Annual Report 2009

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

Stock Code : 697

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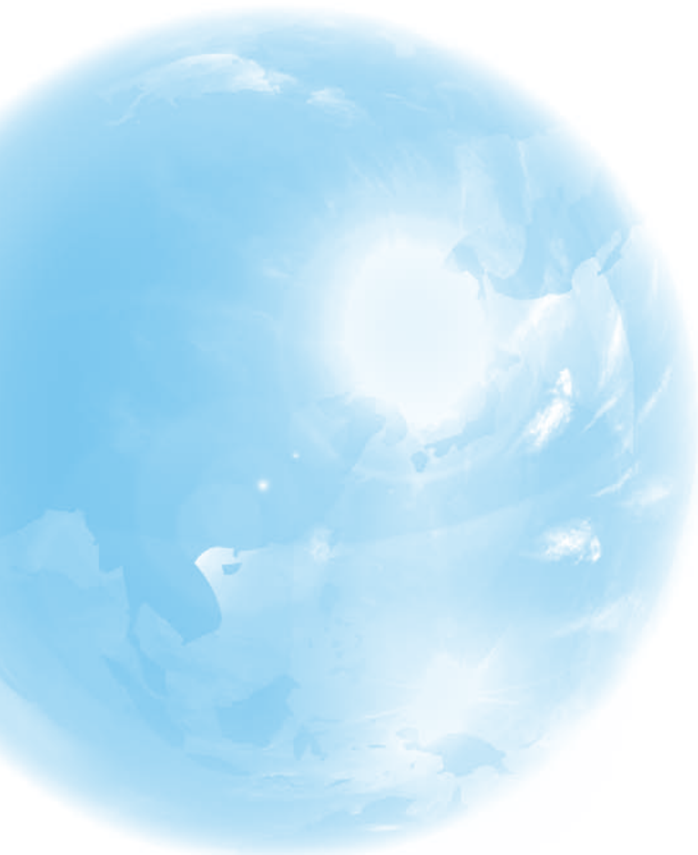

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CORPORATE INFORMATION

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

Mr. Wang Qinghai, aged 51, senior engineer. Mr. Wang was appointed the Chairman of the Company in April 2001. He is also the chairman of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Shougang Concord Grand (Group) Limited ("Shougang Grand") and Fushan International Energy Group Limited ("Fushan Energy"). Mr. Wang 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 is entitled to a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time pursuant to the authority given by the shareholders of the Company (the "Shareholders"). For the financial year ended 31 December 2009, the director's fee of Mr. Wang is HK$150,000. For the financial year ending 31 December 2010, the director's fee of Mr. Wang will be HK$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wang. Such director's fees were determined with reference to Mr. Wang's experience and duties as well as the then prevailing market conditions.

Mr. Cao Zhong, aged 50, 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 and is the chairman of each of the Executive Committee and the Nomination Committee and the vice chairman of the Remuneration Committee of the Company. Mr. Cao is the deputy chairman and general manager of Shougang Holding, and a director of each of Grand Invest International Limited ("Grand Invest") and China Gate Investments Limited ("China Gate"), each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Cao is the chairman of Shougang Concord Technology Holdings Limited ("Shougang Technology"), the vice chairman and managing director of Shougang Grand, the chairman of Global Digital Creations Holdings Limited ("GDC") which is a subsidiary of Shougang Grand, the chairman of Shougang Concord Century Holdings Limited ("Shougang Century") and the vice chairman and managing director of Fushan Energy. He is also a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Cao also acts as the assistant general manager of Shougang Corporation and the chairman of China Shougang International Trade and Engineering Corporation. He was an executive director of APAC Resources Limited ("APAC") from April 2007 to October 2009 and was concurrently the chairman of APAC since May 2007. Mr. Cao has extensive experience in corporate management and operation.

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 or such higher salary and discretionary bonus as may be determined by the Board from time to time. From 1 January 2010, Mr. Cao's monthly salary has been adjusted from HK$300,000 to HK$350,000. For the financial year ended 31 December 2009, the discretionary bonus for Mr. Cao is HK$8,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Cao's individual performance.

Mr. Chen Zhouping, aged 44, 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 and is a member of the Executive Committee of the Company. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is a non-executive director of Fushan Energy and a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. He 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 or such higher salary and discretionary bonus as may be determined by the Board from time to time. From 1 January 2010, Mr. Chen's monthly salary has been adjusted from HK$220,000 to HK$250,000. For the financial year ended 31 December 2009, the discretionary bonus for Mr. Chen is HK$3,300,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Zhang Wenhui, aged 54, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed a Deputy Managing Director of the Company in September 2006 and is a member of the Executive Committee of the Company. He is a deputy managing director of Shougang Holding, and a director of each of Grand Invest and China Gate, each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. He was appointed the general manager of the Shipping Division of the Company in July 2001. 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 and discretionary bonus as may be determined by the Board from time to time. From 1 January 2010, Mr. Zhang's monthly salary has been adjusted from HK$170,000 to HK$190,000. For the financial year ended 31 December 2009, the discretionary bonus for Mr. Zhang is HK$2,550,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Zhang's individual performance.

Mr. Luo Zhenyu, aged 40, 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 and is a member of the Executive Committee of the Company. He 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 or such higher salary and discretionary bonus as may be determined by the Board from time to time. From 1 January 2010, Mr. Luo's monthly salary has been adjusted from HK$140,000 to HK$150,000. For the financial year ended 31 December 2009, the discretionary bonus for Mr. Luo is HK$1,540,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Luo's individual performance.

Mr. Ip Tak Chuen, Edmond, aged 57. Mr. Ip was appointed a Non-executive Director of the Company in 1993. He is also a deputy managing director of Cheung Kong (Holdings) Limited, an executive director and deputy chairman of Cheung Kong Infrastructure Holdings Limited, the senior vice president and chief investment officer of CK Life Sciences Int'l., (Holdings) Inc. and a non-executive director of each of TOM Group Limited, ARA Asset Management Limited, AVIC International Holding (HK) Limited (formerly known as CATIC International Holdings Limited), Excel Technology International Holdings Limited and Ruinian International Limited. All the companies mentioned above are listed companies in Hong Kong or overseas. Mr. Ip is also a director of ARA Asset Management (Fortune) Limited (formerly known as ARA Asset Management (Singapore) Limited), which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on the Singapore Exchange Limited ("SGX"), and of ARA Trust Management (Suntec) Limited, which manages Suntec Real Estate Investment Trust, a real estate investment trust listed on SGX. Mr. Ip was previously a non-executive director of The Ming An (Holdings) Company Limited (whose shares were withdrawn from listing on 2 November 2009). He is also a director of certain substantial shareholders of the Company within the meaning of Part XV of the SFO. He also holds directorships in certain companies controlled by a substantial shareholder of the Company. 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 is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Ip is HK$150,000. For the financial year ending 31 December 2010, the director's fee of Mr. Ip will be HK$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Ip. Such director's fees were determined with reference to Mr. Ip's experience and duties as well as the then prevailing market conditions.

Mr. Leung Shun Sang, Tony, aged 67, 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. Mr. Leung was appointed a Non-executive Director of the Company in November 1992 and is the chairman of the Remuneration Committee and vice chairman of the Nomination Committee of the Company. He is also a director of each of Shougang Technology, Shougang Grand, Shougang Century, GDC and Fushan Energy. Mr. Leung is the managing director of CEF Group.

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 is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Leung is HK$230,000. For the financial year ending 31 December 2010, the director's fee of Mr. Leung will be HK$230,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Ms. Kan Lai Kuen, Alice, aged 55. Ms. Kan was appointed an Independent Non-executive Director of the Company in September 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. She is also an independent non-executive director of Shougang Technology. 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. Ms. Kan is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. She is also an independent non-executive director of each of Regal Hotels International Holdings Limited, 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.

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 is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Ms. Kan is HK$330,000. For the financial year ending 31 December 2010, the director's fee of Ms. Kan will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Ms. Kan. Such director's fees were determined with reference to Ms. Kan's experience and duties as well as the then prevailing market conditions.

Mr. Wong Kun Kim, aged 65. Mr. Wong was appointed an Independent Non-executive Director of the Company in September 2004 and is the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Wong 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 is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Wong is HK$330,000. For the financial year ending 31 December 2010, the director's fee of Mr. Wong will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wong. Such director's fees were determined with reference to Mr. Wong's experience and duties as well as the then prevailing market conditions.

Mr. Leung Kai Cheung, aged 64. Mr. Leung was appointed an Independent Non-executive Director of the Company in June 2006 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Technology. Mr. Leung 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. Mr. Leung is currently the chairman of each of Star International Enterprises Limited and Shinon Technologies Limited. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

An engagement letter has been entered into with Mr. Leung for a term of three years commencing on 1 January 2008. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Leung is HK$330,000. For the financial year ending 31 December 2010, the director's fee of Mr. Leung will be HK$330,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE

As at 31 December 2009

- **#Shougang Concord International Enterprises Company Limited** (Stock Code: 697)
  - **Manufacture and sale of steel products**
    - ∆ 76% Qinhuangdao Shouqin Metal Materials Co., Ltd. (PRC)
    - 100% Qinhuangdao Shougang Plate Mill Co., Ltd. (PRC)
  - **Trading of iron ore & steel products**
    - 100% Shougang Concord Steel Holdings Limited (BVI)
  - **Shipping and transportation**
    - 100% Shougang Concord Shipping Holdings Limited (BVI)
  - **Mineral exploration; iron ore mining, production & sales of iron ore products; coking coal mining, production & sales of coking coal products**
    - ∆ 67.84% Qinhuangdao Shouqin Longhui Mining Co., Ltd. (PRC)
    - 24.48% #Fushan International Energy Group Limited (HK) (Stock code: 639)
    - 6.33% #Australasian Resources Ltd (Australia)
  - **Manufacture of steel cord for radial tyres; processing and trading of copper and brass products**
    - 35.73% #Shougang Concord Century Holdings Limited (HK) (Stock Code: 103)

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

Notes:

\# Listed company

Δ Attributable interest held by Shougang Concord International Enterprises Company Limited

100%
Shougang Concord Steel International Trading Co. Ltd.
(BVI)

100%
Shougang Concord Godown Limited
(HK)

100%
Shougang Concord Management Company Limited
(HK)

100%
深圳市首康國際貿易有限公司
(PRC)

100%
Shougang Concord International Transport Limited
(BVI)

100%
Shougang Concord Shipping Services Limited
(HK)

100%
Ryegar Ltd
(UK)

70%
Centralink International Limited
(BVI)

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

Δ 4.11%
\# APAC Resources Limited
(Bermuda)
(Stock Code: 1104)

Δ 3.5%
\# Mount Gibson Iron Limited
(Australia)

Δ 6.33%
International Minerals Pty Ltd
(Australia)

Δ 6.33%
International Exploration Ltd
(Australia)

Δ 35.73%
Jiaxing Eastern Steel Cord Co., Ltd.
(PRC)

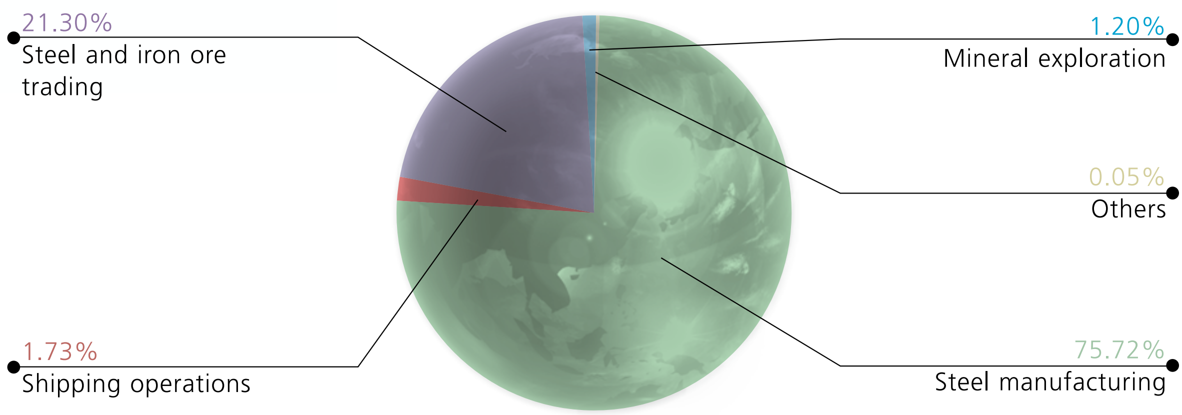
Δ 35.73%
Tengzhou Eastern Steel Cord Co., Ltd.
(PRC)

Δ 35.73%
Hing Cheong Metals (China & Hong Kong) Limited
(HK)

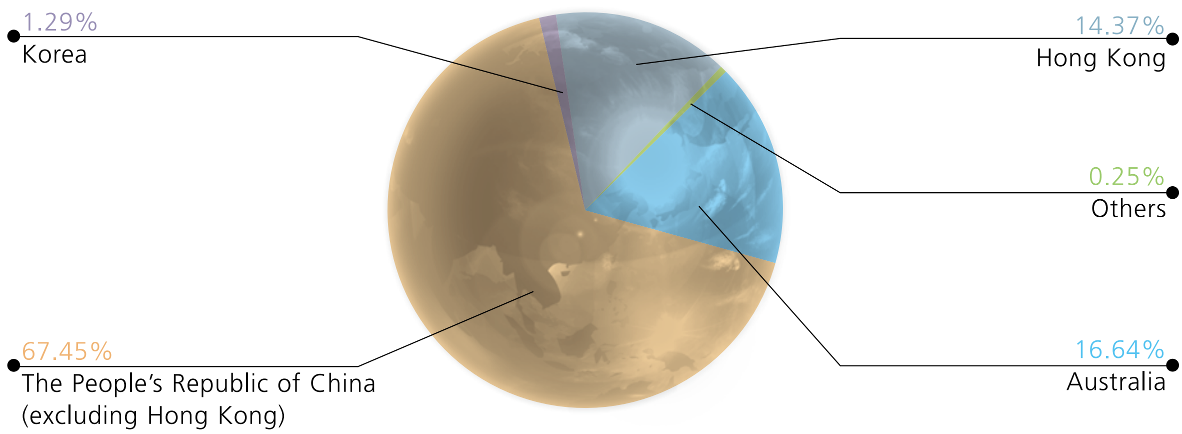
Δ 35.73%
Rise Boom International Limited
(BVI)

FINANCIAL HIGHLIGHTS

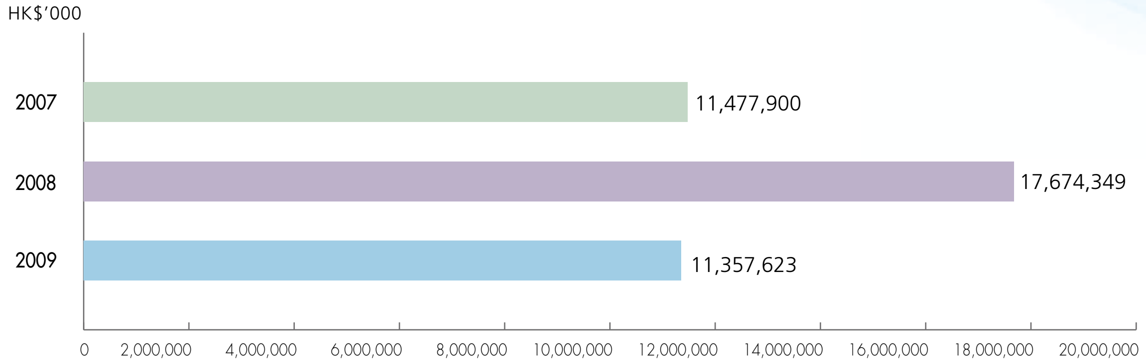
TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2009



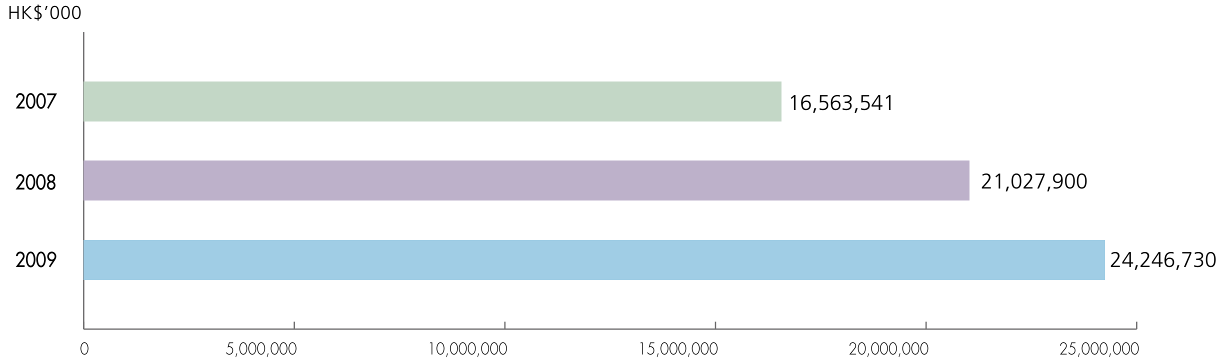
TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2009



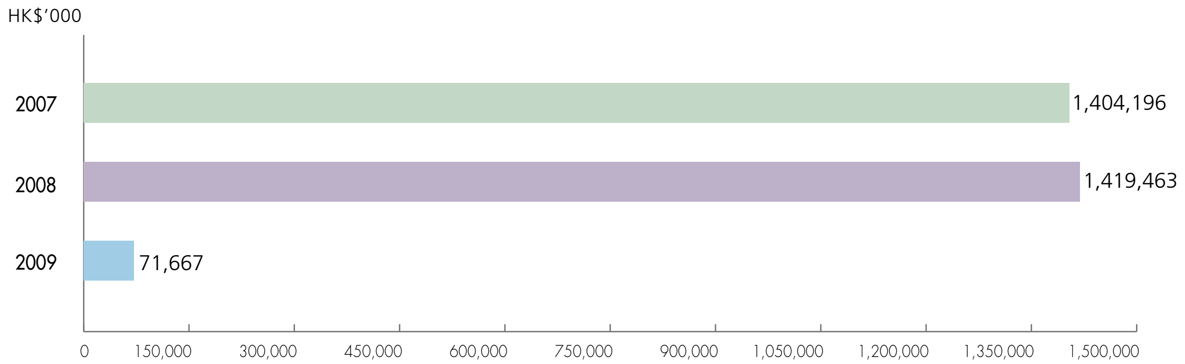
TURNOVER



TOTAL ASSETS



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY



CHAIRMAN'S STATEMENT

Last year marked yet the most difficult year in this century for the steel industry, Shougang Concord International was not immune; we are operating in a consistent trend within the entire industry. Fortunately, the Group has ridden out the difficult situation by executing our vertical integration strategy. We have also successfully acquired various upstream interests in iron ore and coking coal in recent years, complementing the raw material requirements for our hot rolling heavy plate production lines. Unlike other steel plants which focus solely on capacity expansion and efficiency gains, our strategy has been gearing towards delivering higher value-adding products and focusing on key integration of the entire value chain.

Consolidated revenue for the year was HK$11.4 billion, while net profit attributable to shareholders was HK$71.7million. Though the Group enjoys a sound financial situation, after considering factors such as investment needs and loan repayment, the Board does not recommend paying a final dividend this year, but promise to resume paying dividend when financial performances improve.

The year 2010 will be a crucial year as the Group forges ahead and prepares for it. Demand is the principal reason that drives prices; with global economy recovering, it implies that demand shall expand, whilst an expanded demand will drive prices up. Our upstream investments have provided hedge against future raw materials price increase, and should achieve progressive operational integration, enhancing the value of the heavy plate business. All these should help shield earnings from an environment of expected rising cost of production and differentiate ourselves from the peers, which shall bear sweet fruit to our shareholders in the years to come.

Finally, I would like to take this opportunity to express my gratitude to all our shareholders and business partners. In the meantime, I would also like to thank our Board of Directors, management and staff for their diligence and contributions to the Group. We shall commit our best efforts to bring a promising future for the Group.

Wang Qinghai
Chairman

15 April 2010

OPERATIONAL OVERVIEW

We are a vertically integrated heavy plate manufacturing enterprise in the PRC. Currently, our operations are mainly segregated into four segments, namely, steel manufacturing, mineral exploration, steel and iron ore trading and shipping. Apart from having a long-term iron ore offtake agreements with Australia-listed iron ore producer Mount Gibson Iron Limited ("Mt. Gibson"), we have established a 68% owned subsidiary – Qinhuangdao Shouqin Longhui Mining Co., Ltd. ("Shouqin Longhui") to explore local iron ore resources in Qinhuangdao city, Hebei, PRC in order to enhance our investment in upstream supply chain. We have, as of end of 2009, held 1.31 billion ordinary shares (equivalent to approximately 24.5% stake) of Fushan International Energy Group Limited ("Fushan International"), a Hong Kong-listed coking coal producer in China. In addition, we have established a deep processing centre to extend our business to the downstream value chain. Such vertical integration strategy is advantageous in enhancing the heavy plate manufacturing operation of the Group.

FINANCIAL OVERVIEW

The Group was impacted by financial crisis in 2009, with the macro environment such as shrinking demand in steel market, diving export and over-capacity; we were facing a very intricate situation, hurting both sales and profit. Profit attributable to shareholders stood at HK$71.7 million[1], a decrease of 95.0% comparing to that of the last year, amongst which Steel manufacturing segment reporting net loss of approximately HK$1.18 billion. The Group recorded a consolidated turnover of HK$11,357.6 million[1] in the year, showing a drop of 35.7% comparing with that of last year. Basic and diluted earnings per share was HK0.9 cent and HK0.8 cent respectively.

FINANCIAL REVIEW

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover and Cost of Sales

For the year under review, the Group recorded a consolidated turnover of HK$11,357.6 million[1], representing a drop of 35.7% from that of last year. The decrease is mainly attributed to lower selling prices and sales volume in the steel manufacturing segment.

Cost of sales for the current year was HK$12,089.2 million, resulting in gross loss, while last year's gross margin was 19.7%.

EBITDA and Core Operating (Loss)/Profit

In this current year, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK$1,269.2 million, which decreased by 48.5% from HK$2,466.9 million of last year.

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 in 2008. The respective amounts of the discontinued operation were separately disclosed in the analysis of turnover and profit.

FINANCIAL REVIEW (CONTINUED)

EBITDA and Core Operating (Loss)/Profit (Continued)

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

In HK$ million	Year ended 31 December	
	2009	2008*
Profit attributable to shareholders	**71.7**	1,419.5
Adjusting for loss/(gain) items:		
Asset realization – Disposal of Mt. Gibson shares, net[2]	**(1,113.7)**	–
Negative goodwill on acquisition of Fushan International shares, net of fair value movement of HK$170.5 million[3]	**(136.9)**	–
Fair value gain on commodity forward contract	**(68.9)**	(25.0)
Impairment of goodwill – Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate")[4]	**50.0**	–
Impairment loss on Australasian Resources Limited ("ARH") shares	**–**	91.1
Fair value loss on ARH options	**3.2**	147.1
Employee share option expenses	**59.4**	110.9
Asset realization – Power plant	**–**	(4.2)
Core operating (loss)/profit	**(1,135.2)**	1,739.4

* as restated

Note 2: Workings are explained in Note 24(a) to financial statements.

Note 3: Workings are explained in Note 23 to financial statements.

Note 4: Impairment of goodwill was assessed at HK$50 million since deterioration of market condition leads to an unexpected drop of investment returns in one of our subsidiaries, Qinhuangdao Plate. The remaining goodwill of this investment was HK$144 million as of 31 December 2009.

Finance cost

In the global low-interest environment, finance cost reduced by 13.5% to HK$392.9 million[1] when comparing to that of last year although bank borrowings have increased by about 36%.

REVIEW OF OPERATIONS

Manufacture and Sale of Steel Products

The Group operates in this business segment through 76%-owned Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") and a wholly-owned subsidiary Qinhuangdao Plate. This segment has contributed 76% of the Group's turnover (2008: 80%). During the first half year under review, steel prices and demand crashed, resulting in losses among almost all industry peers, but the second half has seen slow stabilization, PRC steel price index was slightly higher than that of beginning of the year, but it was insufficient to offset the losses incurred in the first half. This core segment has incurred HK$1.18 billion in net loss, comparing to HK$1,489 million in net profit last year. Summary of production and sales quantities of the two manufacturing plants under this segment is as follows:

In '000 mt.		Slabs		Heavy Plates	
		2009	2008	**2009**	2008
(i)	**Production**				
	Shouqin	**2,379**	2,650	**1,290**	1,462
	Qinhuangdao Plate	**–**	–	**701**	825
	Total	**2,379**	2,650	**1,991**	2,287
(ii)	**Sales**				
	Shouqin#	**936**	985	**1,277**	1,444
	Qinhuangdao Plate	**–**	–	**651**	763
	Total	**936**	985	**1,928**	2,207

substantially all slabs sold by Shouqin were towards Qinhuangdao Plate for its production and were eliminated upon consolidation

REVIEW OF OPERATIONS (CONTINUED)

Manufacture and Sale of Steel Products (Continued)

Shouqin

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 situated in Qinhuangdao City, Hebei, which is one of the largest port cities in Northern China. It is a fully integrated manufacturing facility encompassing the entire process from iron, steel, slab to plate with 4.3m hot rolling lines imported from Germany, also boosting a leading environmental-friendly production system. 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.

Shouqin was hit hard by financial crisis last year. Sales volume of heavy plates was down by 11.6%, while average realized ex-VAT selling price was HK$4,227 (RmB3,725) per ton, a decrease of 39%. In the year under review, it recorded a turnover of HK$8,769.7 million (before elimination of intersegment sales but including that of downstream processing centre), a decrease of 41.0% from that of last year; net loss attributable to the Group amounted to HK$904.8 million, versus a profit contribution of HK$1,278.2 million last year. We have also made HK$210.4 million in provision for impairment of inventory, comparing to HK$92.7 million last year. However, it has already shown improvement in the second half. With vertical integration and improvement in market demand, its raw material cost advantages are expected to lead the industry peers, while profitability is improving, 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

With a medium plate (upto 3 m. in width) hot rolling facility starting from 1993, Qinhuangdao Plate recorded a turnover of HK$2,996.8 million (before elimination of intersegment sales) for the year, decreased by 47.9% from that of last year, with average ex-VAT selling price lower at HK$3,831 (RmB3,376) per ton. As a result, its net loss for the current year attributable to the Group was HK$278.3 million, comparing to net profit of HK$210.8 million last year.

Production and Processing of coking coal and related products

The Group has acquired 1.31 billion ordinary shares in Fushan International (equivalent to about 24.5% stake), and has become its single largest shareholder. Fushan International is the second largest hard coking coal producer in China, currently operating three premium coal mines in Shanxi with an annual production capacity of over 6 million tonnes, it also intends to grasp the restructuring opportunities in Shanxi to expand production through acquisition. Its consolidated turnover for the year was HK$4,470.1 million, net profit attributable to shareholders was HK$1,126.3 million, a rise of 1.4 times and 98.4% respectively over that of last year; whilst its consolidated gross profit ratio was 67.8%. Profit attributable to the Group was HK$39.9 million. In the meantime, the Group has recorded a one-off negative goodwill (gain), net of loss arising from fair value adjustments on consideration paid and the available for sale investments acquired in February 2009, of HK$136.9 million through acquisition of stake in Fushan International.

Driven by government stimulus towards the economy, recovery in infrastructure, automobile and property development industries has caused a surge of demand in coking coal, resulting in higher prices. At the same time, Fushan International has been focusing on expanding its clean coal production, with plans to boost its annual coal processing capacity from 4 million tonnes currently to 11 million tonnes, which should improve operational efficiency and market competitiveness. Market demand towards rare quality coking coal should climb following the economic growth, we are confident towards its future operations, expecting this upstream operation to provide a good profit base for the Group.

REVIEW OF OPERATIONS (CONTINUED)

Mineral exploration – Production and Processing of iron ore in Australia

Mt. Gibson is an Australia-listed iron ore producer. The Group held approximately 14.3% stake in it in January, 2009 in addition to iron ore offtake agreements signed at the end of 2008. In December 2009, the Group injected its entire stake in Mt. Gibson into Fushan International (but kept the iron ore offtake agreements), in return of an additional 214 million new shares in Fushan International to solidify our position as the largest shareholder. Hence, the Group recognized a one-off net profit of about HK$1,113.7 million.

Mineral exploration – Production and Processing of iron ore in the PRC

Shouqin Longhui is a joint venture established by Shouqin, Qinhuangdao Plate and Qinhuangdao Longhui Trade Co., Ltd. in 2008, with the Group holding an effective 68% stake in. Shouqin Longhui currently owns 100% interest in two magnetite iron ore mines and a pellet plant in Qinhuangdao City, with an annual capacity of 1 million and 2 million tonnes respectively; one of the magnetite iron ore mines has started production in September 2009. During the year under review, Shouqin Longhui sold about 340,000 tonnes of pellets at an average ex-VAT selling price of RmB835, with a total turnover of HK$325 million (before elimination of intersegment sales), loss attributable to the Group was HK$47.9 million due to higher start-up costs.

Steel and iron ore trading

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") reported turnover of HK$2,419 million for year ended 31 December 2009, thanks to the trading of Mt. Gibson iron ore at 3.35 million tonnes (2008: 0.13 million tonnes), gross profit amount grew to HK$51.6 million from HK$41.0 million last year, whilst net profit increased by 63.2% to HK$45.5 million, also a turnaround of a loss-making first half. Since implementation of long term iron ore offtake agreement with Mt. Gibson from 1 July 2009, our procurement cost was 10% lower than benchmark price, while quantity is tied to 80% of its available production. Following market improvement and growth in production of Mt. Gibson, we expect iron ore trading volume shall increase, providing a good profit contribution to the Group in the foreseeable future.

REVIEW OF OPERATIONS (CONTINUED)

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. Ocean freight market was extremely volatile in the year under review, financial crisis caused shrinkage in global trading activities, resulting in excess capacity and hence fall in charter rates; fortunately with the early signs of global economic stimuli in the second half of the year bought much improvement in the charter rates. In the current year, its turnover and net profit attributable to shareholders were HK$197.1 million and HK$31.2 million respectively, registering a drop of 60.5% and 90.6% comparing to that of last year, but a turnaround from a loss-making first half. In order to lessen profit fluctuation, our strategy remains locking in one vessel at longer term charter, we are confident this business should provide a viable hedge to our main activities.

Other businesses

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

Our 35.7%-owned Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") reported net profit of HK$171.3 million in the current year, rising by 3.9 times when comparing to that of last year; whilst net profit attributable to the Group amounted to HK$54.8 million, comparing to loss attributable last year at HK$22.5 million.

Attributable to the increasing demand for radial tyres as well as the improvement in automobile industry during the year, Shougang Century Group's sales and the gross profit margin recorded significant growth, whilst there was significant net profit on sale of A shares it held. With its expanding businesses and capacity, we believe optimistic financial results will maintain in the future.

Electricity generation – Discontinued operation

Our 51%-owned Beijing Shougang Firstlevel Power Company Limited ("Beijing Power Plant") was disposed of entirely in June 2008 and was classified as part of discontinued operations.

REVIEW OF OPERATIONS (CONTINUED)

Liquidity and Financial Resources

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 2009, as compared to 31 December 2008 is summarized below:

HK$ million	**As at 31 December**	
	2009	2008
Total Debt		
– from banks	**9,909**	7,280
– from parent company	**793**	928
Sub-total	**10,702**	8,208
Cash and bank deposits	**1,653**	4,034
Net debt	**9,049**	4,174
Total capital		
(Equity and debt)	**19,283**	15,772
Financial leverage		
– Net debt to total capital	**46.9%**	26.5%
– Net debt to total assets	**37.3%**	19.8%

2. *Currency and Interest Rate Risk*

The Group 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 manage such risks, but not for speculative purposes. We also dedicate to ensure sufficient financial resources for corporate development.

REVIEW OF OPERATIONS (CONTINUED)

Liquidity and Financial Resources (Continued)

2. *Currency and Interest Rate Risk (Continued)*

   The Group conducts its businesses mainly in Hong Kong, Mainland China and Australia. Therefore, we are subject to the foreign exchange fluctuations of HK Dollars, US Dollars, Renminbi 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 offset each other in terms of any currency movements. However, there will be a translation gain as a result of the RmB appreciation. For the year ended 31 December 2009, approximately 77% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements.

Material acquisition and disposal

In January 2009, the Company has completed the acquisition of ordinary shares in Mt. Gibson, holding 14.3% stake, at A$0.6 per ordinary share. Details of this transaction were disclosed in the announcement dated 4 November 2008 and the circular dated 18 November 2008.

In February 2009, the Company has completed acquisition of 550 million ordinary shares in Fushan International, holding 12% stake, at HK$2.18 per share, partly paid by 550 million new shares of the Company. Details of this transaction were announced on 10 February 2009.

In September 2009, the Company has completed acquiring another 450 million ordinary shares in Fushan International, with a combined 20% stake, at HK$4.29 per share, partly paid by 450 million new shares of the Company. Details of this transaction were announced on 8 July 2009.

In December 2009, the Company has completed acquiring another 214 million ordinary shares in Fushan International at HK$5.556 per share, using the 14.3% stake in Mt. Gibson held by the Company as purchase consideration. Details of this transaction were announced on 22 September 2009. In the same month, the Company has acquired an additional 100 million ordinary shares in Fushan International at HK$7.2 per share.

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$1,435.1 million, represented by 7,175.4 million ordinary shares at par value of HK$0.20 each. During the year, the Group issued 1 billion ordinary shares as part purchase consideration in Fushan International (described above). As a result, the issued share capital of the Company increased to HK$1,635.1 million, represented by 8,175.4 million ordinary shares as at 31 December 2009.

REVIEW OF OPERATIONS (CONTINUED)

Employees and Remuneration Policies

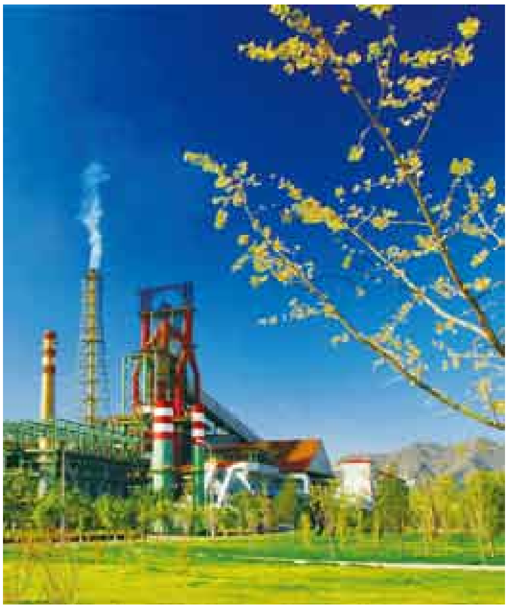
The Group has a total of approximately 3,900 employees as at 31 December 2009.

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

In 2009, RmB4 trillion fiscal stimulus package and strong V-shaped economic recovery of China has put her in the focus of the world. From this year onwards, more attention is expected on her GDP growth and urbanization trends as the second largest economy in the world. The world needs to understand China better to realize this ongoing theme.



The global financial crisis has adverse impact on the China and the world economy, it takes time for a full recovery, whilst there could be much volatilities in China's economic growth. However, we do expect China to grow in a fast and steady manner in 2010, pushing the demand of both steel and raw materials.

Under these circumstances, the vertical integration strategy of the Group shall help put us in an advantageous foothold in both market competition and economic uncertainties – through strong upstream profit contribution which aligns with the core steel business that can enhance shareholders' return in the years to come.

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 2009, except for the following deviation:

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

  The Chairman of the Board of Directors of the Company did not attend the annual general meeting of the Company held on 1 June 2009 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with the chairman and majority of members of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

BOARD OF DIRECTORS

Composition

The Board currently comprises 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.

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

- bringing an independent judgement at Board meetings;

- taking the lead where potential conflicts of interests arise;

BOARD OF DIRECTORS (continued)

Composition (continued)

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

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

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

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

Role and function

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

Board meetings

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

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

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

BOARD OF DIRECTORS (continued)

Board meetings (continued)

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

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

Attendance records

During the financial year ended 31 December 2009, the Directors have made active contribution to the affairs of the Group and six 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 2009 were as follows:

	Meetings attended/Eligible to attend
Chairman	
Wang Qinghai	0/6
Executive Directors	
Cao Zhong	6/6
Chen Zhouping	6/6
Zhang Wenhui	5/6
Luo Zhenyu	5/6
Non-executive Directors	
Ip Tak Chuen, Edmond	4/6
Leung Shun Sang, Tony	6/6
Independent Non-executive Directors	
Kan Lai Kuen, Alice	6/6
Wong Kun Kim	6/6
Leung Kai Cheung	6/6

BOARD OF DIRECTORS (continued)

Access to information

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

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

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.

BOARD OF DIRECTORS (continued)

Directors' and officers' liability

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

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Qinghai assumes the role of the Chairman and Mr. 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 COMMITTEES

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

Executive Committee

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

As at 31 December 2009, 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, fourteen meetings of the Executive Committee were held.

BOARD COMMITTEES (continued)

Audit Committee

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

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

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

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

The Audit Committee 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 *(Chairman)*	2/2
Kan Lai Kuen, Alice	2/2
Leung Kai Cheung	2/2

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

- reviewing the final results of the Group for the financial year ended 31 December 2008; and
- reviewing the interim results of the Group for the six months ended 30 June 2009.

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

BOARD COMMITTEES (continued)

Nomination Committee

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

The principal duties of the Nomination Committee include:

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

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

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

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

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

BOARD COMMITTEES (continued)

Nomination Committee (continued)

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

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

Remuneration Committee

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

The principal duties of the Remuneration Committee include:

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

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

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

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

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

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

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

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

- reviewing the remuneration and terms of service contracts of the Executive Directors of the Company;
- determining the bonuses of the Executive Directors of the Company for the year 2009; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2010.

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.

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.

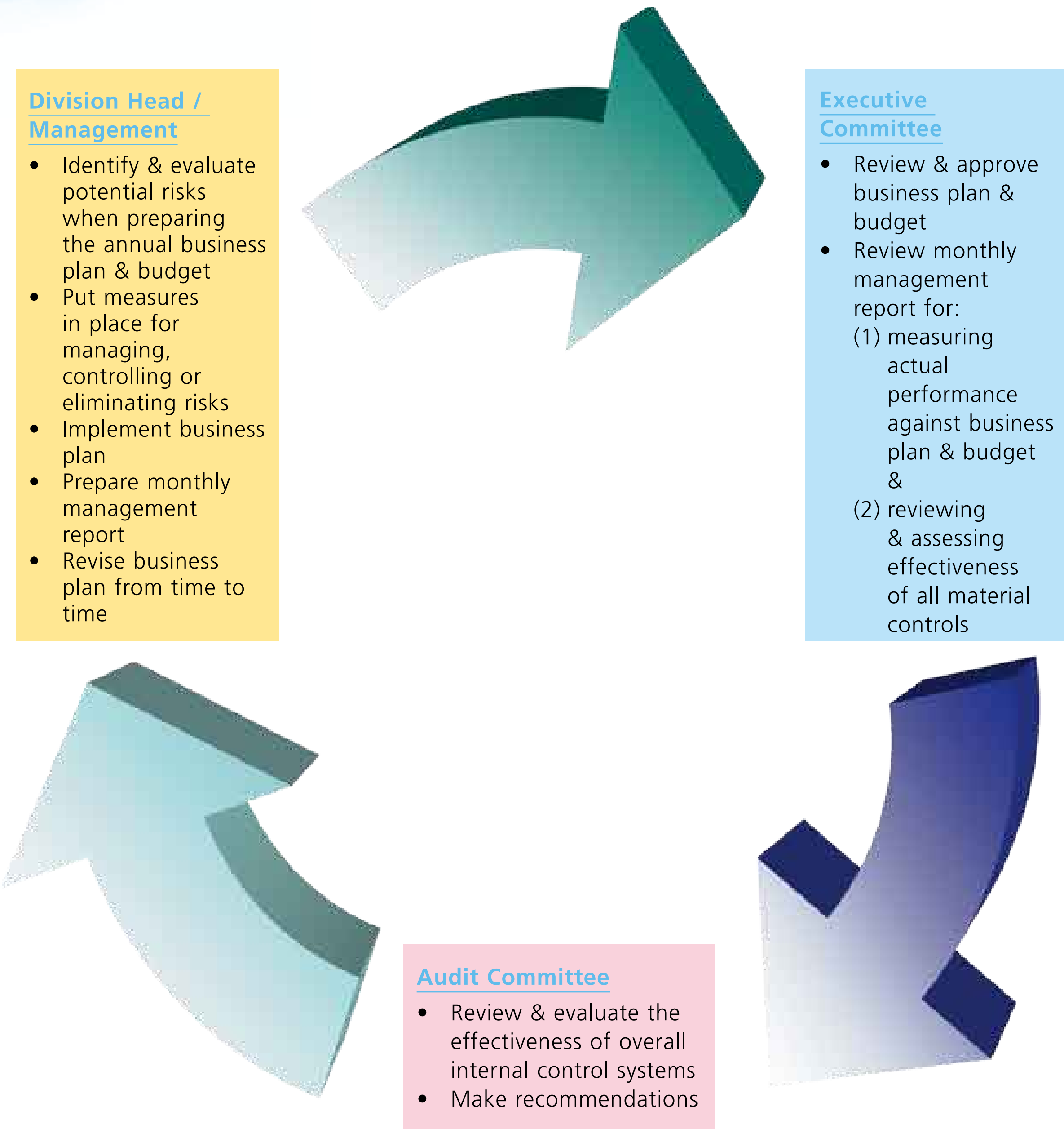
The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and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

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 2009.

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

AUDITOR'S REMUNERATION

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

Services rendered	**Fee paid/payable** *HK$'000*
Audit services	1,890
Non-audit services:	
Interim review	580
Professional services rendered for connected transactions	71
Professional services rendered for acquisition of an associate	411
Review preliminary results announcement for 2008	31
	2,983

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 55 to 56 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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 2009.

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 2009 and the state of affairs of the Group at that date are set out in the financial statements on pages 57 to 182 of this annual report.

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 183 of this annual report.

INVESTMENT PROPERTIES

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

Particulars of the major investment properties of the Group as at 31 December 2009 are set out on page 184 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 37 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 62 to 63 of this annual report and in note 39 to the financial statements, respectively.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$1,000,000 (2008: 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, Messrs. Wang Qinghai, Cao Zhong, Ip Tak Chuen, Edmond and Wong Kun Kim will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

The Directors of the Company who held office at 31 December 2009 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2009 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 in the Company Interests in shares	 Interests in underlying shares*	 Total interests	Total interests as to % of the issued share capital of the Company as at 31.12.2009
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.91%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.55%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.42%
Luo Zhenyu	Beneficial owner	–	25,000,000	25,000,000	0.30%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.15%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.09%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.01%

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

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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in Shougang Century: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Shougang Century as at 31.12.2009
Cao Zhong	Beneficial owner	7,652,000	74,350,000	82,002,000	4.26%
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%
Luo Zhenyu	Beneficial owner	7,652,000	–	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	16,592,000	24,244,000	1.26%

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

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

(c) Long positions in the shares and underlying shares of Fushan International Energy Group Limited ("Fushan Energy"), an associated corporation of the Company[1]

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in Fushan Energy: Interests in shares	Interests in underlying shares[2]	Total interests	Total interests as to % of the issued share capital of Fushan Energy as at 31.12.2009
Cao Zhong	Beneficial owner	3,000,000	15,000,000	18,000,000	0.33%
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Kai Cheung	Beneficial owner	500,000[3]	–	500,000	0.00%

Notes:

1. Fushan Energy became an associated corporation (within the meaning of Part XV of the SFO) of the Company with effect from 11 September 2009.

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

3. The shares are held by Mr. Leung Kai Cheung and his spouse.

Save as disclosed above, as at 31 December 2009, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2009, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies and persons had interests in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO ("Notifiable Interest"):

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2009	*Note(s)*
Shougang Holding	Beneficial owner, interests of controlled corporations	3,446,152,686	42.15%	*1*
China Gate Investments Limited ("China Gate")	Beneficial owner	1,979,904,761	24.21%	*1*
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	9.39%	*1*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.57%	*2, 3*
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	5.17%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.57%	*3*

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	Interests as to % of the issued share capital of the Company as at 31.12.2009	*Note(s)*
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.57%	*3*
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.57%	*3*
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.57%	*3*
Lazard Asset Management LLC	Investment manager	724,107,100	8.85%	

(b) Lending Pool

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2009
State Street Corporation	Custodian corporation/ approved lending agent	409,202,400	5.00%

Notes:

1. Shougang Holding indicated in its disclosure form dated 11 September 2009 (being the latest disclosure form filed up to 31 December 2009) that as at 11 September 2009, its interests included 1,979,904,761 and 768,340,765 shares of the Company held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries 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.

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

Notes: (continued)

2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to 31 December 2009) that as at 24 February 2009, 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.

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

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

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

Save as disclosed above, as at 31 December 2009, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

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

SHARE OPTION SCHEME

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

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

SHARE OPTION SCHEME (continued)

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

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 225,640,000 which represents approximately 2.76% 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 8.66% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors.

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

SHARE OPTION SCHEME (continued)

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

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

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

	Options to subscribe for shares of the Company						
Category or name of grantees	At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company							
Cao Zhong	65,000,000[1]	–	–	65,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Chen Zhouping	45,000,000[1]	–	–	45,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Zhang Wenhui	35,000,000[1]	–	–	35,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Luo Zhenyu	25,000,000[1]	–	–	25,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Ip Tak Chuen, Edmond	8,000,000	–	–	8,000,000	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	4,590,000	–	–	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK$0.280
	12,590,000	–	–	12,590,000			

SHARE OPTION SCHEME (continued)

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company (continued)							
Kan Lai Kuen, Alice	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Wong Kun Kim	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
Leung Kai Cheung	1,500,000	–	–	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	187,090,000	–	–	187,090,000			
Employees of the Group	37,500,000[1]	(25,000,000)[2]	–	12,500,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	37,500,000	(25,000,000)	–	12,500,000			
Other participants	50,000	–	–	50,000	23.08.2002	23.08.2002 – 22.08.2012	HK$0.295
	1,000,000[1]	–	25,000,000[2]	26,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	1,050,000	–	25,000,000	26,050,000			
	225,640,000	(25,000,000)	25,000,000	225,640,000			

Notes:

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

2. The share options were held by a grantee who ceased to be an employee of the Group during the year and the Board approved the extension of the exercise period for such share options up to 19 December 2014. Such share options were re-classified from the category of "Employee of the Group" to "Other participants" during the year.

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

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

DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$312,769,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 16% of the total sales for the year and sales to the largest customer included therein amounted to approximately 4%. Purchases from the Group's five largest suppliers accounted for approximately 61% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 29%. The holding company of the controlling shareholder of the Company had interest in three of the Group's five largest customers and two 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 interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

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

(a) Connected transaction

On 3 July 2009, the Company and Shougang Holding entered into an agreement (the "Agreement") pursuant to which Shougang Holding conditionally agreed to sell 1 share of US$1.00 in the capital of Fine Power Group Limited ("Fine Power"), representing the entire issued share capital hereof, to the Company (the "Acquisition") for a consideration of HK$1,930,500,000, which would be satisfied in full by (i) a cash consideration of HK$1,350,000,000, payable as to HK$1,000,000,000 on the date of completion of the Agreement and as to HK$350,000,000 on the expiry of six months after the completion of the Agreement; and (ii) the allotment and issue of 450,000,000 new ordinary shares of the Company (the "Consideration Shares") to Shougang Holding or its wholly-owned subsidiary at an issue price of HK$1.29 per Consideration Share.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

(a) Connected transaction (continued)

As at the date of the Agreement, Shougang Holding and its associates held an aggregate of approximately 38.78% of the issued share capital of the Company, Shougang Holding was therefore a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constituted a connected transaction for the Company under the Listing Rules. Fine Power was an investment holding company and its sole asset was the holding of 450,000,000 shares of Fushan Energy, representing approximately 9.80% of the then issued share capital of Fushan Energy. Fushan Energy and its subsidiaries are principally engaged in coking coal mining and production and sales of coking coal products and side products. The Acquisition could secure a long-term and stable source of supply of raw materials for the Group's steel manufacturing operation and further contribute to the development of the Group's corporate strategy to enhance its existing mineral exploration business. Details of the transaction were disclosed in the announcement of the Company dated 8 July 2009 and a circular to shareholders dated 21 August 2009 in accordance with Chapter 14 and Chapter 14A of the Listing Rules. The Agreement was confirmed, approved and ratified by the independent shareholders of the Company on 8 September 2009 and was completed on 11 September 2009.

(b) Continuing Connected transaction

As stated in the announcement of the Company dated 8 May 2008 and in the circular of the Company dated 20 May 2008, a master agreement dated 7 May 2008 (the "Master Agreement") was entered into between the Company and Shougang Corporation, a connected person of the Company by virtue of its being the holding company of Shougang Holding, the controlling shareholder of the Company, in relation to (i) provision of raw materials, materials, fuel, energy, equipments, spare parts, steel products and services and other related products and/or services to the Group by Shougang Corporation and/or its associates (the "Master Purchases"); and (ii) supply of raw materials, scrap materials, steel products and services and other related products and/or services to Shougang Corporation and/or its associates by the Group (the "Master Sales") during the three financial years ending 31 December 2010.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

(b) Continuing Connected transaction (continued)

Pursuant to the Master Agreement, the annual cap amounts of the Master Purchases and the Master Sales for the three financial years ending 31 December 2010 are as follows:

	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

Details of the continuing connected transactions as mentioned above have been included in the Company's 2008 annual report in compliance with the Listing Rules.

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

As far as the transactions took place during the year as set out in note 48(a)(I) to the financial statements under the heading of "Related Party Disclosures" are concerned, the transactions contemplated under the agreement entered into between the Company and Shougang Holding on 3 July 2009 as set out in note 23 to the financial statements were connected transactions which had been approved by the independent shareholders of the Company. As far as the transactions mentioned in notes 25, 28 and 29 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 had been approved by the independent shareholders of the Company. The transactions set out in note 35 to the financial statements were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

The transactions as set out in notes 48(a)(I)(a), (c), (f), (j), (k) and (l) were continuing connected transactions which had been approved by the independent shareholders of the Company. The transactions as set out in notes 48(a)(I)(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(b) to the financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

(a) Under the loan agreement dated 22 November 2007 entered into between Bank of China (Hong Kong) Limited and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a 76% indirectly owned subsidiary of the Company, in relation to a loan in an amount not exceeding RMB1,500,000,000, breach of any of the following undertakings 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 down of the loan (i.e. 23 November 2007).

(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; 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 not exceeding 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 not exceeding 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 24 to 36 of this annual report.

AUDITOR

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

By Order of the Board
Cao Zhong
Managing Director

Hong Kong, 15 April 2010

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 182 which comprise the consolidated and Company's statements of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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.

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 2009 and of the Group's loss 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
15 April 2010

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Continuing operations			
Revenue	6	**11,357,623**	17,464,705
Cost of sales		**(12,089,157)**	(14,024,858)
Gross (loss) profit		**(731,534)**	3,439,847
Other income	7	**68,103**	138,826
Other gains and losses	8	**1,007,153**	(22,684)
Change in fair value of derivative financial instruments		**95,136**	(208,730)
Impairment loss on available-for-sale investments		**–**	(91,143)
Distribution and selling expenses		**(64,723)**	(287,006)
Administrative expenses		**(461,684)**	(643,538)
Finance costs	9	**(392,863)**	(448,748)
Share of result of associates		**402,022**	(22,417)
(Loss) profit before taxation		**(78,390)**	1,854,407
Income tax expense	10	**(142,546)**	(39,002)
(Loss) profit for the year from continuing operations		**(220,936)**	1,815,405
Discontinued operation			
Profit after tax for the year from discontinued operation	11	**–**	11,237
(Loss) profit for the year	12	**(220,936)**	1,826,642
(Loss) profit for the year attributable to:			
Owners of the Company		**71,667**	1,419,463
Minority interests		**(292,603)**	407,179
		(220,936)	1,826,642
Earnings per share	15		
From continuing and discontinued operations:			
– Basic		**0.92 HK cent**	19.67 HK cents
– Diluted		**0.83 HK cent**	19.55 HK cents
From continuing operations:			
– Basic		**0.92 HK cent**	19.57 HK cents
– Diluted		**0.83 HK cent**	19.45 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2009

	2009 HK$'000	2008 HK$'000
(Loss) profit for the year	**(220,936)**	1,826,642
Other comprehensive income		
Exchange differences arising on translation		
Exchange gains arising during the year	**7,189**	283,005
Reclassification adjustment relating to disposal of a subsidiary included in profit or loss during the year	**–**	(44,357)
	7,189	238,648
Available-for-sale financial assets		
Gains (losses) arising during the year	**3,476,917**	(247,905)
Reclassification adjustments of cumulative gain upon disposal (note 23)	**(1,610,136)**	–
Reversal of cumulative gain of an available-for-sale investee upon becoming an associate	**(1,963,500)**	–
Share of result of an available-for-sale investee upon becoming an associate	**95,726**	–
Reclassification adjustment upon impairment	**–**	91,143
Deferred tax charge arising on fair value gains on available-for-sale investments	**(170,816)**	–
Reclassification adjustment for deferred tax charge upon disposal	**170,816**	–
	(993)	(156,762)
Share of other comprehensive income of associates		
Exchange differences arising on translation	**6,503**	27,618
Fair value gain (loss) on available-for-sale financial assets	**16,419**	(70,538)
Others	**–**	3,116
	22,922	(39,804)
Gains on revaluation of properties	**800**	1,332
Total comprehensive income and expense for the year	**(191,018)**	1,870,056
Total comprehensive income and expense attributable to:		
Owners of the Company	**99,588**	1,397,981
Minority interests	**(290,606)**	472,075
	(191,018)	1,870,056

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties	16	**31,477**	37,102
Property, plant and equipment	17	**10,251,792**	9,078,400
Prepaid lease rentals	18	**326,316**	332,945
Intangible assets	19	**174,212**	176,897
Goodwill	20	**168,015**	218,015
Interests in associates	23	**6,211,843**	667,905
Available-for-sale investments	24	**231,688**	342,426
Deferred tax assets	36	**38,639**	–
Other financial assets	30	**275,140**	235,540
Deposits for acquisition of property, plant and equipment	25	**773,040**	311,470
		18,482,162	11,400,700
CURRENT ASSETS			
Inventories	26	**1,619,661**	1,886,251
Trade and bill receivables	27	**783,869**	920,131
Trade receivables from related companies	28	**722,395**	1,722,235
Prepayments, deposits and other receivables	27	**338,184**	331,641
Prepaid lease rentals	18	**7,459**	5,714
Tax recoverable		**–**	1,317
Amounts due from related companies	28	**301,007**	508,399
Amount due from a minority shareholder of a subsidiary	28	**3,407**	3,398
Amount due from ultimate holding company of a shareholder	29	**185,784**	412
Other financial assets	30	**149,706**	214,131
Restricted bank deposits	31	**280,838**	650,619
Bank balances and cash	32	**1,372,258**	3,382,952
		5,764,568	9,627,200

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	**2009 HK$'000**	2008 HK$'000 (restated)
CURRENT LIABILITIES			
Trade and bill payables	33	**1,165,507**	1,373,611
Other payables and accrued liabilities	33	**1,414,060**	1,377,535
Tax payable		**184,741**	33,403
Amount due to a shareholder	28	**350,000**	–
Amounts due to related companies	28	**541,708**	694,505
Amount due to ultimate holding company of a shareholder	29	**99,041**	172,531
Bank borrowings – due within one year	34	**6,010,188**	3,141,658
Other financial liabilities	30	**–**	56,666
Loans from ultimate holding company of a shareholder	35	**793,479**	928,320
		10,558,724	7,778,229
NET CURRENT (LIABILITIES) ASSETS		**(4,794,156)**	1,848,971
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,688,006**	13,249,671
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	34	**3,898,921**	4,138,219
Deferred tax liabilities	36	**48,267**	50,114
		3,947,188	4,188,333
		9,740,818	9,061,338
CAPITAL AND RESERVES			
Share capital	37	**1,635,076**	1,435,076
Share premium and reserves		**6,946,160**	6,128,762
Equity attributable to owners of the Company		**8,581,236**	7,563,838
Minority interests		**1,159,582**	1,497,500
		9,740,818	9,061,338

The financial statements on pages 57 to 182 were approved and authorised for issue by the Board of Directors on 15 April 2010 and are signed on its behalf by:

Cao Zhong
DIRECTOR

Chen Zhouping
DIRECTOR

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000 (restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	22	**2,774,045**	678,168
Interest in an associate	23	**4,876**	–
Amounts due from subsidiaries	22	**4,993,469**	3,370,763
Other financial assets	30	**275,140**	235,540
		8,047,530	4,284,471
CURRENT ASSETS			
Other receivables	27	**2,363**	7,093
Tax recoverable		**–**	1,315
Amount due from a related company	28	**–**	24
Other financial assets	30	**149,164**	163,378
Bank balances and cash	32	**494,882**	1,892,297
		646,409	2,064,107
CURRENT LIABILITIES			
Other payables and accrued liabilities	33	**8,611**	17,633
Amount due to a subsidiary	22	**44,998**	–
Amount due to a shareholder	28	**350,000**	–
Bank borrowings – due within one year	34	**384,833**	–
Other financial liabilities	30	**149**	22,853
		788,591	40,486
NET CURRENT (LIABILITIES) ASSETS		**(142,182)**	2,023,621
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,905,348**	6,308,092
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	34	**2,090,447**	1,540,964
		5,814,901	4,767,128
CAPITAL AND RESERVES			
Share capital	37	**1,635,076**	1,435,076
Share premium and reserves	39	**4,179,825**	3,332,052
		5,814,901	4,767,128

Cao Zhong
DIRECTOR

Chen Zhouping
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2009

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note a)	Exchange reserve HK$'000	Share option reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	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	7,943,933
Profit for the year	–	–	–	–	–	–	–	–	–	1,419,463	1,419,463	407,179	1,826,642
Exchange differences arising on translation	–	–	–	–	218,109	–	–	–	–	–	218,109	64,896	283,005
Losses arising from available-for-sale investments	–	–	–	–	–	–	–	(247,905)	–	–	(247,905)	–	(247,905)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	–	91,143	–	–	91,143	–	91,143
Released on disposal of subsidiary	–	–	–	–	(44,357)	–	–	–	–	–	(44,357)	–	(44,357)
Gains on revaluation of properties	–	–	–	1,332	–	–	–	–	–	–	1,332	–	1,332
Share of other comprehensive income and expense of associates	–	–	–	437	27,618	–	1,458	(70,538)	–	1,221	(39,804)	–	(39,804)
Total comprehensive income and expense for the year	–	–	–	1,769	201,370	–	1,458	(227,300)	–	1,420,684	1,397,981	472,075	1,870,056
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	338,320	–	–	(338,320)	–	–	–
Effects of share options	56,029	49,361	–	–	–	–	–	–	–	–	105,390	–	105,390
Share issue expenses	–	(50)	–	–	–	–	–	–	–	–	(50)	–	(50)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(163,321)	(163,321)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	(727,018)	(727,018)	–	(727,018)
Shares repurchase	(21,592)	–	21,592	–	–	–	–	–	–	(138,073)	(138,073)	–	(138,073)
Recognition of equity-settled share based payment	–	–	–	–	–	110,877	–	–	–	–	110,877	–	110,877
Disposal of a subsidiary	–	–	–	–	–	–	(13,369)	–	–	13,369	–	(279,526)	(279,526)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	339,070	339,070
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	9,061,338

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000 (Note a)	Exchange reserve HK$'000	Share option reserve HK$'000	Enterprise expansion fund and statutory reserve fund HK$'000 (Note b)	Security investment reserve HK$'000	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Profit for the year	–	–	–	–	–	–	–	–	–	71,667	71,667	(292,603)	(220,936)
Exchange differences arising on translation	–	–	–	–	5,192	–	–	–	–	–	5,192	1,997	7,189
Gains arising from available-for-sale investments	–	–	–	–	–	–	–	3,476,917	–	–	3,476,917	–	3,476,917
Deferred tax charge arising on fair value gains on available-for-sale investments	–	–	–	–	–	–	–	(170,816)	–	–	(170,816)	–	(170,816)
Reclassification adjustments of cumulative gain upon disposal of available-for-sale investments (note 23)	–	–	–	–	–	–	–	(1,610,136)	–	–	(1,610,136)	–	(1,610,136)
Reclassification adjustment for deferred tax charge upon disposal of available-for-sale investments	–	–	–	–	–	–	–	170,816	–	–	170,816	–	170,816
Reversal of cumulative gain of an available-for-sale investee upon becoming an associate	–	–	–	–	–	–	–	(1,963,500)	–	–	(1,963,500)	–	(1,963,500)
Share of result of an available-for-sale investee upon becoming an associate	–	–	–	–	–	–	–	–	–	95,726	95,726	–	95,726
Gains on revaluation of properties	–	–	–	800	–	–	–	–	–	–	800	–	800
Share of other comprehensive income of associates	–	–	–	–	2,999	–	–	16,419	–	3,504	22,922	–	22,922
Total comprehensive income and expense for the year	–	–	–	800	8,191	–	–	(80,300)	–	170,897	99,588	(290,606)	(191,018)
Release on deemed disposal of partial interest in associates	–	–	–	(61)	(1,334)	–	–	155	–	–	(1,240)	–	(1,240)
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	159	–	–	(159)	–	–	–
Share issued at premium	200,000	891,500	–	–	–	–	–	–	–	–	1,091,500	–	1,091,500
Share issue expenses	–	(60)	–	–	–	–	–	–	–	–	(60)	–	(60)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(65,432)	(65,432)
Dividends recognised as distribution	–	–	–	–	–	–	–	–	–	(231,762)	(231,762)	–	(231,762)
Recognition of equity-settled share based payment	–	–	–	–	–	59,372	–	–	–	–	59,372	–	59,372
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	18,120	18,120
At 31 December 2009	1,635,076	3,133,915	22,611	33,326	564,805	229,975	729,477	8,391	51,979	2,171,681	8,581,236	1,159,582	9,740,818

Notes:

(a) Revaluation reserve mainly represents the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax from continuing and discontinued operations	**(78,390)**	1,872,055
Adjustments for:		
Interest income	**(47,472)**	(102,802)
Interest expenses	**392,863**	454,223
Share of results of associates	**(402,022)**	22,417
Share-based payments	**59,372**	110,877
Loss (gain) on dilution of interest in associates	**19,177**	(3,574)
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired	**170,500**	–
(Gain) loss from changes in fair value of investment properties	**(3,558)**	1,642
Gain on disposal of available-for-sale investments	**(1,245,923)**	–
Gain on disposal of subsidiaries	**–**	(4,229)
(Gain) loss on disposal of property, plant and equipment	**(298)**	13,942
Depreciation of property, plant and equipment	**659,197**	547,719
Amortisation of intangible assets	**2,963**	80
Discount on acquisition of partial interest in an associate	**–**	(12,840)
Amortisation of prepaid lease rentals	**6,982**	7,401
Change in fair value of derivative financial instruments	**(67,346)**	147,314
Impairment loss on available-for-sale investments	**–**	91,143
Impairment loss on goodwill	**50,000**	–
Allowance for inventories	**210,395**	117,319
Reversal of allowance of trade receivables, net	**(3,547)**	(3,833)
Operating cash flows before movements in working capital	**(277,107)**	3,258,854
Decrease (increase) in inventories	**60,974**	(649,100)
Decrease (increase) in trade and bill receivables	**142,518**	(26,578)
(Increase) decrease in prepayments, deposits and other receivables	**(6,303)**	42,495
Decrease (increase) in amounts due from related companies	**1,000,910**	(1,312,979)
(Increase) decrease in amount due from ultimate holding company of a shareholder	**(185,372)**	284,096
Increase in other financial assets/liabilities	**(11,948)**	(376,614)
Decrease (increase) in restricted bank deposits	**371,159**	(577,869)
(Decrease) increase in trade and bill payables	**(213,973)**	408,143
Increase (decrease) in other payables and accrued liabilities	**27,695**	(99,516)
Decrease in amount due to ultimate holding company of a shareholder	**(45,260)**	(31,221)
(Decrease) increase in amounts due to related companies	**(172,329)**	284,765
Cash generated from operations	**690,964**	1,204,476
Interest paid	**(434,427)**	(464,193)
Income taxes paid	**(30,418)**	(21,857)
NET CASH FROM OPERATING ACTIVITIES	**226,119**	718,426

For The Year Ended 31 December 2009

	NOTE	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,462,790)**	(1,423,249)
Purchase of investment properties		**–**	(1,939)
Deposits paid for acquisition of property, plant and equipment		**(772,545)**	(383,517)
Addition of prepaid lease rentals		**(2,397)**	(37,803)
Purchase of available-for-sale investments		**(107,180)**	(121,297)
Acquisition of an associate		**(2,440,628)**	–
Acquisition of intangible assets		**–**	(63,480)
Interest received		**47,472**	102,802
Decrease in amount due from ultimate holding company of a shareholder		**–**	624
Proceeds from disposal of property, plant and equipment		**2,777**	3,394
Decrease (increase) in amounts due from related companies		**207,392**	(490,800)
Capital contribution to associates		**(17,381)**	(415,678)
Net cash inflow from disposal of subsidiaries	11	**–**	143,807
Dividends received from an associate		**100,000**	13,731
Proceeds from disposal of investment properties		**10,692**	–
NET CASH USED IN INVESTING ACTIVITIES		**(4,434,588)**	(2,673,405)
FINANCING ACTIVITIES			
New borrowings raised		**6,742,401**	7,055,139
Proceeds from issue of shares		**–**	105,390
Expenses on issue of shares		**(60)**	(50)
Payment for repurchase of shares		**–**	(138,073)
Repayment of loan from ultimate holding company of a shareholder		**(136,317)**	(204,152)
Capital contribution from minority shareholders		**18,120**	62,332
Repayment of bank borrowings		**(4,126,012)**	(4,169,660)
Increase in amounts due to related companies		**18,384**	57,646
Decrease in amount due to ultimate holding company of a shareholder		**(29,530)**	(17,228)
Payment of dividend		**(231,762)**	(727,018)
Dividend paid to minority shareholders of a subsidiary		**(65,432)**	–
NET CASH FROM FINANCING ACTIVITIES		**2,189,792**	2,024,326
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(2,018,677)**	69,347
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**3,382,952**	3,256,837
Effect of foreign exchange rate changes		**7,983**	56,768
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,372,258**	3,382,952

1. GENERAL

The Company is incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's major shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), which together with its subsidiaries, held approximately 42% equity interest of the Company as at 31 December 2009, and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). Shougang Corporation, together with its 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the "Group") had net current liabilities of approximately HK$4,794,156,000 as at 31 December 2009. Taking into account the financial resources of the Group, including the financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, and the marketable securities held by the Group that can be disposed of, if necessary, the Directors of the Company are of the opinion that the Group has sufficient working capital for at least the next twelve months from the end of the reporting period and accordingly, these consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group and the financial statements of the Company for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments in a different approach from the predecessor standard, HKAS 14 *Segment Reporting*. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14 (see note 6).

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

New and revised HKFRSs affecting presentation and disclosure only (Continued)

Improving Disclosures about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group and the Company have not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk which has no impact of the consolidated financial statements of the Group while the expanded disclosures are applied by the Company retrospectively.

Amendments to HKAS 1 Presentation of Financial Statements

As part of Improvements to HKFRSs (2008), HKAS 1 *Presentation of Financial Statements* has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* should be presented as current or non-current. The amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement date. Prior to the amendment, the Group and the Company presented, as current, all derivatives that are classified as held for trading in accordance with HKAS 39. The amendment has had no impact on the Group's results for the reported periods and on the Group and the Company's financial position as at 1 January 2008. As such, the statements of financial position as at 1 January 2008 for the Group and the Company have not been presented. The amendment has resulted in the commodity forward contracts which entered during the year ended 31 December 2008 and with carrying amounts of approximately HK$235,540,000 as at 31 December 2008 being reclassified from current to non-current. In addition, at 31 December 2009, derivatives with carrying amount of HK$275,140,000 have been presented as non-current based on their maturity dates, that matched with the expected cash outflow of the commodity forward contracts.

In addition, the Group and the Company have elected to early adopt certain paragraphs of HKAS 24 (Revised) *Related Party Disclosures* (in advance of effective date of 1 January 2011) and the amendment to HKFRS 5 as part of Improvements to HKFRSs 2009 (in advance of effective date of 1 January 2010).

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

New and revised HKFRSs affecting presentation and disclosure only (Continued)

HKAS 24 (Revised) Related Party Disclosures

The amendments to HKAS 24 (Revised) *Related Party Disclosures* modify the definition of a related party and simplify related party disclosures for government-related entities. HKAS 24 provides a partial exemption from the disclosure requirements for government-related entities. The Group and the Company have early partially adopted the paragraphs 25 to 27 of HKAS 24 (Revised) in the current year in advance of its effective date.

Amendment to HKFRS 5 as part of Improvements to HKFRSs 2009

The amendment has clarified that HKFRS 5 has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosures requirements in other HKFRSs do not generally apply to such disposal groups.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for amendment to HKFRS 5[2]
HKAS 24 (Revised)	Related Party Disclosures, except for partial exemption of paragraph 25-27[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

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

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

[3] Effective for annual periods beginning on or after 1 January 2011

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 January 2010

[6] Effective for annual periods beginning on or after 1 July 2010

[7] Effective for annual periods beginning on or after 1 January 2013

The application 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.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease rentals in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. 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 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 and up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated 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.

4. 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).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (Continued)

Goodwill arising on acquisition on or after 1 January 2005 (Continued)

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

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 profit or loss. 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.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of 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 not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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.

Acquisition of an associate achieved in stages

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates (Continued)

Acquisition of additional interest in an associate

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

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

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.

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 on initial recognition.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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.

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, whichever is shorter
Leasehold improvements	2.5% to 25%, or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	12.5% to 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 or 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

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 at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

Leasing

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

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the 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.

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, and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Prepaid lease rentals

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in 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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 retranslation 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 period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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 end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

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

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

Borrowing costs

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

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

Retirement benefits costs

Payments to defined contribution retirement benefits scheme/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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 end of the reporting period.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Deferred product design fees

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

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 net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. 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.

Loans and receivables

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

Available-for-sale financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if:

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

Other financial liabilities

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4. 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 the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, 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 other comprehensive income 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the end of the reporting period, the Group reviews the carrying amounts of its assets excluding goodwill and financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Equity settled share-based payment transactions

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

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 profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Renewal of mining rights

As at 31 December 2009, the carrying amount of the Group's mining rights is HK$174,212,000 (2008: HK$176,897,000). Mining rights with a carrying amount of HK$52,312,000 (2008: HK$52,229,000) will expire in June 2011 and mining right with a carrying amount of HK$121,900,000 (2008: HK$124,668,000) will expire in December 2011. The Directors are of the opinion that the expiry date of the mining rights can be extended with minimal cost. Where the mining rights cannot be extended upon expiry, an impairment loss may arise.

Estimated impairment of trade receivables

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

Allowance for inventories

As at 31 December 2009, the carrying amount of the Group's inventories is HK$1,619,661,000 (2008: HK$1,886,251,000). The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions.

If the conditions of inventory of the Group become no longer suitable for use in production, an additional allowance may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Income taxes

No deferred tax asset has been recognised in respect of tax losses of approximately HK$1,707 million, of which HK$263 million is subject to Hong Kong Inland Revenue Department's ("IRD") confirmation and HK$1,384 million is subject to State Administration of Taxation's ("SAT") confirmation (2008: HK$338 million, of which HK$236 million was subject to IRD's confirmation) due to the unpredictability of future profit streams. In cases where probable taxable profit will be available against which the deductible temporary differences can be utilised, a deferred tax asset may be recognised.

Fair value of commodity forward contracts to purchase iron ore

The fair value for the commodity forward contracts to purchase iron ore is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of those that developed the valuation techniques. However, it should be noted that some inputs, such as iron ore market price and risk free rate, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the fair value of the commodity forward contracts. The carrying amount of the commodity forward contracts is HK$423,137,000 (2008: HK$354,200,000). Details of the commodity forward contracts are disclosed in note 30.

Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2009 was approximately HK$10,251,792,000 (2008: HK$9,078,400,000). The Group depreciates the property, plant and equipment on a straight-line basis over their estimated useful lives of 4 to 50 years, after taking into account their estimated residual value, commencing from the date the property, plant and equipment is available for use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. If the estimated useful life of property, plant and equipment did not reflect its actual useful life, additional depreciation may be required.

6. REVENUE AND SEGMENT INFORMATION

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

	2009	2008
	HK$'000	HK$'000
Sale of steel products	**9,129,186**	16,921,189
Vessel chartering and floating cranes leasing income	**197,127**	499,113
Sale of iron ore	**2,026,013**	42,171
Management services income	**5,297**	2,232
	11,357,623	17,464,705

Segment information

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

Segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating division. The Group is currently organised into five operating divisions – steel manufacturing, shipping operations, steel and iron ore trading, mineral exploration and others. The information reported to the Group's chief operating decision maker (i.e. Directors) for the purposes of resource allocation and assessment of performance is focused on these operating divisions. The Group's continuing operating segments under HKFRS 8 are therefore as follows:

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

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

During the year ended 31 December 2008, the Group was involved in the electricity generation operation, which was reported as a separate business segment under HKAS 14. That operation was discontinued with effect from 12 June 2008 and the respective segment disclosures are included in note 11.

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

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

For the year ended 31 December 2009

Continuing operations

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

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Steel and iron ore trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Segment (loss) profit	**(1,183,722)**	**28,808**	**114,355**	**(61,394)**	**6,010**	**–**	**(1,095,943)**
Interest income							**47,472**
Central administration costs							**(121,523)**
Finance costs							**(392,863)**
Gain from change in fair value of derivative financial instrument							**26,199**
Loss on dilution of interest in associates							**(19,177)**
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired							**(170,500)**
Gain on disposal of available-for-sale investment							**1,245,923**
Share of result of associates *(Note)*							**402,022**
Loss before taxation (continuing operations)							**(78,390)**

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

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

For the year ended 31 December 2008

Continuing operations

	Steel manufacturing	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Elimination	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue							
External sales	14,076,252	499,113	2,887,108	–	2,232	–	17,464,705
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

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing	Shipping operations	Steel and iron ore trading	Mineral exploration	Others	Elimination	Total
Segment profit (loss)	2,375,810	322,333	51,781	(5,651)	(38,671)	–	2,705,602
Interest income							102,678
Central administration costs							(174,210)
Finance costs							(448,748)
Loss from change in fair value of derivative financial instruments							(233,769)
Impairment loss on available-for-sale investments							(91,143)
Discount on acquisition of partial interest in an associate							12,840
Gain on dilution of interest in associates							3,574
Share of result of an associate							(22,417)
Profit before taxation (continuing operations)							1,854,407

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (Continued)

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

Segment assets and liabilities

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

	2009 **HK$'000**	2008 HK$'000
Segment assets		
Steel manufacturing	**13,686,624**	14,342,481
Shipping operations	**17,762**	23,568
Steel and iron ore trading	**535,508**	580,715
Mineral exploration	**1,561,955**	416,057
Others	**6,899**	15,578
Total segment assets	**15,808,748**	15,378,399
Interests in associates	**6,211,843**	667,905
Available-for-sale investments	**231,688**	342,426
Deferred tax assets	**38,639**	–
Amounts due from related companies – non-trade	**301,007**	508,399
Foreign currency forward contracts	**1,592**	44,718
Option to subscribe for shares of a listed company in Australia	**117**	3,300
Underwriting agreement	**–**	47,453
Restricted bank deposits	**280,838**	650,619
Bank balances and cash	**1,372,258**	3,382,952
Other unallocated assets	**–**	1,729
Consolidated assets	**24,246,730**	21,027,900

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

	2009 HK$'000	2008 HK$'000
Segment liabilities		
Steel manufacturing	**2,542,688**	3,121,370
Shipping operations	**45,683**	45,347
Steel and iron ore trading	**58,883**	71,158
Mineral exploration	**193,463**	14,664
Others	**10,891**	19,868
Total segment liabilities	**2,851,608**	3,272,407
Amount due to a shareholder	**350,000**	–
Amounts due to related companies – non-trade	**269,796**	251,412
Amount due to ultimate holding company of a shareholder – non-trade	**98,912**	94,363
Bank borrowings	**9,909,109**	7,279,877
Foreign currency forward contracts	**–**	56,666
Tax payable	**184,741**	33,403
Deferred tax liabilities	**48,267**	50,114
Loans from ultimate holding company of a shareholder	**793,479**	928,320
Consolidated liabilities	**14,505,912**	11,966,562

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

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

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

2009

Continuing operations

	Steel manufacturing HK$'000	Shipping operations HK$'000	Steel and iron ore trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets (Note)	**1,350,083**	**898**	**192**	**934,053**	**33**	**2,285,259**
Depreciation of property, plant and equipment	**636,003**	**1,634**	**55**	**20,491**	**1,014**	**659,197**
Amortisation of intangible assets	**–**	**–**	**–**	**2,963**	**–**	**2,963**
Amortisation of prepaid lease rentals	**6,888**	**–**	**89**	**5**	**–**	**6,982**
Loss (gain) on disposal of property, plant and equipment	**(5)**	**–**	**–**	**–**	**(293)**	**(298)**
Allowance for inventories	**210,395**	**–**	**–**	**–**	**–**	**210,395**

2008

Continuing operations

	Steel manufacturing HK$'000	Shipping operations HK$'000	Steel and iron ore trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Additions to non-current assets (Note)	1,535,394	659	541	386,022	4,235	1,926,851
Depreciation of property, plant and equipment	537,976	1,513	84	–	1,094	540,667
Amortisation of intangible assets	80	–	–	–	–	80
Amortisation of prepaid lease rentals	5,321	–	135	–	–	5,456
Loss on disposal of property, plant and equipment	3,549	45	–	–	–	3,594
Allowance for inventories	117,319	–	–	–	–	117,319

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

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Revenue from major product and services

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

	2009 **HK$'000**	2008 HK$'000
Steel plates	**8,421,651**	16,808,245
Iron ore	**2,026,013**	42,171
Steel slabs	**707,535**	112,944
Vessel chartering and floating cranes leasing	**197,127**	499,113
Management services	**5,297**	2,232
	11,357,623	17,464,705

Geographical information

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

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

	Revenue from external customers		**Non-current assets**	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
PRC, excluding Hong Kong	**7,660,738**	12,639,939	**11,726,548**	10,138,855
Hong Kong (country of domicile)	**1,632,333**	3,582,645	**6,210,147**	683,879
Australia	**1,890,191**	42,171	**–**	–
Korea	**146,425**	1,164,144	**–**	–
Others	**27,936**	35,806	**–**	–
	11,357,623	17,464,705	**17,936,695**	10,822,734

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

Information about major customers

During the years ended 31 December 2009 and 2008, the customer which accounted for 10% or more of the Group's sales is Shougang Group. Sales to Shougang Group under the segments of steel manufacturing, steel and iron ore trading and mineral exploration contributed HK$2,443,582,000 (2008: HK$3,734,577,000) to the Group's revenue.

7. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Continuing operations		
Interest income on bank deposits	**47,472**	102,678
Scrap sales income	**7,353**	5,392
Compensation income	**1,647**	222
Refund of value added tax	**–**	7,893
Sundry income	**11,631**	22,641
	68,103	138,826

8. OTHER GAINS AND LOSSES

	2009 HK$'000	2008 HK$'000
Continuing operations		
Gain on disposal of available-for-sale investment (note)	**1,245,923**	–
Reversal of provision for impairment of trade receivables	**3,547**	3,833
Gain (loss) from changes in fair value of investment property	**3,558**	(1,642)
Gain (loss) on disposal of property, plant and equipment	**298**	(3,594)
Net foreign exchange loss	**(6,496)**	(37,695)
(Loss) gain on dilution of interest in associates	**(19,177)**	3,574
Impairment loss on goodwill	**(50,000)**	–
Loss arising from fair value adjustments on consideration paid and the available-for-sale investments acquired (note 23)	**(170,500)**	–
Discount on acquisition of partial interest in an associate	**–**	12,840
	1,007,153	(22,684)

Note: During the year ended 31 December 2009, cumulative gain of an available-for-sale investment amounted to HK$1,610,136,000 has been reclassified from security investment reserve upon disposal to an associate, of which HK$364,213,000 represents unrealised gain on disposal and has been eliminated against interest in associates, resulting a net gain of HK$1,245,923,000 recognised as gain on disposal in the profit or loss as disclosed in note 23.

9. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Continuing operations		
Interest on:		
Bank borrowings wholly repayable within five years	**395,161**	406,742
Other borrowings wholly repayable within five years	**44,734**	51,976
Total borrowing costs	**439,895**	458,718
Less: Amounts capitalised	**(47,032)**	(9,970)
	392,863	448,748

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate at 4.73% (2008: 7.20%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Continuing operations		
Current tax:		
– PRC Enterprise Income Tax	**11,387**	40,790
– Other jurisdictions	**170,816**	–
	182,203	40,790
Underprovision in prior year – Hong Kong	**870**	–
Deferred tax (note 36):		
Current year	**(40,527)**	(1,760)
Attributable to change in tax rate	**–**	(28)
	(40,527)	(1,788)
Income tax expense	**142,546**	39,002

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% of the estimated assessable profit for both years. Current tax in other jurisdictions mainly represents an one-off tax provision in connection with gain on disposal of equity securities.

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.

10. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. The EIT Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the EIT Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate is only applicable to certain subsidiaries after the expiry of tax holidays and concessions.

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

	2009	2008
	HK$'000	HK$'000
(Loss) profit before taxation (from continuing operations)	**(78,390)**	1,854,407
Taxation at the income tax rate of 25% (2008: 25%) (Note a)	**(19,598)**	463,602
Tax effect of share of results of associates	**(100,506)**	5,605
Tax effect of expenses not deductible for tax purposes	**102,836**	121,148
Tax effect of income not taxable for tax purposes	**(229,968)**	(117,278)
Underprovision in respect of prior years	**870**	–
Tax effect of tax loss not recognised	**352,638**	34,002
Tax effect of deductible temporary differences not recognised	**52,653**	31,611
Tax effect of utilisation of tax losses previously not recognised	**(11,022)**	(16,140)
Tax effect of utilisation of deductible temporary differences previously not recognised	**(34,476)**	–
Tax effect of withholding tax on distributed profits of a subsidiary	**7,086**	–
Tax effect of tax credit granted to a subsidiary (Note b)	**–**	(96,199)
Income tax on concessionary rate	**–**	(386,803)
Effect of different tax rates of subsidiaries and the capital gain tax on listed Australia equity investments	**22,033**	(518)
(Decrease) increase in opening deferred tax liability resulting from change in applicable tax rate	**–**	(28)
Tax expense for the year	**142,546**	39,002

10. 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.

11. DISCONTINUED OPERATION

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 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.

The profit for the period from the discontinued operation is analysed as follows:

	2008
	HK$'000
Profit of electricity generation operation for the period	7,008
Gain on disposal of electricity generation operation	4,229
	11,237

11. DISCONTINUED OPERATION (CONTINUED)

The results of the electricity generation operation for the period from 1 January 2008 to 12 June 2008 which have been included in the consolidated income statement, were as follows:

	1 January 2008 to 12 June 2008 HK$'000
Revenue	209,644
Cost of sales	(162,471)
Other income	21
Distribution costs	–
Administrative expenses	(28,300)
Finance costs	(5,475)
Profit before tax	13,419
Income tax expense	(6,411)
Profit for the period	7,008
Profit for the period attributable to:	
Owners of the Company	3,572
Minority interests	3,436
	7,008

11. DISCONTINUED OPERATION (CONTINUED)

Profit for the period from discontinued operation include the following:

	1 January 2008 to 12 June 2008 HK$'000
Depreciation of property, plant and equipment	7,052
Amortisation of prepaid lease rentals	1,945
Cost of inventory recognised as expenses	162,471
Loss on disposal of property, plant and equipment	10,348
Staff costs	8,334

The following is an analysis of the electricity generation segment revenues and results:

	1 January 2008 to 12 June 2008 HK$'000
Revenue	
External sales	209,644
Segment profit	18,894
Finance costs	(5,475)
Profit before tax	13,419

The accounting policies of the operating segment are the same as the Group's accounting policies described in note 4. Segment profit represents the profit from electricity generation operation without allocating finance costs. The revenue from electricity generation operation was derived from the PRC, excluding Hong Kong, as the electricity is supplied to customers located in the PRC, excluding Hong Kong. This is the measure reported to the Directors.

11. DISCONTINUED OPERATION (CONTINUED)

The net assets of URL and its subsidiary on Completion Date were as follows:

	12 June 2008
	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 received during the year ended 31 December 2008	158,250
Bank balances and cash on disposal	(14,443)
	143,807

The consideration receivable is fully settled in cash by the acquirer in March 2010.

11. DISCONTINUED OPERATION (CONTINUED)

	1 January 2008 to 12 June 2008
	HK$'000
Cash flows from URL and its subsidiary:	
Net cash inflows from operating activities	177,579
Net cash inflows from investing activities	1,488
Net cash outflows from financing activities	(174,236)
Net cash inflows	4,831

12 (LOSS) PROFIT FOR THE YEAR

	2009 HK$'000	2008 HK$'000
Continuing operations		
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**361,390**	431,568
– retirement benefits scheme contributions	**39,256**	41,962
– share-based payments	**59,372**	110,877
	460,018	584,407
Amortisation of intangible assets, included in:		
– cost of sales	**2,963**	–
– administrative expenses	**–**	80
Depreciation of property, plant and equipment	**659,197**	540,667
Total depreciation and amortisation	**662,160**	540,747
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	**(29,382)**	86,660
– change in fair value of option to subscribe for shares of a listed company in Australia	**3,183**	147,109
– change in fair value of commodity forward contracts	**(68,937)**	(25,039)
	(95,136)	208,730
Auditor's remuneration	**3,449**	2,911
Cost of inventories recognised as expenses (including allowance for inventories of HK$210,395,000 (2008: HK$117,319,000))	**11,927,416**	13,855,272
Minimum lease payments under operating leases in respect of land and buildings	**4,484**	5,109
Amortisation of prepaid lease rentals	**6,982**	5,456
Rental income from investment properties under operating leases, less outgoings of HK$258,000 (2008: HK$251,000)	**(1,374)**	(1,161)
Impairment loss on goodwill (included in other gains and losses)	**50,000**	–

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2008: ten) Directors were as follows:

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

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zhouping HK$'000	Zhang Wenhui HK$'000	Luo Zhenyu HK$'000	Ip Tak Chuen, Edmond HK$'000	Leung Shun Sang, Tony HK$'000	Kan Lai Kuen, Alice HK$'000	Wong Kun Kim HK$'000	Leung Kai Cheung HK$'000	Total 2008 HK$'000
2008											
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 benefits schemes	–	536	272	195	155	–	–	–	–	–	1,158
Performance related incentive 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
Total emoluments	150	45,815	29,638	22,711	16,559	150	230	330	330	330	116,243

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

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: four) were Directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining one (2008: one) individual are as follows:

	2009 **HK$'000**	2008 HK$'000
Salaries and other benefits	**910**	1,778
Contributions to retirement benefits scheme	**77**	159
Performance related incentive payments (Note)	**620**	1,400
Share-based payments	**1,424**	13,296
	3,031	16,633

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.

14. DIVIDENDS

	2009 **HK$'000**	2008 HK$'000
Dividends recognised as distribution during the year:		
Interim – nil (2008: HK2 cents per ordinary share)	**–**	144,350
Final – HK3 cents (2008: HK4 cents) per ordinary share	**231,762**	291,334
Special – nil (2008: HK4 cents per ordinary share)	**–**	291,334
	231,762	727,018

The Board of Directors did not declare a final dividend for the year ended 31 December 2009 (2008: final dividend of HK3 cents in respect of the year ended 31 December 2008).

15. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2009 HK$'000	2008 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**71,667**	1,419,463
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	**(6,909)**	(343)
Earnings for the purpose of diluted earnings per share	**64,758**	1,419,120

	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,782,093,543**	7,214,737,209
Effect of dilutive potential ordinary shares on share options	**9,726,492**	42,404,625
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,791,820,035**	7,257,141,834

The computation of diluted earnings per share does not assumed the exercise of certain options as the relevant exercise price was higher than the average market price of shares for both 2009 and 2008.

15. EARNINGS PER SHARE (CONTINUED)

From continuing operations

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

	2009	2008
	HK$'000	HK$'000
Earnings figures are calculated as follows:		
Profit for the year attributable to owners of the Company	**71,667**	1,419,463
Less: Profit from discontinued operations	**–**	(7,801)
Earnings for the purpose of basic earnings per share from continuing operations	**71,667**	1,411,662
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	**(6,909)**	(343)
Earnings for the purpose of diluted earnings per share from continuing operations	**64,758**	1,411,319

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

From discontinued operation

Basic earnings per share from discontinued operation was HK0.10 cent per share and diluted earnings per share from the discontinued operation was HK0.10 cent per share for the year ended 31 December 2008, based on the profit from the discontinued operation of HK$7,801,000 and the denominators detailed above for both basic and diluted earnings per share.

16. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2008	32,217
Addition	2,480
Transfer from prepaid lease rentals	2,489
Exchange adjustments	1,558
Changes in fair value recognised in profit or loss	(1,642)
At 31 December 2008	37,102
Transfer from prepaid lease rentals	1,479
Exchange adjustments	30
Changes in fair value recognised in profit or loss	3,558
Disposals	(10,692)
At 31 December 2009	31,477

The fair value of the Group's investment properties at 31 December 2009 and 2008 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a member of the Royal Institution of Chartered Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions and where appropriate by the capitalisation of the rental income from the properties.

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

16. INVESTMENT PROPERTIES (CONTINUED)

The investment properties shown above are situated in:

	2009 HK$'000	2008 HK$'000
Hong Kong and held under long-term lease	**12,290**	8,986
The PRC and held under		
– medium-term lease	**19,187**	18,340
– long-term lease	**–**	9,776
	31,477	37,102

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2008	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 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
Exchange adjustments	5,470	87	121	10,081	300	68	1,648	17,775
Additions	32,890	–	7,809	25,005	48,442	–	1,707,146	1,821,292
Transfer from construction in progress	511,811	–	9,779	534,148	1,204	–	(1,056,942)	–
Reclassification (note)	(590,883)	–	1,400	538,179	51,304	–	–	–
Disposals	–	(2,128)	(490)	–	(1,041)	–	–	(3,659)
At 31 December 2009	3,396,273	60,784	98,070	7,444,794	292,683	30,961	1,681,357	13,004,922

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and structure HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$000	Plant and machinery HK$'000	Motor vehicles HK$'000	Vessels HK$000	Construction in progress HK$'000	Total HK$'000
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2008	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
Exchange adjustments	587	59	70	3,087	147	49	–	3,999
Provided for the year	128,980	469	9,976	487,155	31,379	1,238	–	659,197
Reclassification (note)	(73,498)	–	314	60,069	13,115	–	–	–
Eliminated on disposals	–	(125)	(120)	–	(935)	–	–	(1,180)
At 31 December 2009	388,684	38,491	48,271	2,140,671	111,671	25,342	–	2,753,130
CARRYING VALUES								
At 31 December 2009	3,007,589	22,293	49,799	5,304,123	181,012	5,619	1,681,357	10,251,792
At 31 December 2008	3,104,370	24,737	41,420	4,747,021	124,509	6,838	1,029,505	9,078,400

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

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

18. PREPAID LEASE RENTALS

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
The Group's prepaid lease rentals comprise:		
Medium-term leasehold land outside Hong Kong	**332,753**	336,869
Medium-term leasehold land in Hong Kong	**1,022**	1,790
	333,775	338,659
Analysed for reporting purposes as:		
Current asset	**7,459**	5,714
Non-current asset	**326,316**	332,945
	333,775	338,659

19. INTANGIBLE ASSETS

	THE GROUP		
	Mining rights HK$'000	Deferred product design fees HK$'000	Total HK$'000
COST			
At 1 January 2008	–	9,090	9,090
Additions	176,897	–	176,897
Exchange adjustments	–	525	525
At 31 December 2008	176,897	9,615	186,512
Additions	–	–	–
Exchange adjustments	281	15	296
At 31 December 2009	177,178	9,630	186,808
AMORTISATION			
At 1 January 2008	–	9,013	9,013
Exchange adjustments	–	522	522
Charge for the year	–	80	80
At 31 December 2008	–	9,615	9,615
Exchange adjustments	3	15	18
Charge for the year	2,963	–	2,963
At 31 December 2009	2,966	9,630	12,596
CARRYING VALUES			
At 31 December 2009	174,212	–	174,212
At 31 December 2008	176,897	–	176,897

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).

19. INTANGIBLE ASSETS (CONTINUED)

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

The mining activities of Hongda Iron Ore Mine commenced in September 2009 and amortisation was charged by using the units of production method, while Chagou Iron Ore Mine is in the development stage as the construction of infrastructure for mining is in progress and the Directors are of the opinion that mining activities will commence in mid 2010.

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

20. GOODWILL

	THE GROUP HK$'000
COST	
At 1 January 2008	283,122
Release on disposal of a subsidiary	(65,107)
At 31 December 2008, 1 January 2009 and 31 December 2009	218,015
IMPAIRMENT	
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Impairment loss recognised in the year	50,000
At 31 December 2009	50,000
CARRYING VALUES	
At 31 December 2009	168,015
At 31 December 2008	218,015

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

21. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, the goodwill set out in note 20 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. The carrying amounts of goodwill as at 31 December 2009 allocated to these units are as follows:

	Goodwill	
	2009	2008
	HK$'000	HK$'000
Steel manufacturing – Qinhuangdao Plate Mill (Unit A)	**144,489**	194,489
Steel manufacturing – Shouqin (Unit B)	**23,526**	23,526
	168,015	218,015

During the year ended 31 December 2009, based on the recoverable amounts of the Units A and B, the management of the Group determined that approximately HK$50,000,000 of goodwill allocated to Unit A was impaired and such impairment was indicated by the operating losses of the steel manufacturing operation during the year.

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 11.43% (2008: 15.02%) for both Unit A and B. All sets of cash flows beyond the five-year period are extrapolated with zero growth rate. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period which have been determined based on past performance and management's expectations for the market development.

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

	THE COMPANY	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**2,534,483**	527,477
Deemed capital contribution (Note)	**767,406**	686,015
Less: Impairment loss recognised	**(527,844)**	(535,324)
	2,774,045	678,168
Amounts due from subsidiaries	**5,331,358**	3,708,652
Less: Impairment losses recognised	**(337,889)**	(337,889)
	4,993,469	3,370,763
Amount due to a subsidiary	**44,998**	–

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

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

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

Particulars of the Company's principal subsidiaries as at 31 December 2009 are set out in note 49.

23. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of investment in associates				
Listed in Hong Kong	**6,173,623**	683,111	**4,876**	–
Unlisted	**20,448**	3,062	**–**	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	**381,985**	(18,268)	**–**	–
	6,576,056	667,905	**4,876**	–
Unrealised gain transfer from security investment reserve upon disposal of available-for-sale investments	**(364,213)**	–	**–**	–
	6,211,843	667,905	**4,876**	–
Fair value of listed investment	**10,621,393**	236,896	**7,193**	–

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

23. INTERESTS IN ASSOCIATES (CONTINUED)

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

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

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

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

23. INTERESTS IN ASSOCIATES (CONTINUED)

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

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

Included in the cost of investment in associates is goodwill of HK$2,092,382,000 (2008: nil) arising on acquisition of associates during the year ended 31 December 2009. The movement of goodwill is set out below:

	HK$'000
COST AND CARRYING VALUE	
At 1 January 2008, 31 December 2008 and 1 January 2009	–
Arising on acquisitions of an associate	2,092,382
At 31 December 2009	2,092,382

23. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2009 HK$'000	2008 HK$'000
Total assets	**28,327,326**	2,117,908
Total liabilities	**(8,728,501)**	(259,021)
Net assets	**19,598,825**	1,858,887
Group's share of net assets of associates	**4,483,674**	667,905
Revenue	**5,569,403**	831,640
Profit for the year	**1,267,165**	34,762
Other comprehensive income (loss)	**37,745**	(194,000)
Group's share of profits and other comprehensive income of associates for the year	**424,944**	(62,221)

Details of the associates are set out in note 49.

24. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009 HK$'000	2008 HK$'000
Equity securities listed in Australia, at fair value (Note a)	**97,643**	315,659
Unlisted equity securities, at cost (Note b)	**134,045**	26,767
Total	**231,688**	342,426

24. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Notes:

a. As at 31 December 2009, the above investment in equity securities listed in Australia represented investments in Australasian Resources Limited ("ARH") amounted to HK$97,643,000 (2008: HK$55,654,000); while as at 31 December 2008, it also included investment in equity securities of MGI of HK$260,005,000. Both MGI and ARH are listed on Australian Securities Exchange.

On 20 March 2007, Timefull Investments Limited ("Timefull"), a wholly-owned 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 AUD1 each, representing approximately 6.4% of the then 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 were recognised as available-for-sale investments and the ARH Option was recognised as other financial asset and disclosed in note 30.

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 Tallering 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 ("Sky Choice"), 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.

The shares subscribed represented approximately 12% of the then 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 AUD44 million (equivalent to approximately HK$235 million) has 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 30.

On 12 January 2009, the Rights Issue was completed and approximately 44 million shares were unsubscribed by the shareholders of MGI and accordingly subscribed by the Group. Upon completion of the Rights Issue, the total number of shares held by the Group was approximately 154 million, representing approximately 14.34% of the then enlarged issued share capital of MGI, and was recognised as available-for-sale investments.

24. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Notes: (continued)

a. *(continued)*

On 22 September 2009, the Group entered into an agreement (the "Share Purchase Agreement") with Fushan International, pursuant to which the Group agreed to sell the Group's entire equity interest in MGI to Fushan International and such disposal was completed on 1 December 2009. The consideration was satisfied in full by the allotment and issue of approximately 213,918,000 shares of Fushan International to the Group at HK$5.556 per share as disclosed in note 23. On 1 December 2009, cumulative gain of approximately HK$1,610,136,000 has been reclassified from security investment reserve upon disposal to an associate, of which HK$364,213,000 represents unrealised gain on disposal and has been eliminated against interest in associates, resulting a net gain of HK$1,245,923,000 recognised as gain on disposal in the profit or loss as disclosed in note 8. The unrealised gain on disposal amounting to approximately HK$364,213,000 will be recognised in profit of loss upon disposal of the equity interest in MGI by Fushan International or upon disposal of the Group's equity interest in Fushan International.

b. The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC and during the year ended 31 December 2009, the Group has further invested HK$107,179,000 (equivalent to approximately RMB94,400,000) into one of the unlisted equity securities in proportion to the equity interest held by the Group. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

25. 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$131,878,000 (2008: HK$86,712,000) was paid to the Shougang Group.

26. INVENTORIES

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Raw materials	**1,024,543**	972,114
Work in progress	**453,383**	555,035
Finished goods	**141,735**	359,102
	1,619,661	1,886,251

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Trade and bill receivables	**950,097**	1,112,130
Less: Provision for impairment	**(166,228)**	(191,999)
	783,869	920,131
Prepayments and deposits	**218,457**	316,326
Other receivables	**119,727**	15,315
	338,184	331,641
	1,122,053	1,251,772

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

For most customers, in particular in the business of steel manufacturing, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days. The following is an aged analysis of trade and bill receivables net of provision for impairment presented based on the invoice date at the end of the reporting period:

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 60 days	**769,756**	920,111
61 – 90 days	**4,838**	20
91 – 180 days	**9,255**	–
181 – 365 days	**20**	–
	783,869	920,131

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

Included in the Group's trade and bill receivable balance are debtors with an aggregate carrying amount of HK$14,113,000 (2008: HK$856,000) which are past due at the reporting date for which the Group has not provided for provision for impairment loss as continuous repayment was noted subsequent to the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables is 115 days (2008: 46 days).

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

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 60 days	**–**	836
61 – 90 days	**4,838**	20
91 – 180 days	**9,255**	–
181 – 365 days	**20**	–
Total	**14,113**	856

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

Movement in the provision for impairment

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
At 1 January	**191,999**	197,441
Impairment losses recognised on receivables	**141**	162
Amounts written off as uncollectible	**(21,675)**	(3,357)
Impairment losses reversed	**(4,275)**	(3,612)
Exchange adjustments	**38**	1,365
At 31 December	**166,228**	191,999

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

Movement in the provision for impairment (Continued)

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the financial statements approval dates. In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate provision are made for irrecoverable amounts. Accordingly, the Directors believe that no further provision is required in excess of the provision for impairment.

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

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

The amounts due from (to) related companies represent amounts due from (to) the members of the Shougang Group. The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days. As at 31 December 2008 and 2009, the non-trade receivables included a consideration receivable arising from the disposal of the entire interest in URL during the year ended 31 December 2008 as disclosed in note 11 and such amount was fully settled in March 2010. The remaining non-trade receivables/payables from (to) related companies are unsecured, interest-free and are repayable on demand.

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 60 days	**73,065**	1,486,237
61 – 90 days	**627,432**	–
91 – 180 days	**133**	18,316
181 – 365 days	**–**	217,682
1 – 2 years	**21,765**	–
	722,395	1,722,235

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

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

Included in these trade receivables from related companies are receivables with an aggregate carrying amount of HK$649,330,000 (2008: HK$235,998,000) which are past due at the reporting date but for which an impairment loss has not been provided. The Group does not hold any collateral over these balances. The average age of these receivables is 85 days (2008: 262 days).

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
61 – 90 days	**627,432**	–
91 – 180 days	**133**	18,316
181 – 365 days	**–**	217,682
1 – 2 years	**21,765**	–
Total	**649,330**	235,998

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

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

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
At 1 January	**25,971**	25,229
Impairment losses recognised on receivables	**–**	281
Impairment losses reversed	**–**	(731)
Exchange adjustments	**41**	1,192
At 31 December	**26,012**	25,971

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

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 90 days	**107,160**	412,911
91 – 180 days	**59,890**	15,005
181 – 365 days	**37,232**	2,634
1 – 2 years	**30,920**	7,387
Over 2 years	**36,710**	5,156
	271,912	443,093

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

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

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

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

As at 31 December 2009 and 2008, the amount due from the ultimate holding company of a shareholder are non-trade in nature, unsecured, interest free and are repayable on demand.

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

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

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

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 90 days	**–**	78,142
91 – 180 days	**129**	–
181 – 365 days	**–**	–
1 – 2 years	**–**	–
Over 2 years	**–**	26
	129	78,168

30. OTHER FINANCIAL ASSETS/LIABILITIES

Other financial assets

	THE GROUP		The company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Foreign currency forward contracts (Note a)	**1,592**	44,718	**1,167**	44,718
Option to subscribe for shares of a listed company in Australia (Note b)	**117**	3,300	**–**	–
Commodity forward contracts (Note c)	**423,137**	354,200	**423,137**	354,200
Underwriting Agreement (Note d)	**–**	47,453	**–**	–
	424,846	449,671	**424,304**	398,918

30. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Other financial assets (Continued)

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)
Analysed as:				
Non-current	**275,140**	235,540	**275,140**	235,540
Current	**149,706**	214,131	**149,164**	163,378
	424,846	449,671	**424,304**	398,918

Notes:

a. At 31 December 2009, 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
THE GROUP		
Buy United States Dollar ("USD") 2 million for each maturity date and total national amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.63 to USD1 to RMB6.73 to USD1
Sell USD2 million for each maturity date and total notional amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.74 to USD1 to RMB6.80 to USD1
THE COMPANY		
Buy USD 2 million for each maturity date and total national amount is USD12 million	From 21.06.2010 to 19.11.2010	Ranged from RMB6.63 to USD1 to RMB6.73 to USD1

30. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Other financial assets (Continued)

Notes: (Continued)

a. (Continued)

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
THE GROUP AND THE COMPANY		
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

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 2009, the fair value of the ARH Option was determined by the Directors. No valuation has been performed by independent qualified professional valuers. The valuation performed by the Directors was arrived at by using the Binomial Option Pricing model with reference to recent market observable data as inputs. The fair value of each ARH Option is AUD0.0012. For the year ended 31 December 2009, a loss of HK$3,183,000 (2008: HK$147,109,000) 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 2009	31 December 2008
Stock price	**AUD0.50**	AUD0.37
Exercise price	**AUD1.50**	AUD1.50
Volatility	**70.27%**	96.46%
Dividend yield	**0%**	0%
Option life	**0.43 years**	1.43 years
Risk free rate	**4.219%**	2.743%

30. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Other financial assets (Continued)

Notes: (Continued)

c. At 31 December 2009 and 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:

2009

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

2008

Notional amount	Period	Forward price
Purchase approximately 50% of total production of the Mines	01.01.2009 to 30.06.2009	USD56 per wet metric tonne
Purchase approximately 50% of total production of the Mines	01.07.2009 to the life of the Mines	10% discount on Hamersley Benchmark Iron Ore Prices for lump and fines ore products 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 2009, 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$423,137,000 (2008: HK$354,200,000). For the year ended 31 December 2009, a gain of HK$68,937,000 (2008: 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 5.48% (2008: 4.03%), the life of the Mines of 8 years (2008: 9 years) and a range of iron ore market prices throughout the contracts period based on management's best estimate.

30. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Other financial assets (Continued)

Notes: (Continued)

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, a wholly owned subsidiary of the Company, to subscribe for the shares under the Underwriting Agreement. As disclosed in note 24, the Underwriting Agreement was fulfilled on 12 January 2009 and approximately 44 million shares were acquired by Sky Choice. The Directors considered that the fair value of the Underwriting Agreement as at 12 January 2009 approximates to the fair value as at 31 December 2008 and has been recognised as the cost of the 44 million shares acquired and transferred to the available-for-sale investments as disclosed in note 24.

Other financial liabilities

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Foreign currency forward contracts, current liability	**–**	56,666	**–**	20,782
Financial guarantee contracts	**–**	–	**149**	2,071
	–	56,666	**149**	22,853

30. OTHER FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Other financial liabilities (Continued)

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
THE GROUP		
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
THE COMPANY		
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

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.

31. RESTRICTED BANK DEPOSITS

The amounts represent the bank deposits restricted to certain banks to secure the issuance of letters of credit. The deposits carry interest ranged from 0.36% to 1.98% (2008: 0.72% to 1.15%) per annum.

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

32. BANK BALANCES AND CASH

Bank balances and time deposits carry interest at market rates which range from 0.01% to 3.85% (2008: 0.01% to 4.25%) per annum.

33. TRADE AND BILL PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Within 90 days	**844,018**	1,151,219
91 – 180 days	**317,010**	202,006
181 – 365 days	**702**	13,977
1 – 2 years	**2,858**	5,015
Over 2 years	**919**	1,394
	1,165,507	1,373,611

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.

34. BANK BORROWINGS

Bank borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,010,188**	3,141,658	**384,833**	–
In the second year	**1,677,956**	2,831,530	**772,583**	381,717
In the third to fifth years inclusive	**2,198,245**	1,306,689	**1,317,864**	1,159,247
More than five years	**22,720**	–	**–**	–
	9,909,109	7,279,877	**2,475,280**	1,540,964
Less: Amount due within one year shown under current liabilities	**(6,010,188)**	(3,141,658)	**(384,833)**	–
Amount due after one year	**3,898,921**	4,138,219	**2,090,447**	1,540,964
Secured	**2,543,439**	1,540,964	**2,475,280**	1,540,964
Unsecured	**7,365,670**	5,738,913	**–**	–
	9,909,109	7,279,877	**2,475,280**	1,540,964

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	
Fixed-rate borrowings				
Within one year	**1,486,993**	646,478	**–**	–
In more than one year but not more than two years	**–**	124,759	**–**	–
	1,486,993	771,237	**–**	–

34. BANK BORROWINGS (CONTINUED)

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

	THE GROUP		THE COMPANY	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Variable-rate borrowings				
Within one year	**4,523,195**	2,495,180	**384,833**	–
In more than one year but not more than two years	**1,677,956**	2,706,771	**772,583**	381,717
In more than two years but not more than five years	**2,198,245**	1,306,689	**1,317,864**	1,159,247
More than five years	**22,720**	–	**–**	–
	8,422,116	6,508,640	**2,475,280**	1,540,964

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings are ranged from 4.374% to 5.0445% (2008: from 4.54% to 7.10%) per annum.

The variable-rate bank borrowings of approximately HK$2,475 million (2008: HK$1,541 million) which carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.52% (2008: LIBOR plus 0.52%) per annum, which are ranged from 0.83% to 2.02% (2008: from 2.02% to 4.40%) 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 4.37% to 5.64% (2008: from 5.04% to 7.47%) per annum.

In 2009 and 2008, the Group's borrowings were secured by certain assets and are guaranteed by the ultimate holding company of a shareholder. Details are set out in notes 47 and 48 respectively.

In 2009, the Company's borrowings were secured by certain assets of subsidiaries (details are set out in note 47), and are guaranteed by a wholly-owned subsidiary.

34. 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 HK$'000	THE COMPANY HK$'000
As at 31 December 2009	2,475,280	2,475,280
As at 31 December 2008	1,540,964	1,540,964

35. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at fixed-rates ranged from 5.76% to 7.47% (2008: 5.76% to 7.47%) per annum, except for HK$136,100,000 which are non-interest bearing as at 31 December 2008. The amounts are repayable within twelve months from the end of the reporting period.

36. DEFERRED TAX

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

	2009 **HK$'000**	2008 HK$'000
Deferred tax assets	**(38,639)**	–
Deferred tax liabilities	**48,267**	50,114
	9,628	50,114

36. DEFERRED TAX (CONTINUED)

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

	Accelerated tax depreciation HK$'000	Fair value adjustment and revaluation of properties HK$'000	Fair value of available-for-sale investments HK$'000	Tax losses HK$'000	Total HK$'000
THE GROUP					
At 1 January 2008	27,870	24,071	–	(1,567)	50,374
Exchange differences	1,570	–	–	(42)	1,528
(Credit) charge to profit or loss (note 10)	(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
Exchange differences	41	–	–	–	41
Charge to security investment reserve	–	–	170,816	–	170,816
Credit to profit or loss upon disposal of available-for-sale investments	–	–	(170,816)	–	(170,816)
(Credit) charge to profit or loss (note 10)	(2,302)	(44)	(38,639)	458	(40,527)
At 31 December 2009	25,080	23,434	(38,639)	(247)	9,628

36. DEFERRED TAX (CONTINUED)

At the end of the reporting periods, the Group has unused tax losses of approximately HK$1,708 million, of which HK$263 million is subject to IRD's confirmation and HK$1,384 million is subject to SAT's confirmation (2008: HK$341 million of which HK$236 million was subject to IRD's confirmation) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$1 million (2008: HK$3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,707 million (2008: HK$338 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of HK$1,384 million that will expire in 2014, while the remaining tax losses may be carried forward indefinitely. These deferred tax assets have not been recognised due to the unpredictability of future profit streams.

At the end of the reporting periods, the Group has deductible temporary differences, which mainly represents allowance for trade receivables and allowance for inventories of approximately HK$326 million (2008: HK$254 million) and tax credit of approximately HK$375 million (2008: HK$375 million), which represents tax credit granted by the PRC Tax Authority for purchase of plants and machineries manufactured domestically in the PRC. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2008, 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. As at 31 December 2009, the Group has no such temporary differences.

THE COMPANY

At the end of the reporting period, the Company has unused tax losses of approximately HK$58 million of which HK$57 million was subject to IRD's confirmation (2008: HK$52 million of which HK$51 million was subject to IRD's confirmation) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

37. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 31 December 2009	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2008	7,003,197,214	1,400,639
Issue of shares upon exercise of share options (Note a)	280,144,000	56,029
Shares repurchased and cancelled (Note b)	(107,960,000)	(21,592)
At 31 December 2008	7,175,381,214	1,435,076
Issue of shares for the acquisition of interests in an associate (Note c)	1,000,000,000	200,000
At 31 December 2009	8,175,381,214	1,635,076

Notes:

(a) 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.

(b) 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.

(c) During the year ended 31 December 2009, 550,000,000 shares were issued as consideration for the First Acquisition of Fushan International at HK$0.79 per share, which is based on the market price per share on the First Completion Date, and 450,000,000 shares were issued as consideration for the Second Acquisition of Fushan International at HK$1.46 per share, which is based on the market price per share on the Second Completion Date as disclosed in note 23.

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

38. 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 on 7 June 2002.

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

The exercise price in relation to each share option will be determined by the Directors at their discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer. All share options except for 83,400,000 share options granted during the year ended 31 December 2007 are vested as at 31 December 2009.

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

38. SHARE OPTION 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 2009:

Grantees	Number of share options At 1.1.2009	Transferred to other category during the year (Note 1)	At 31.12.2009	Date of grant	Exercise period	Exercise price per share HK$
Directors of the Company	8,000,000	–	8,000,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	4,590,000	–	4,590,000	12.3.2003	12.3.2003 to 11.3.2013	0.280
	38,500,000	–	38,500,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	34,000,000	–	34,000,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	187,090,000	–	187,090,000			
Other employees of the Group	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2007 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2008 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2009 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2010 to 19.12.2014	2.944
	7,500,000	(5,000,000)	2,500,000	20.12.2007	20.12.2011 to 19.12.2014	2.944
	37,500,000	(25,000,000)	12,500,000			

38. SHARE OPTION SCHEME (CONTINUED)

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

Notes:

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

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

38. 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	At 1.1.2008	Lapsed during the year	Exercised during the year	At 31.12.2008	Date of grant	Exercise period	Exercise price per share HK$
	Number of share options						
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			
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			

38. SHARE OPTION SCHEME (CONTINUED)

Grantees	At 1.1.2008	Lapsed during the year	Exercised during the year	At 31.12.2008	Date of grant	Exercise period	Exercise price per share
	Number of share options						HK$
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.

During the year ended 31 December 2009, no share options were exercised.

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.

The Group recognised the total expense of HK59,372,000 for the year ended 31 December 2009 (2008: HK$110,877,000) in relation to share options granted by the Company.

39. RESERVES

	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE COMPANY					
At 1 January 2008	2,193,164	59,726	1,019	913,371	3,167,280
Profit for the year and total comprehensive income	–	–	–	848,083	848,083
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)
At 31 December 2008	2,242,475	170,603	22,611	896,363	3,332,052
Profit for the year and total comprehensive income	–	–	–	128,723	128,723
Share issued at premium	891,500	–	–	–	891,500
Share issue expenses	(60)	–	–	–	(60)
Recognition of equity-settled share based payments	–	59,372	–	–	59,372
Dividends recognised as distribution	–	–	–	(231,762)	(231,762)
At 31 December 2009	3,133,915	229,975	22,611	793,324	4,179,825

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to 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 34, loans from ultimate holding company of a shareholder disclosed in note 35, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Directors 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.

41. FINANCIAL INSTRUMENTS

41a. Categories of financial instruments

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Financial assets		
Held for trading	**424,846**	449,671
Loans and receivables (including cash and cash equivalents)	**3,769,285**	7,203,461
Available-for-sale financial assets	**231,688**	342,426
Financial liabilities		
Held for trading	**–**	56,666
Amortised cost	**13,405,540**	10,866,646

41. FINANCIAL INSTRUMENTS (CONTINUED)

41a. Categories of financial instruments (Continued)

	THE COMPANY	
	2009	2008
	HK$'000	HK$'000
Financial assets		
Held for trading	**424,304**	398,918
Loans and receivables (including cash and cash equivalents)	**5,488,445**	5,265,246
Financial liabilities		
Held for trading	**–**	20,782
Amortised cost	**2,874,521**	1,541,427
Financial guarantee contracts	**149**	2,071

41b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, restricted bank deposits, trade and bill receivables, other receivables, amounts due from (to) related companies, loans from ultimate holding company of a shareholder, bank balances and deposits, amount due from (to) ultimate holding company of a shareholder, amount due to a shareholder, amount due from a 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 (to) subsidiaries, other receivables, bank balances, other payables, amount due from a related company, amount due to a shareholder, bank borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate and interest rate fluctuations on the Group's financial performance and price fluctuations on the Group's available-for-sale investments. Risk management for the Group's operations is carried out under the guidance of the Board of Directors. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. 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 23% (2008: 19%) of the Group's sales and 18% (2008: 21%) 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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
AUD	**–**	–	**28,358**	18,787
USD	**2,504,829**	1,699,415	**668,636**	2,128,169
HKD	**358,873**	9,114	**205,320**	222,298
EURO ("EUR")	**–**	–	**–**	1,409

	THE COMPANY			
	Liabilities		Assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
AUD	**–**	–	**28,358**	18,787
USD	**2,485,630**	1,550,200	**420,445**	1,811,214
HKD	**350,212**	464	**46,174**	63,071

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. 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 an increase in post-tax loss (2008: 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		
	2009	2008		**2009**	2008		**2009**	2008	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
(Loss) profit for the year	**(1,184)**	(784)	(i)	**85,652**	(13,705)	(ii)	**6,086**	(9,221)	(iii)

THE COMPANY

	AUD			USD			HKD		
	2009	2008		**2009**	2008		**2009**	2008	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
(Loss) profit for the year	**(1,184)**	(784)	(i)	**86,221**	(11,283)	(ii)	**6,086**	(2,614)	(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.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. 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 34 for details of these borrowings) and loans from ultimate holding company of a shareholder (see note 35 for details of these loans).

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

The sensitivity analysis below presents the effects on the Group's and the Company's post-tax profit for the year as a result of change in interest expense on variable-rate borrowings, restricted bank deposits and bank balances. The sensitivity to interest rate used is considered reasonable given the market forecasts available at end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings, restricted bank deposits and bank balances at the end of the reporting period only as the Directors of the Company consider that other non-derivative instruments may not have significant exposure to change in interest rates. For variable-rate bank borrowings, restricted bank deposits and bank balances, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis (Continued)

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2009 would increase/decrease by HK$52,097,000 (2008: post-tax profit would decrease/increase by HK$17,931,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings, restricted bank deposits and bank balances.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's post-tax profit for the year ended 31 December 2009 would increase/decrease by HK$16,536,000 (2008: HK$2,934,000). 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, 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, the exposure to equity price risk on option to subscribe for shares of ARH as at 31 December 2009 and the exposure to equity price risk on Underwriting Agreement is insignificant.

Sensitivity analysis

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk (Continued)

Sensitivity analysis of listed equity securities

If the price had been 35% higher/lower, security investment reserve would increase/decrease by HK$34,175,000 (2008: increase/decrease by HK$110,481,000) 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$4,882,000 (2008: decrease/increase by HK$15,783,000) for the Group.

In management's opinion, the above sensitivity analysis is unrepresentative of the inherent other price risk as the year end exposure does not reflect the exposure during the year.

Sensitivity analysis of commodity forward contracts

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

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

Based on discounted cash flow analysis, if the price of the iron ore had been 5% higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$42,218,000 (2008: the Group's profit would increase/decrease by HK$79,900,000) as a result of the change in fair value of commodity forward contracts to purchase iron ore. In addition, if there is a 5% increase/decrease in RMB against USD and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$24,157,000 (2008: the Group's profit would decrease/increase by HK$16,670,000).

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. 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 the end of the reporting period with change in fair value to be recognised in the consolidated income statement. 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 ended 31 December 2008 would increase/decrease by HK$3,106,000/HK$2,143,000 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 ended 31 December 2008 would decrease/increase by HK$166,000).

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2009, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 46.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced. Besides, the Group has reduced credit risk on trade receivables by requesting trade deposits to be made or settlement by bank bills before delivery, especially in the steel manufacturing and shipping operations. The Group mainly deals with companies with a successful track record and reputation and also has policies in place to assess the credit worthiness of customers.

The Company has 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.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group and the Company has no significant concentration of credit risk for its trade and other receivables and amounts due from subsidiaries and related companies, with exposure spread over a large number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 93% (2008: 91%) of the total trade receivables as at 31 December 2009.

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 2009, the Group has available unutilised short-term and long-term bank loan facilities of approximately HK$1,631 million (2008: HK$1,676 million). The Directors is of the view that the banking facilities could be renewed as the Group is in compliance with the respective loan covenants and historical experience is such that Group has no difficulty to obtain the renewal.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

Liquidity tables

	THE GROUP								
	Weighted average interest rate %	Less than 3 months HK$'000	3-6 months HK$'000	6 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009									
Non-derivative financial liabilities									
Trade and bill payables		1,165,507	–	–	–	–	–	1,165,507	1,165,507
Other payables		546,696	–	–	–	–	–	546,696	546,696
Amount due to ultimate holding company of a shareholder		99,041	–	–	–	–	–	99,041	99,041
Amounts due to related companies		541,708	–	–	–	–	–	541,708	541,708
Amount due to a shareholder		350,000	–	–	–	–	–	350,000	350,000
Loans from ultimate holding company of a shareholder	6.80	13,640	194,868	627,559	–	–	–	836,067	793,479
Bank loans									
– fixed rate	4.89	165,336	784,633	573,443	–	–	–	1,523,412	1,486,993
– variable rate	3.78	1,018,282	1,128,349	2,602,113	1,757,609	2,308,215	22,923	8,837,491	8,422,116
		3,900,210	2,107,850	3,803,115	1,757,609	2,308,215	22,923	13,899,922	13,405,540
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		441,384	441,384	882,767	3,544,593	7,192,772	3,292,492	15,795,392	–

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

THE GROUP

	Weighted average interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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 ultimate holding company of a shareholder		172,531	–	–	–	–	–	172,531	172,531
Amounts due to related companies		694,505	–	–	–	–	–	694,505	694,505
Loans from ultimate holding company of a 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
		3,515,021	1,897,862	1,660,208	2,973,986	1,323,672	–	11,370,749	10,866,646
Derivatives – net settlement									
Foreign exchange forward contracts		8,445	8,445	2,816	–	–	–	19,706	19,706
Derivatives – gross settlement									
Foreign exchange forward contracts									
– inflow		(636,228)	(605,517)	(190,791)	–	–	–	(1,432,536)	(1,432,536)
– outflow		652,362	620,239	196,895	–	–	–	1,469,496	1,469,496
		16,134	14,722	6,104	–	–	–	36,960	36,960
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		433,929	572,259	1,153,319	2,957,253	9,335,574	4,694,171	19,146,505	–

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

THE COMPANY

	Weighted average interest rate %	Less than 3 months HK$'000	3-6 months HK$'000	6 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009									
Non-derivative financial liabilities									
Other payables		4,243	–	–	–	–	–	4,243	4,243
Amount due to a subsidiary		44,998	–	–	–	–	–	44,998	44,998
Amount due to a shareholder		350,000	–	–	–	–	–	350,000	350,000
Bank loans – variable rate	0.83	5,182	5,182	397,146	789,164	1,320,130	–	2,516,804	2,475,280
Financial guarantee contracts		1,280,368	–	–	–	–	–	1,280,368	149
		1,684,791	5,182	397,146	789,164	1,320,130	–	4,196,413	2,874,670
Derivatives – gross settlement									
Commodity forward contracts – outflow (Note)		441,384	441,384	882,767	3,544,593	7,192,772	3,292,492	15,795,392	–

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

THE COMPANY

	Weighted average interest rate %	Less than 3 months HK$'000	3-6 months HK$'000	6 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008									
Non-derivative financial liabilities									
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
Financial guarantee contracts		438,750	–	–	–	–	–	438,750	2,071
		451,286	12,073	24,146	431,707	1,175,788	–	2,095,000	1,543,498
Derivatives – net settlement									
Foreign exchange forward contracts		8,445	8,445	2,816	–	–	–	19,706	19,706
Derivatives – gross settlement									
Foreign exchange forward contracts									
– inflow		(77,510)	(31,004)	–	–	–	–	(108,514)	(108,514)
– outflow		78,542	31,048	–	–	–	–	109,590	109,590
		1,032	44	–	–	–	–	1,076	1,076
Derivatives – gross settlement									
Commodity forward contracts									
– outflow (Note)		433,929	572,259	1,153,319	2,957,253	9,335,574	4,694,171	19,146,505	–

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

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

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

41c. Fair value

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

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

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

- the fair value of derivative instruments 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 recorded at amortised cost in the consolidated financial statements approximate their fair values.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41c. Fair value (Continued)

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THE GROUP

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

41. FINANCIAL INSTRUMENTS (CONTINUED)

41c. Fair value (Continued)

THE COMPANY

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

There were no transfers between Level 1 and 2 in the current year.

Reconciliation of Level 3 fair value measurements of financial assets

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

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

42. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2009, the Company has issued 550,000,000 shares at the market price on the First Completion Date, which is HK$0.79 per share, as consideration for the First Acquisition and issued 450,000,000 shares at the market price on the Second Completion Date, which is HK$1.46 per share, as consideration for the Second Acquisition of Fushan International, as disclosed in note 23.

(b) During the year ended 31 December 2008, the Group has entered into the Underwriting Agreement with MGI to underwrite a maximum of 50 million shares of MGI under the Rights Issue, and such Underwriting Agreement was recognised as other financial assets as disclosed in notes 24 and 30. On 12 January 2009, the Rights Issue was completed and the Group acquired approximately 44 million shares of MGI. As at 12 January 2009, the fair value of the Underwriting Agreement of approximately HK$47 million was transferred to the available-for-sale investments as the initial investment cost of these 44 million shares of MGI.

(c) On 22 September 2009, the Group has entered into the Share Purchase Agreement with Fushan International to dispose the available-for-sale investment in MGI to Fushan International. The disposal was completed on 1 December 2009 and the consideration of approximately HK$1,779 million was satisfied in full by the allotment and issue of approximately 214 million shares of Fushan International to the Group as disclosed in note 23.

43. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year are as follows:		
Land and buildings	**4,484**	5,109
Vessels time charter hire	**136,193**	139,234
	140,677	144,343

43. OPERATING LEASE ARRANGEMENTS (CONTINUED)

The Group as lessee (Continued)

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

	Vessels time charter hire		Land and buildings		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**147,956**	146,532	**2,795**	4,592	**150,751**	151,124
In the second to fifth years inclusive	**287,359**	435,315	**6,007**	–	**293,366**	435,315
	435,315	581,847	**8,802**	4,592	**444,117**	586,439

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 2009, leases for properties are negotiated for terms ranging from three to four years.

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

43. OPERATING LEASE ARRANGEMENTS (CONTINUED)

The Group as lessor

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Minimum lease payments received under operating leases during the year are as follows:		
Land and buildings	**1,632**	1,412
Vessels time charter hire	**194,397**	493,475
	196,029	494,887

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

	Vessels time charter hire		Land and buildings		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**43,399**	56,698	**1,215**	597	**44,614**	57,295
In the second to fifth years inclusive	**–**	–	**3,220**	1,798	**3,220**	1,798
After five years	**–**	–	**–**	39	**–**	39
	43,399	56,698	**4,435**	2,434	**47,834**	59,132

44. COMMITMENTS

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
CAPITAL COMMITMENTS		
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**868,928**	1,094,289
OTHER COMMITMENTS		
Capital injection in respect of an investee	**–**	124,419

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

45. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of these schemes were held separately from those of the Group, in funds under the control of trustees. The cost charged to the consolidated income statement represented contributions payable to the funds by the Group at rates specified in the rules of the schemes.

In addition to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong, the Group is required to contribute to central pension schemes for certain Group's employees in the PRC based on applicable rates of monthly salary in accordance with government regulations. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

46. CONTINGENT LIABILITIES

THE GROUP

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

THE COMPANY

As at 31 December 2009, the financial guarantee given to banks in respect of banking facilities available to subsidiaries of approximately HK$1,280 million (2008: HK$439 million), of which approximately HK$87 million (2008: HK$58 million) was utilised by subsidiaries. As at 31 December 2009, HK$149,000 (2008: HK$2,071,000) were recognised in the financial statements for such financial guarantee.

47. PLEDGE OF ASSETS

THE GROUP

At 31 December 2009, the following items were used to secure banking facilities granted to the Group:

(a) Restricted bank deposits amounting to HK$280,838,000 (2008: HK$650,619,000).

(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$156,315,000 (2008: HK$156,320,000) and HK$183,593,000 (2008: HK$183,596,000) respectively.

(c) Pledge of the Group's plant and machinery with net book value of HK$33,537,000 (2008: nil).

(d) Pledge of the Group's land use rights with net book value of approximately HK$81,714,000 (2008: nil).

THE COMPANY

At 31 December 2009 and 2008, the Company pledged the total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly-owned subsidiaries of the Group, with total assets amounting to HK$156,315,000 (2008: HK$156,320,000) and HK$183,593,000 (2008: HK$183,596,000) respectively, to secure banking facilities granted to the Company

48. RELATED PARTY DISCLOSURES

(a) Transactions with PRC government related entities

The Group and the Company have early applied the partial exemptions set out in paragraphs 25 to 27 of HKAS 24 (Revised) Related Party Disclosures in advance of its effective date, with effect from 1 January 2009.

The Group is an associate of Shougang HK which is a wholly-owned subsidiary of Shougang Group, a state-owned enterprise under the direct supervision of the State Council of the PRC. Accordingly, the Company and the Group are significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the government of the PRC. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 48(a)(I) to 48(a)(III).

48. RELATED PARTY DISCLOSURES

(a) Transactions with PRC government related entities (Continued)

(I) Transactions with Shougang Group

Other than disclosed in notes 11, 23, 25, 28, 29, 35 and 42(c), the significant transactions with Shougang Group during the year, and significant balances at the end of the reporting period are as follows:

	Notes	**2009 HK$'000**	2008 HK$'000
THE GROUP			
Shougang Group			
Sales of goods by the Group	(a)	**2,443,582**	3,734,577
Provision of electricity, steam and hot water by the Group	(b)	**–**	209,644
Purchases of goods by the Group	(c)	**6,343,984**	5,240,438
Lease rentals charged to the Group	(d)	**4,447**	4,948
Management fee charged to the Group	(e)	**960**	960
Purchases of spare parts by the Group	(f)	**122,630**	159,071
Management fees charged by the Group	(g)	**5,009**	144
Rental income charged by the Group	(h)	**151**	151
Interest charged to the Group	(i)	**44,734**	51,976
Service fees charged to the Group	(j)	**109,023**	175,884
Service fees charged by the Group	(k)	**12,519**	83,440
Purchase of property, plant and equipment by the Group	(l)	**603,208**	382,186
THE COMPANY			
Shougang Group			
Management fee charged to the Company	(e)	**960**	960
Management fee charged by the Company	(g)	**5,009**	144

48. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Transactions with PRC government related entities (Continued)

(I) Transactions with Shougang Group (Continued)

Notes:

(a) The Group sold steel products, iron ore 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 ended 31 December 2008 as disclosed in note 11, sold electricity, steam and hot water to Shougang Group.

(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 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% (2008: 5.76% to 7.47%) per annum.

(j) Shougang Group charged the Group 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.

In addition, details of share options held by Directors as at 31 December 2009 were disclosed in note 38.

48. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Transactions with PRC government related entities (Continued)

(II) Balances with Shougang Group

Details of deposits for acquisition of property, plant and equipment with the Shougang Group are set out in note 25;

Details of balances with the Group's related companies are set out in note 28;

Details of balances with the Group's ultimate holding company of a shareholder are set out in notes 29 and 35;

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 31 December 2009, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK$5,634,443,000 (2008: HK$5,540,433,000).

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

Apart from the transactions and balances with the Shougang Group as disclosed in notes 48(a)(I) and 48(a)(II), the Group also conducts business with entities directly and indirectly owned or controlled by the PRC government in the ordinary course of business, including deposits placements, borrowings and other general banking facilities.

48. RELATED PARTY DISCLOSURES (CONTINUED)

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

Compensation of key management personnel

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

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Short-term employee benefits	**26,870**	26,568
Post employment benefits	**1,327**	1,317
Share-based payments	**55,528**	103,706
	83,725	131,591

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.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at 31 December 2008 and 2009 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	**2009** %	2008 %	
Central Pro Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Cheer Source Limited	Samoa	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Equity Dragon Assets Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly 2009 %	Directly 2008 %	Indirectly 2009 %	Indirectly 2008 %	Principal activities
Standnew Limited	British Virgin Islands/Hong Kong	US$100 Ordinary shares	–	–	100	100	Investment holding
Profit News Investments Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Investment holding
Shougang Concord Steel Holdings Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	100	100	–	–	Investment holding
Shougang Concord Steel Group Limited	Hong Kong	HK$25,000,000 Ordinary shares	–	–	100	100	Investment holding
Shougang Concord Godown Limited	Hong Kong	HK$2 Ordinary shares HK$2,000,000 Non-voting deferred shares	–	–	100	100	Provision of warehousing services
Shougang Concord Management Company Limited	Hong Kong	HK$100,000 Ordinary shares	–	–	100	100	Provision of management services and investment holding
Shougang Concord Steel (International) Company Limited	British Virgin Islands/Hong Kong	US$1,000 Ordinary shares	–	–	100	100	Investment holding
Shougang Concord Steel International Trading Co. Ltd.	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	100	100	Trading of steel products and iron ore and investment holding

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	2009 %	2008 %	
Shougang Concord Shipping Holdings Limited	British Virgin Islands/Hong Kong	US$641,025 Ordinary shares	**100**	100	**–**	–	Investment holding
Shougang Concord International Transport Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding and chartering of vessels
Ryegar Limited	United Kingdom/ Hong Kong	£2 Ordinary shares	**–**	–	**100**	100	Chartering of vessels
Shougang Concord Shipping Services Limited	Hong Kong	HK$2 Ordinary shares	**–**	–	**100**	100	Provision of management services
SCIT (Chartering) Limited	British Virgin Islands	US$1 Ordinary share	**–**	–	**100**	100	Chartering of vessels
Centralink International Limited	British Virgin Islands/Hong Kong	US$2,000,000 Ordinary shares	**–**	–	**70**	70	Investment holding
舟山首和中轉儲運有限公司 Zhoushan Shouhe Centra-link Co., Ltd.	PRC	US$5,000,000 Registered capital	**#**	#	**#**	#	Hiring of floating cranes
Fair Union Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	**–**	–	Investment holding
Richson Limited	Samoa/ Hong Kong	US$1 Ordinary share	**–**	–	**100**	100	Investment holding

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly 2009 %	Directly 2008 %	Indirectly 2009 %	Indirectly 2008 %	Principal activities
Casula Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	**100**	100	Investment holding
Firstlevel Holdings Limited	Samoa/ Hong Kong	US$1 Ordinary share	**100**	100	–	–	Investment holding
Shougang Concord Power Plant Holdings Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	–	–	**100**	100	Investment holding
秦皇島首鋼板材有限公司 Qinhuangdao Plate Mill Δ	PRC	US$86,000,000 Registered capital	–	–	**100**	100	Manufacture and sale of steel plates
秦皇島首秦金屬材料有限公司 Shouqin ΔΔ	PRC	RMB2,700,000,000 Registered capital	–	–	**76**	76	Manufacture and sale of steel and related products
Pointer Investments Limited	Samoa/ Hong Kong	US$1 Ordinary share	–	–	**100**	100	Investment holding
Shougang Concord Services Limited	Hong Kong	HK$2 Ordinary shares	**100**	100	–	–	Provision of management services
Huge Ever Limited	Hong Kong	HK$1 Ordinary share	–	–	**100**	100	Investment holding
Froxy Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	**100**	100	Investment holding

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Proportion of issued share/registered capital held by the Company Directly 2009 %	Directly 2008 %	Indirectly 2009 %	Indirectly 2008 %	Principal activities
Host Sun Investments Limited	Hong Kong	HK$1 Ordinary share	–	–	**100**	100	Investment holding
Shine Tone Group Limited	Hong Kong	HK$100 Ordinary shares	–	–	**100**	100	Investment holding
Sky Choice International Limited	British Virgin Islands/Hong Kong	US$1 Ordinary share	**100**	100	–	–	Investment holding
Timefull Investments Limited	Samoa/Hong Kong	US$1 Ordinary share	**100**	100	–	–	Investment holding
Excel Bond Investments Limited	British Virgin Island/Hong Kong	US$1 Ordinary share	**100**	–	–	–	Investment holding
Fine Power Group Limited	British Virgin Island/Hong Kong	US$1 Ordinary share	**100**	–	–	–	Investment holding
Ultimate Capital Limited	Hong Kong	HK$1 Ordinary share	–	–	**100**	–	Investment holding
秦皇島首秦鋼材加工配送有限公司 Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd.ΔΔ	PRC	RMB300,000,000 Registered capital	–	–	**87.76**	87.76	Value-added services on steel products
秦皇島首秦龍匯礦業有限公司 Shouqin Longhui ΔΔ	PRC	RMB500,000,000 Registered capital	–	–	**67.84**	57.84	Mining and sale of iron ore

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.

Δ Foreign investment enterprise established in the PRC.

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

Details of the Company's principal associates at 31 December 2008 and 2009 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 2009	2008	Proportion of voting power held 2009	2008	Principal activity
Shougang Concord Century Holdings Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	**35.73%**	36.76%	**35.73%**	36.76%	Manufacturing of steel cords and processing and trading of copper and brass products
秦皇島首秦嘉華建材有限公司 Qinhuangdao Shouqin K. Wah Construction Materials Company Limited	Incorporated	PRC	PRC	Registered capital	**22.8%**	22.8%	**22.8%**	22.8%	Production and sales of slag powder
Fushan International	Incorporated	Hong Kong	Hong Kong	Ordinary	**24.48%**	–	**24.48%**	–	Coking coal mining; production and sale of coking coal products and side products

Results

	Year ended 31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009 HK$'000**
Turnover	4,569,979	6,467,487	10,926,391	17,464,705	**11,357,623**
Profit attributable to owners of the Company	303,946	221,618	1,404,196	1,419,463	**71,667**

Assets and liabilities

	At 31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009 HK$'000**
Total assets	7,448,001	11,259,460	16,563,541	21,027,900	**24,246,730**
Total liabilities	(5,014,196)	(7,997,432)	(8,619,608)	(11,966,562)	**(14,505,912)**
	2,433,805	3,262,028	7,943,933	9,061,338	**9,740,818**
Equity attributable to owners of the Company	2,175,898	2,943,594	6,814,731	7,563,838	**8,581,236**
Minority interests	257,907	318,434	1,129,202	1,497,500	**1,159,582**
	2,433,805	3,262,028	7,943,933	9,061,338	**9,740,818**

SUMMARY OF INVESTMENT PROPERTIES

Particulars of major investment properties held by the Group as at 31 December 2009 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.	10D Kai Fong Garden, Fanling, New Territories, Hong Kong	Commercial	100%	Long term lease
4.	Flat A2 on 8 Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong	Residential	100%	Long term lease