

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.

Except as disclosed above, the Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

### (IV) Compensation of key management personnel

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

|                              | <b>THE GROUP</b> |          |
|------------------------------|------------------|----------|
|                              | <b>2008</b>      | 2007     |
|                              | <b>HK\$'000</b>  | HK\$'000 |
| Short-term employee benefits | <b>26,568</b>    | 22,480   |
| Post employment benefits     | <b>1,317</b>     | 1,054    |
| Share-based payments         | <b>103,706</b>   | 50,616   |
|                              | <b>131,591</b>   | 74,150   |

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2007 and 2008 are as follows:

| Name of subsidiary                          | Place of<br>incorporation<br>or registration/<br>operations | Issued and<br>fully paid share/<br>registered capital                      | Proportion of issued<br>share/registered<br>capital held<br>by the Company |      |            |      | Principal activities  |
|---|---|--|--|------|------------|------|---|
|   |   |  | Directly   |      | Indirectly |      |   |
|   |   |  | 2008   | 2007 | 2008       | 2007 |   |
|   |   |  | %  | %    | %          | %    |   |
|   |   |  |  |      |            |      |   |
| Central Pro Investments Limited             | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share  | 100  | 100  | –          | –    | Investment holding  |
| Cheer Source Limited                        | Samoa   | US\$1<br>Ordinary share  | 100  | 100  | –          | –    | Investment holding  |
| Equity Dragon Assets Limited                | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share  | –  | –    | 100        | 100  | Investment holding  |
| Standnew Limited                            | British Virgin<br>Islands/Hong Kong                         | US\$100<br>Ordinary shares   | –  | –    | 100        | 100  | Investment holding  |
| Profit News Investments Limited             | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share  | –  | –    | 100        | 100  | Investment holding  |
| Shougang Concord Steel Holdings Limited     | British Virgin<br>Islands/Hong Kong                         | US\$1,000<br>Ordinary shares   | 100  | 100  | –          | –    | Investment holding  |
| Shougang Concord Steel Group Limited        | Hong Kong   | HK\$25,000,000<br>Ordinary shares  | –  | –    | 100        | 100  | Investment holding  |
| Shougang Concord Godown Limited             | Hong Kong   | HK\$2<br>Ordinary shares<br>HK\$2,000,000<br>Non-voting<br>deferred shares | –  | –    | 100        | 100  | Provision of<br>warehousing<br>services                       |
| Shougang Concord Management Company Limited | Hong Kong   | HK\$100,000<br>Ordinary shares   | –  | –    | 100        | 100  | Provision of management<br>services and investment<br>holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

| Name of subsidiary   | Place of<br>incorporation<br>or registration/<br>operations | Issued and<br>fully paid share/<br>registered capital | Proportion of issued<br>share/registered<br>capital held<br>by the Company |      |            |      | Principal activities                                |
|--|---|---|--|------|------------|------|---|
|  |   |   | Directly   |      | Indirectly |      |   |
|  |   |   | 2008   | 2007 | 2008       | 2007 |   |
|  |   |   | %  | %    | %          | %    |   |
| Shougang Concord Steel<br>(International) Company<br>Limited | British Virgin<br>Islands/Hong Kong                         | US\$1,000<br>Ordinary shares                          | –  | –    | 100        | 100  | Investment holding                                  |
| Shougang Concord Steel<br>International Trading<br>Co. Ltd.  | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Trading of steel products<br>and investment holding |
| Shougang Concord Shipping<br>Holdings Limited                | British Virgin<br>Islands/Hong Kong                         | US\$641,025<br>Ordinary shares                        | 100  | 100  | –          | –    | Investment holding                                  |
| Shougang Concord<br>International Transport<br>Limited       | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Investment holding and<br>chartering of vessels     |
| Ryegar Limited   | United Kingdom/<br>Hong Kong                                | £2<br>Ordinary shares                                 | –  | –    | 100        | 100  | Chartering of vessels                               |
| Shougang Concord Shipping<br>Services Limited                | Hong Kong   | HK\$2<br>Ordinary shares                              | –  | –    | 100        | 100  | Provision of management<br>services                 |
| SCIT (Chartering) Limited                                    | British Virgin<br>Islands                                   | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Chartering of vessels                               |
| Centralink International<br>Limited                          | British Virgin<br>Islands/Hong Kong                         | US\$2,000,000<br>Ordinary shares                      | –  | –    | 70         | 70   | Investment holding                                  |
| 舟山首和中轉儲運有限公司<br>Zhoushan Shouhe Centra-link<br>Co., Ltd.     | PRC   | US\$5,000,000<br>Registered capital                   | #  | #    | #          | #    | Hiring of floating cranes                           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

| Name of subsidiary                                 | Place of<br>incorporation<br>or registration/<br>operations | Issued and<br>fully paid share/<br>registered capital | Proportion of issued<br>share/registered<br>capital held<br>by the Company |      |            |      | Principal activities                                     |
|--|---|---|--|------|------------|------|--|
|  |   |   | Directly   |      | Indirectly |      |  |
|  |   |   | 2008   | 2007 | 2008       | 2007 |  |
|  |   |   | %  | %    | %          | %    |  |
| Fair Union Holdings Limited                        | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share                               | 100  | 100  | –          | –    | Investment holding                                       |
| Richson Limited                                    | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Investment holding                                       |
| Casula Investments Limited                         | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Investment holding                                       |
| Firstlevel Holdings Limited                        | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share                               | 100  | 100  | –          | –    | Investment holding                                       |
| Shougang Concord Power<br>Plant Holdings Limited   | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Investment holding                                       |
| 秦皇島首鋼板材有限公司<br>Qinhuangdao Plate Mill <sup>Δ</sup> | PRC   | US\$86,000,000<br>Registered capital                  | –  | –    | 100        | 100  | Manufacture and sale of<br>steel plates                  |
| 秦皇島首秦金屬材料有限公司<br>Shouqin <sup>ΔΔ</sup>             | PRC   | RMB2,700,000,000<br>Registered capital                | –  | –    | 76         | 76   | Manufacture and sale of<br>steel and related<br>products |
| 北京首鋼超群電力有限公司<br>Beijing Power Plant <sup>ΔΔ</sup>  | PRC   | RMB261,170,000<br>Registered capital                  | –  | –    | –          | 51   | Power generation   |
| Pointer Investments Limited                        | Samoa/<br>Hong Kong   | US\$1<br>Ordinary share                               | –  | –    | 100        | 100  | Investment holding                                       |
| Shougang Concord Services<br>Limited               | Hong Kong   | HK\$2<br>Ordinary shares                              | 100  | 100  | –          | –    | Provision of management<br>services                      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

| Name of subsidiary   | Place of<br>incorporation<br>or registration/<br>operations | Issued and<br>fully paid share/<br>registered capital | Proportion of issued<br>share/registered<br>capital held<br>by the Company |      |            |       | Principal activities                      |
|--|---|---|--|------|------------|-------|---|
|  |   |   | Directly   |      | Indirectly |       |   |
|  |   |   | 2008   | 2007 | 2008       | 2007  |   |
|  |   |   | %  | %    | %          | %     |   |
| Huge Ever Limited  | Hong Kong   | HK\$1<br>Ordinary share                               | –  | –    | 100        | 100   | Investment holding                        |
| Froxy Investments Limited  | Hong Kong   | HK\$1<br>Ordinary share                               | –  | –    | 100        | 100   | Investment holding                        |
| Host Sun Investments Limited   | Hong Kong   | HK\$1<br>Ordinary share                               | –  | –    | 100        | 100   | Investment holding                        |
| Shine Tone Group Limited   | Hong Kong   | HK\$100<br>Ordinary shares                            | –  | –    | 100        | 100   | Investment holding                        |
| Sky Choice International Limited   | British Virgin<br>Islands/Hong Kong                         | US\$1<br>Ordinary share                               | 100  | 100  | –          | –     | Investment holding                        |
| Ultra Result Limited   | Hong Kong   | HK\$1<br>Ordinary share                               | –  | –    | –          | 100   | Investment holding                        |
| Timefull Investments Limited   | Samoa/Hong Kong   | US\$1<br>Ordinary share                               | 100  | 100  | –          | –     | Investment holding                        |
| 秦皇島首秦鋼材加工配送<br>有限公司<br>Qinhuangdao Shouqin Steels<br>Machining and Delivery<br>Co., Ltd. <sup>△△</sup> | PRC   | RMB300,000,000<br>Registered capital                  | –  | –    | 87.76      | 87.76 | Value-added services<br>on steel products |
| 秦皇島首秦龍匯礦業<br>有限公司<br>Shouqin Longhui <sup>△△</sup>   | PRC   | RMB350,000,000<br>Registered capital                  | –  | –    | 57.84      | –     | mining and<br>sale of iron ore            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

# 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.

△ Foreign investment enterprise established in the PRC.

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

Details of the Company's principal associates at 31 December 2007 and 2008 are as follows:

| Name of entity  | Form of business structure | Place of incorporation | Principal place of operation | Class of shares held | Proportion of nominal value of issued capital held by the Group |        | Proportion of voting power held |        | Principal activity   |
|---|----------------------------|------------------------|------------------------------|----------------------|---|--------|---------------------------------|--------|--|
|   |                            |                        |                              |                      | 2008  | 2007   | 2008                            | 2007   |  |
| Shougang Concord Century Holdings Limited                         | Incorporated               | Hong Kong              | Hong Kong                    | Ordinary             | 36.76%  | 20.71% | 36.76%                          | 20.71% | Manufacturing of steel cords and processing and trading of copper and brass products |
| 秦皇島首泰嘉華 建材有限公司  | Incorporated               | PRC                    | PRC                          | Registered capital   | 22.8%   | –      | 22.8%                           | –      | Production and sales of slag powder  |
| Qinhuangdao Shouqin K. Wah Construction Materials Company Limited |                            |                        |                              |                      |   |        |                                 |        |  |

# FIVE-YEAR FINANCIAL SUMMARY

## Results

|                                     | Year ended 31 December |           |           |            |                   |
|-------------------------------------|------------------------|-----------|-----------|------------|-------------------|
|                                     | 2004                   | 2005      | 2006      | 2007       | 2008              |
|                                     | HK\$'000               | HK\$'000  | HK\$'000  | HK\$'000   | HK\$'000          |
| Turnover                            | 3,289,551              | 4,569,979 | 6,467,487 | 10,926,391 | <b>17,464,705</b> |
| Profit attributable to shareholders | 275,791                | 303,946   | 221,618   | 1,404,196  | <b>1,419,463</b>  |

## Assets and Liabilities

|  | At 31 December |             |             |             |                     |
|--|----------------|-------------|-------------|-------------|---------------------|
|  | 2004           | 2005        | 2006        | 2007        | 2008                |
|  | HK\$'000       | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000            |
| Total assets   | 2,718,116      | 7,448,001   | 11,259,460  | 16,563,541  | <b>21,027,900</b>   |
| Total liabilities                                    | (896,789)      | (5,014,196) | (7,997,432) | (8,619,608) | <b>(11,966,562)</b> |
|  | 1,821,327      | 2,433,805   | 3,262,028   | 7,943,933   | <b>9,061,338</b>    |
| Equity attributable to equity holders of the Company | 1,625,060      | 2,175,898   | 2,943,594   | 6,814,731   | <b>7,563,838</b>    |
| Minority interests                                   | 196,267        | 257,907     | 318,434     | 1,129,202   | <b>1,497,500</b>    |
|  | 1,821,327      | 2,433,805   | 3,262,028   | 7,943,933   | <b>9,061,338</b>    |

# SUMMARY OF INVESTMENT PROPERTIES

Particulars of major investment properties held by the Group as at 31 December 2008 are as follows:

| Property  | Use         | Group interest | Category of the lease |
|---|-------------|----------------|-----------------------|
| 1. No. 158 Jianguo Lu, Qinhuangdao City, Hebei Province, PRC  | Commercial  | 100%           | Medium term lease     |
| 2. No. 27 Zhujiang Dao Zhong Duan, Kai Fa District, Qinhuangdao City, Hebei Province, PRC   | Commercial  | 100%           | Medium term lease     |
| 3. Room Nos. 501, 502, 503 & 506 on fifth floor, Taihong Mansion Building, No.44 Chong Wen Men Wai Da Jie, Chong Wen District, Beijing, PRC | Commercial  | 100%           | Long lease            |
| 4. 10D Kai Fong Garden, Fanling, New Territories, Hong Kong   | Commercial  | 100%           | Long lease            |
| 5. Flat A2 on 8 Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong  | Residential | 100%           | Long lease            |
| 6. Whole of Ground Floor, No. 40 Shenyang Road, Xi Xiang Tang District, Nanning, Guangxi Province, PRC                                      | Residential | 100%           | Medium term lease     |