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首長國際企業有限公司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Consolidated revenue was HK\$6,948 million, up 24% from last period.
- Profit attributable to shareholders was HK\$434 million.
- Basic gain per share was HK5 cents.

INTERIM RESULTS

The board of directors (the “Board”) of Shougang Concord International Enterprises Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	6,947,936	5,585,530
Cost of sales		(6,351,175)	(6,256,442)
Gross profit (loss)		596,761	(670,912)
Other income		48,988	35,167
Other gains and losses		(3,376)	(18,101)
Change in fair value of derivative financial instruments		144,060	45,144
Distribution costs		(94,330)	(27,765)
Administrative expenses		(239,562)	(225,843)
Finance costs		(225,989)	(204,513)
Share of result of associates		219,569	30,877
Profit (loss) before tax		446,121	(1,035,946)
Income tax credit (expense)	4	1,440	(9,463)
Profit (loss) for the period	5	447,561	(1,045,409)
Other comprehensive income			
Exchange differences arising on translation		49,592	394
Fair value (loss) gain on available-for-sale financial assets		(58,517)	1,756,404
Share of other comprehensive income of associates			
Exchange differences arising on translation		38,988	474
Fair value (loss) gain on available-for-sale financial assets		(28,442)	10,844
Other comprehensive income and expense for the period		1,621	1,768,116
Total comprehensive income for the period		449,182	722,707

		Six months ended 30 June	
		2010	2009
<i>Notes</i>		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		434,449	(872,511)
Non-controlling interests		13,112	(172,898)
		<u>447,561</u>	<u>(1,045,409)</u>
Total comprehensive income and expense attributable to:			
Owners of the Company		424,609	895,551
Non-controlling interests		24,573	(172,844)
		<u>449,182</u>	<u>722,707</u>
Earnings (loss) per share	7		
– Basic		<u>5.31 HK cents</u>	<u>(11.54) HK cents</u>
– Diluted		<u>5.28 HK cents</u>	<u>(11.54) HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties		31,679	31,477
Property, plant and equipment		11,228,358	10,251,792
Prepaid lease rentals		344,478	326,316
Mining assets		175,616	174,212
Goodwill		168,015	168,015
Interests in associates		6,285,467	6,211,843
Available-for-sale investments		174,587	231,688
Deferred tax assets		38,639	38,639
Other financial assets		390,844	275,140
Deposits for acquisition of property, plant and equipment		360,797	773,040
		19,198,480	18,482,162
CURRENT ASSETS			
Inventories		3,131,128	1,619,661
Trade and bill receivables	8	1,569,562	783,869
Trade receivables from related companies	9	792,743	722,395
Prepayments, deposits and other receivables		561,940	338,184
Prepaid lease rentals		7,515	7,459
Amounts due from related companies	9	150,654	301,007
Amount due from an associate		17,335	—
Amount due from a non-controlling shareholder of a subsidiary		3,407	3,407
Amount due from ultimate holding company of a shareholder	10	722	185,784
Other financial assets		180,634	149,706
Restricted bank deposits		288,331	280,838
Bank balances and cash		1,716,399	1,372,258
		8,420,370	5,764,568

		30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bill payables	11	2,473,542	1,165,507
Other payables and accrued liabilities		1,473,550	1,414,060
Tax payable		199,439	184,741
Amount due to a shareholder		–	350,000
Amounts due to related companies	9	709,551	541,708
Amount due to ultimate holding company of a shareholder	10	837,095	99,041
Bank borrowings – due within one year		6,785,966	6,010,188
Other financial liabilities		2,934	–
Loans from ultimate holding company of a shareholder		939,617	793,479
		13,421,694	10,558,724
NET CURRENT LIABILITIES		(5,001,324)	(4,794,156)
TOTAL ASSETS LESS CURRENT LIABILITIES		14,197,156	13,688,006
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year		3,963,813	3,898,921
Deferred tax liabilities		29,875	48,267
		3,993,688	3,947,188
		10,203,468	9,740,818
CAPITAL AND RESERVES			
Share capital		1,635,076	1,635,076
Share premium and reserves		7,387,050	6,946,160
Equity attributable to owners of the Company		9,022,126	8,581,236
Non-controlling interests		1,181,342	1,159,582
		10,203,468	9,740,818

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting.

The Company and its subsidiaries (collectively referred to as the “Group”) had net current liabilities of approximately HK\$5,001,324,000 as at 30 June 2010. 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 to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for amendment to HKFRS 5
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

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

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

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

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

Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leasehold asset have been transferred to the lessee. This change in policy has had no material effect on the condensed consolidated financial statements of the Group.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs, 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures, except for partial exemption of paragraph 25-27 ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

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 might affect the classification and measurement of the Group's financial assets.

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

3. SEGMENT INFORMATION

The Group's operating segments based on information reported to the Directors for the purposes of resource allocation and performance assessment are as follows:

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

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

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2010 (unaudited)

	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
Revenue						
External sales	4,409,742	115,451	1,465,439	955,973	1,331	6,947,936
Inter-segment sales	71,385	–	–	268,801	–	340,186
Total segment revenue	4,481,127	115,451	1,465,439	1,224,774	1,331	7,288,122
Elimination	(71,385)	–	–	(268,801)	–	(340,186)
Group's revenue	<u>4,409,742</u>	<u>115,451</u>	<u>1,465,439</u>	<u>955,973</u>	<u>1,331</u>	<u>6,947,936</u>
Inter-segment sales are charged at prevailing market rates.						
Segment profit	<u>55,940</u>	<u>35,067</u>	<u>302,937</u>	<u>99,400</u>	<u>(7,936)</u>	485,408
Interest income						10,649
Central administration costs						(38,896)
Finance costs						(225,989)
Loss from change in fair value of derivative financial instrument						(2,940)
Loss on dilution of interest in an associate						(1,680)
Share of result of associates						<u>219,569</u>
Profit before tax						<u>446,121</u>

Six months ended 30 June 2009 (unaudited)

	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
Revenue						
External sales	4,028,309	76,360	1,479,745	–	1,116	5,585,530
Inter-segment sales	320,375	–	–	–	–	320,375
Total segment revenue	4,348,684	76,360	1,479,745	–	1,116	5,905,905
Elimination	(320,375)	–	–	–	–	(320,375)
Group's revenue	<u>4,028,309</u>	<u>76,360</u>	<u>1,479,745</u>	<u>–</u>	<u>1,116</u>	<u>5,585,530</u>

Inter-segment sales are charged at prevailing market rates.

Segment (loss) profit	<u>(812,336)</u>	<u>(11,957)</u>	<u>(40,762)</u>	<u>(9,141)</u>	<u>4,446</u>	(869,750)
Interest income						24,920
Central administration costs						(55,206)
Finance costs						(204,513)
Gain from change in fair value of derivative financial instrument						45,144
Loss on dilution of interest in an associate						(7,418)
Share of result of an associate						<u>30,877</u>
Loss before tax						<u>(1,035,946)</u>

Segment profit (loss) represents the profit (loss) generated by each segment without allocation of interest income, central administration costs, finance costs, (loss) gain from change in fair value of foreign currency forward contracts and option to subscribe for shares of a listed company in Australia, loss on dilution of 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.

4. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Current tax:		
Hong Kong	15,484	–
PRC Enterprise Income Tax	1,635	8,852
	17,119	8,852
Underprovision in prior periods:		
Hong Kong	–	870
PRC Enterprise Income Tax	–	692
	17,119	10,414
Deferred tax:		
Current period	(18,559)	(951)
Income tax (credit) expense	<u>(1,440)</u>	<u>9,463</u>

The PRC Enterprise Income Tax is calculated at 25% for the six months ended 30 June 2010 and 2009. 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.

The income tax expense is recognised based on the individual income tax rates applicable to subsidiaries of the Group and their estimated assessable profit. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2010 and 2009.

5. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of mining assets	434	–
Depreciation of property, plant and equipment	341,751	320,594
Total depreciation and amortisation	342,185	320,594
Total borrowing costs	266,267	219,645
Less: Amounts capitalised	(40,278)	(15,132)
Total finance costs	225,989	204,513
(Reversal of impairment) provision for impairment of trade receivables, net (<i>Note</i>)	(5,642)	1,292
Allowance for inventories	13,806	35,619
Interest income	(10,649)	(24,920)
(Gain) loss on disposal of property, plant and equipment (<i>Note</i>)	(2)	11
Change in fair value of investment properties (<i>Note</i>)	–	(602)
Amortisation of prepaid lease rentals	3,744	3,286
Loss on dilution of interest in an associate (<i>Note</i>)	1,680	7,418
Exchange loss, net (<i>Note</i>)	7,340	9,982

Note: Amounts included in other gains and losses.

6. DIVIDENDS

No dividends were paid, declared or proposed during the period ended 30 June 2010 (2009: dividend of HK3 cents per ordinary share and in aggregate amounted to HK\$231,762,000 was paid to shareholders as the final dividend for 2008). The Directors do not recommend the payment of an interim dividend.

7. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings (loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the period attributable to owners of the Company)	434,449	(872,511)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of result of associates based on dilution of their earnings per share	(2,357)	(206)
Earnings (loss) for the purpose of diluted earnings (loss) per share	432,092	(872,717)
	Six months ended 30 June	
	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	8,175,381,214	7,561,292,816
Effect of dilutive potential ordinary shares on share options (Note)	5,095,768	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	8,180,476,982	7,561,292,816

Note: For the six months ended 30 June 2009, the computation of diluted loss per share did not assume the exercise of the Company's share options as their exercise would result in a decrease in loss per share.

8. TRADE AND BILL RECEIVABLES

For most customers, 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 analysis of trade and bill receivables by age, net of provision for impairment, presented based on the invoice date:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 60 days	1,511,369	769,756
61 – 90 days	13,383	4,838
91 – 180 days	43,887	9,255
181 – 365 days	923	20
	<u>1,569,562</u>	<u>783,869</u>

9. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts due from (to) related companies represent amounts due from (to) subsidiaries of Shougang Corporation, ultimate holding company of a shareholder of the Company (collectively referred as “Shougang Group”). The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) related companies are unsecured, interest-free and are repayable on demand.

The trade receivables from related companies and an analysis of such balances by age, net of provision for impairment, presented based on the invoice date are as follows:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 60 days	764,756	73,065
61 – 90 days	823	627,432
91 – 180 days	698	133
181 – 365 days	4,471	–
1 -2 years	21,995	21,765
	<u>792,743</u>	<u>722,395</u>

The trade payables to related companies and an analysis of such balances by age, presented based on the invoice date are as follows:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 90 days	344,407	107,160
91 – 180 days	21,801	59,890
181 – 365 days	27,532	37,232
1 – 2 years	45,109	30,920
Over 2 years	17,987	36,710
	456,836	271,912

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

As at 30 June 2010 and 31 December 2009, the amount due from ultimate holding company of a shareholder are non-trade in nature, unsecured, interest-free and are repayable on demand.

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

The trade payables to ultimate holding company of a shareholder and an analysis of such balances by age, presented based on the invoice date are as follows:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 90 days	387,593	–
91 – 180 days	353,278	129
181 – 365 days	130	–
	741,001	129

11. TRADE AND BILL PAYABLES

The following is an aged analysis of trade and bill payables by age, presented based on the invoice date:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 90 days	1,846,122	844,018
91 – 180 days	563,009	317,010
181 – 365 days	60,914	702
1 – 2 years	100	2,858
Over 2 years	3,397	919
	<u>2,473,542</u>	<u>1,165,507</u>

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

Shougang Concord International Enterprises Company Limited (“Shougang Concord International”) is a vertically integrated heavy plate manufacturing enterprise in the PRC. We have expanded our business scope by extending our tentacles to both upstream and downstream operations along the value chain. Currently, our operations are mainly segregated into four segments, namely, steel manufacturing, mineral exploration, steel and iron ore trading and shipping operations. Apart from having a long-term iron ore offtake agreement with Australia-listed iron ore producer Mount Gibson Iron Limited (“Mt. Gibson”), we have established Qinhuangdao Shouqin Longhui Mining Co., Ltd. (“Shouqin Longhui”) to explore local iron ore resources in Qinhuangdao, Hebei, PRC in order to enhance our investment in upstream supply chain. We also hold approximately 24.4% stake of Fushan International Energy Group Limited (“Fushan International”), a Hong Kong-listed hard coking coal producer in China. In addition, we own a deep processing centre on steel products 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.

PERFORMANCE OVERVIEW

In the first half of 2010, steel market has continued its rebound starting from the third quarter last year. Production is up with prices rising as well. In the meantime, sharply higher production has driven the demand for raw materials and therefore cost, gobbling up profit of steel manufacturers. Mainland steel price is higher than the start of the year as of June 2010, but we see prices weakening since. Coming from transformation of earnings profile with extension along the value chain, for the first six months in 2010, net profit attributable to shareholders of the Group amounted to HK\$434 million, comparing to a loss of HK\$873 million recorded in the last period. Turnaround in earnings are observed across almost all operating segments, including our mineral exploration segment which contributed HK\$244 million in profit, comparing to loss of HK\$6 million in the last period. The Group recorded a consolidated turnover of HK\$6,948 million in the first half of 2010, representing an increase of 24% comparing with that of last period. Basic earnings per share was HK5.3 cents.

FINANCIAL REVIEW

Six months ended 30 June 2010 compared to six months ended 30 June 2009

Turnover and Cost of Sales

For the interim period, the Group recorded a consolidated turnover of HK\$6,948 million, representing an increase of HK\$1,362 million, or 24% over that of last period. Sales were higher via progressive commencement of our Shouqin Longhui from September last year, reporting sales of HK\$956 million, while our steel manufacturing segment reported HK\$381 million higher in sales through improved demand and pricing.

Cost of sales for the current period was HK\$6,351 million. It resulted in gross profit of HK\$597 million in the current period, comparing to gross loss of HK\$671 million in the last period. All major segments have reported turnaround in gross profit from gross loss, details of which are discussed in the ensuing sections below.

EBITDA and Core Operating Profit

In this current interim period, earnings before interest, tax, depreciation and amortization (“EBITDA”) of the Group reached HK\$1,005 million, while it was a loss of HK\$338 million in the last period.

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

<i>In HK\$ million</i>	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
Profit/(loss) attributable to shareholders	434	(873)
Add: Non-cash items		
Fair value (gain) on iron ore offtake contract with Mt. Gibson	(147)	–
Fair value (gain) on Australasian Resources Limited options	–	(7)
Employee share option expenses	16	30
Core operating profit/(loss)	303	(850)

Finance costs

For the interim period this year, finance costs amounted to HK\$226 million, higher by about 10% from last period. The Group took advantage of a low interest environment by leveraging up for value-adding growth, net debt has grown to HK\$9,685 million from HK\$6,062 million in the last period.

Share of result of associates

This item includes the share of results of 24.4%-held Fushan International and 35.7%-held Shougang Concord Century Holdings Limited (“Shougang Century”) whilst we have started to equity account for the results of Fushan International only from 1 September 2009.

In this interim period, we have recognized profit contribution of HK\$191 million and HK\$28 million from Fushan International and Shougang Century respectively.

Taxation

For this interim period, we have provided HK\$17 million in deferred tax assets for Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”), resulting in net tax credit as HK\$1 million, while it was HK\$9 million in expenses in the last period.

REVIEW OF OPERATIONS

Summary net profit contribution to the group by operation/entity

<i>HK\$'000</i>		For the six months ended 30 June	
Operation/Entity	Attributable interest	2010 (unaudited)	2009 (unaudited)
1. Steel manufacturing			
Shouqin	76%	(33,226)	(574,278)
Qinhuangdao Plate Mill	100%	(69,341)	(225,009)
Sub-total		(102,567)	(799,287)
2. Mineral exploration			
Fushan International	24.4%	189,466	–
Shouqin Longhui	67.8%	54,453	(6,113)
Sub-total		243,919	(6,113)
3. Steel and iron ore trading			
Shougang Steel Group	100%	141,193	(40,733)
4. Shipping operations			
Shougang Shipping Group	100%	35,832	(11,402)
5. Others			
Shougang Century	35.7%	28,398	23,435
Fair value gain on Mt. Gibson offtake contract	100%	147,000	–
Corporate	100%	(59,326)	(38,411)
Sub-total		116,072	(14,976)
Total		434,449	(872,511)

Steel manufacturing

The Group operates in this business segment through Shouqin and Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”), both of which are situated in Qinhuangdao, Hebei, PRC. In this interim period, we saw a sharp rebound in the steel sector from demand recovery, bringing production and prices back to higher level, coupled with higher raw material cost. This core segment recorded net loss of HK\$103 million during the current period, while that of last period was net loss of HK\$799 million. Summary of production and sales quantities of the two manufacturing plants in the current and last interim period under this segment is as follows:

<i>In '000 mt.</i>	Slabs		Heavy Plates	
For the six months ended 30 June	2010	2009	2010	2009
(i) Production				
Shouqin	1,137	1,116	504	626
Qinhuangdao Plate Mill	–	–	334	329
Total	1,137	1,116	838	955
Change		+2%		–12%
(ii) Sales				
Shouqin [#]	553	426	505	620
Qinhuangdao Plate Mill	–	–	304	313
Total	553	426	809	933
Change		+30%		–13%

substantially all the slabs sold by Shouqin are towards Qinhuangdao Plate Mill and are eliminated on consolidation

Shouqin

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

As a premium heavy plate producer, Shouqin aims to ride through the industrialization trend of China, now focusing on serving industries such as infrastructure, petrochemical, shipping and heavy machinery. Its 4300mm heavy plate production line boasts a leading technological place in China, and our facilities are built around energy saving in mind. Currently, annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current interim period, Shouqin reported a turnover of HK\$4,511 million before elimination, recording a 7% rise on the comparative period. Reasons for such change are three-fold:

- (i) Production of heavy plates was lower due to the installation of a new roughing mill (600,000mt. capacity) and an ultra-thick slab caster,

- (ii) Sales volume of heavy plates dropped by 18%, average realized selling price (net of VAT) was HK\$4,845 (RmB 4,243), about 14% higher than that of last period; and
- (iii) Sales volume of slabs increased by 30%, average realized selling price (net of VAT) was HK\$3,972 (RmB 3,478), about 16% higher than that of the last period.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. (“QSSM”), commenced operation in the first quarter of 2009. QSSM is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. It has fulfilled Shouqin’s development towards equipment manufacturing industry, increasing value-added products and thus enhancing competitiveness of the entity. The current capacity in pre-treatment of plates is 150,000 tonnes per annum and is on the rise. This start-up recorded HK\$165 million in turnover and an attributable loss of HK\$2 million in the interim period.

For the six months ended 30 June 2010, Shouqin recorded a gross profit of HK\$211 million, comparing to gross loss of HK\$451 million in the last period, and thus contributed a net loss of HK\$33 million to the Group.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK\$1,712 million before elimination for the six months ended 30 June 2010, a rise of 20% comparing with that of last period. Slightly lower sales volume was compensated by higher average selling price and improved profitability. Average realized selling price (net of VAT) was HK\$4,562 (RmB 3,995), about 22% higher than that of last period. As a result, the Group’s share of loss of Qinhuangdao Plate Mill was HK\$69 million, comparing to loss of HK\$225 million last period.

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

Mineral exploration

Production and sale of coking coal

Fushan International is a 24.4% held associate of the Group and we have started to equity account for its financial results from 1 September 2009. It is the second largest hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover for the current period was HK\$2,659 million, net profit attributable to shareholders was HK\$837 million, a rise of 28% and 9% respectively over that of last period. Profit attributable to the Group was HK\$190 million in this period.

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

Production of iron ore products

The Group holds an effective 68% interest in Shouqin Longhui which is situated in Qinhuangdao, Hebei, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities. Iron ore fines concentrated from raw ores from the mines are used as feeds (shortfalls are currently satisfied by purchasing feeds from the market) for the pellet plant to produce the final product – iron ore pellets. The designed output of iron ore concentrate and pellet plant are 1 million tonnes and 2 million tonnes per annum respectively.

In the interim period, Shouqin Longhui sold approximately 880,000 tonnes of pellets. It recorded a turnover HK\$1,225 million for the period with a net profit of HK\$80 million, therefore the profit attributable to the group is about HK\$54 million. Shouqin Longhui only commenced operation progressively from September last year, loss attributable to the group in the last period was HK\$6 million.

Iron ore market has been strong with stark improvement in demand with prices rising by almost 50% during this six month period. As worries of China slowdown and curb in real-estate market began in Early May, sales of steel products slowed and thus iron ore prices had fallen in tandem. However, we believe that bottleneck in iron ore supply shall persist and price downside is limited. We expect to see continuing improvement in the results of Shouqin Longhui through higher output and are convinced that this operation is able to provide satisfactory returns to the Group in the years to come.

Steel and iron ore trading

Shougang Concord Steel Holdings Limited and its subsidiaries (“Shougang Steel Group”) reported a turnover of HK\$1,465 million in the six months ended 30 June 2010, similar to that of the last period. Shougang Steel Group sold approximately 1.4 million tonnes of iron ore through a long term offtake arrangement with Mt Gibson starting from 1 July 2009, which resulted in a per ton gain of US\$13, comparing to US\$2.5 loss in the last period. Trading of other steel products still recorded a small gain. The resulting net gain was HK\$141 million in the current period, comparing to a loss of HK\$41 million in the last period. Shougang Steel Group has since this year strengthened its business development in the Mainland and is prepared to cover trading of coal, while raw material prices stay strong, results from this operation are expected to be favorable in the foreseeable future.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries (“Shougang Shipping Group”) reported a net profit of HK\$36 million for the current period, compared to a net loss of HK\$11 million last period. This operating segment mainly conducts chartering

services of two capsized vessels. Shipping market has improved in the first half of 2010, but dropped sharply since June due to slower imports of iron ore into China and the fact that the grain season has come to an end. While we expect the market to pick up again in the medium term through global demand recovery and higher scrapping, oversupply of new ships on the other hand could well cap a sustained rise in shipping rates. Our operational strategy is to lease out the vessels on longer terms when rates are high and vice versa, serving as a hedge on shipping rates for imported raw materials.

Other business

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

Shougang Century, a 35.7% associate of the Group, recorded net profit of HK\$91 million in the current period, similar to that of the last period. The Group's share of its net results was a profit of HK\$28 million, comparing to share of profit of HK\$23 million in the last period.

Shougang Century has enjoyed a leading market position in the steel cord sector thanks to its quality product and good automobile market in China in general, it is thus able to report good turnover and gross profit in its principal businesses. With expanding capacity in its new plants, we believe its results will continue to excel in the future.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

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

1. Leverage

The financial leverage of the Group as at 30 June 2010 as compared to 31 December 2009 is summarized below:

<i>HK\$ million</i>	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Total Debt		
– from banks	10,750	9,909
– from parent company	940	793
sub-total	11,690	10,702
Cash and bank deposits	2,005	1,653
Net debt	9,685	9,049
Total capital (Equity and debt)	20,712	19,283
Financial leverage		
– Net debt to total capital	46.8%	46.9%
– Net debt to total assets	35.1%	37.3%

2. Currency and Interest Rate Risk

The Company manages its financial risks in accordance with guidelines laid down by its Board of Directors. The treasury policy aims to manage the Group currency, interest rate and counterparty risks. Derivatives are only used primarily for managing such risks but not for speculative purposes. We also target to ensure that adequate financial resources are available for business growth.

The Group conducts its businesses mainly in Hong Kong and Mainland China, therefore it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the six months ended 30 June 2010, approximately 78% 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.

3. Financing activities

In April 2010, the Company entered into a loan arrangement for 3-year facilities at HK\$350 million, with interest at HIBOR+80 bps. The loan was drawn down in May 2010.

MATERIAL ACQUISITIONS & DISPOSALS

There were no material acquisitions and disposals during the interim period.

CAPITAL STRUCTURE

The Company did not issue any new shares during the interim period.

The issued share capital of the Company was HK\$1,635 million (represented by 8,175 million ordinary shares).

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,700 employees as at 30 June 2010.

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

From this year on, the market environment in China and overseas have much improved from that of last period, but we do see super fast growth from late last year to normal growth currently. Risks to the growth momentum could come from different factors such as European sovereign debt crisis, China policy tightening and curb of property market, which in turn has caused much volatility in market sentiment.

Chinese steel prices have come down since Early May and production growth has also slowed, industry overcapacity and sub-par profitability appear to stay for some time. Raw materials including iron ore and coking coal are expected to tighten as steel production globally remains robust, resulting in additional margin pressure on steel manufacturers, but should enable elimination of obsolete capacity and industry restructuring in the long run. We believe the most important thing an enterprise should do amidst an uncertain environment is to review one's strategy to see if one's feet are on the right place. Shougang Concord International boosts quality heavy plate product with protection of earnings from upstream contribution including iron ore and coking coal, through investment during the economic downturn. We are staying firm and are confident of bringing sweet fruit to our shareholders in such a macro environment.

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 of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

COMPLIANCE WITH CODE ON 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 during the six months ended 30 June 2010, except for the following deviation:

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

The Chairman of the Board did not attend the annual general meeting of the Company held on 8 June 2010 (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 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.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board

Li Shaofeng

Managing Director

Hong Kong, 26 August 2010

As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Vice Chairman), Mr. Li Shaofeng (Managing Director), Mr. Zhang Wenhui (Deputy Managing Director), Mr. Chen Zhouping (Deputy Managing Director), Mr. Ip Tak Chuen, Edmond (Non-executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Ms. Kan Lai Kuen, Alice (Independent Non-executive Director), Mr. Wong Kun Kim (Independent Non-executive Director) and Mr. Leung Kai Cheung (Independent Non-executive Director).