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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 2011

FINANCIAL HIGHLIGHTS

- Consolidated revenue was HK\$10,445 million, up 50% from last period.
- Profit attributable to shareholders was HK\$214 million.
- EBITDA of the Group was HK\$958 million, down 5% from last period.
- Basic earnings per share was HK2.6 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 2011. 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 2011

		Six months ended 30 June	
		2011	2010
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	10,445,482	6,947,936
Cost of sales		(10,046,725)	(6,351,175)
Gross profit		398,757	596,761
Other income		28,769	48,988
Other gains and losses		(13,926)	(3,376)
Change in fair value of derivative financial instruments	4	117,672	144,060
Distribution costs		(80,270)	(94,330)
Administrative expenses		(246,017)	(239,562)
Finance costs		(281,081)	(225,989)
Share of result of associates		274,738	219,569
Profit before taxation		198,642	446,121
Income tax (expense) credit	5	(32,030)	1,440
Profit for the period	6	166,612	447,561
Other comprehensive income (expense)			
Exchange differences arising on translation		71,483	49,592
Fair value loss on available-for-sale investments		(77,994)	(58,517)
Release on deemed disposal of partial interest in an associate		(20)	–
Share of other comprehensive income of associates			
Exchange differences arising on translation		69,799	38,988
Fair value loss on available-for-sale investments		(57,072)	(28,442)
Other comprehensive income for the period		6,196	1,621
Total comprehensive income for the period		172,808	449,182

		Six months ended 30 June	
		2011	2010
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		214,123	434,449
Non-controlling interests		(47,511)	13,112
		<u>166,612</u>	<u>447,561</u>
Total comprehensive income and expense attributable to:			
Owners of the Company		203,243	424,609
Non-controlling interests		(30,435)	24,573
		<u>172,808</u>	<u>449,182</u>
Earnings per share			
– Basic	8	<u>2.62 HK cents</u>	<u>5.31 HK cents</u>
– Diluted		<u>2.61 HK cents</u>	<u>5.28 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

		30 June 2011 <i>HK\$'000</i> (unaudited)	31 December 2010 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties		34,602	34,234
Property, plant and equipment		12,071,215	12,096,114
Prepaid lease rentals		357,472	357,078
Mining assets		180,820	179,593
Goodwill		168,015	168,015
Interests in associates		6,888,956	6,742,974
Available-for-sale investments		186,325	261,931
Deferred tax assets		49,694	46,827
Other financial assets		415,943	367,942
Deposits for acquisition of property, plant and equipment		99,930	178,396
		<u>20,452,972</u>	<u>20,433,104</u>
CURRENT ASSETS			
Inventories		3,731,909	3,491,190
Trade and bill receivables	9	1,421,633	1,622,373
Trade receivables from related companies	10	1,118,026	749,972
Prepayments, deposits and other receivables		1,179,900	1,006,681
Prepaid lease rentals		7,774	7,680
Amounts due from related companies	10	34,177	108,044
Amounts due from associates		51,533	17,756
Amount due from a non-controlling shareholder of a subsidiary		3,526	3,526
Amount due from ultimate holding company of a shareholder	11	1,131	1,887
Other financial assets		274,194	202,195
Restricted bank deposits		322,032	281,486
Pledged deposits		84,276	—
Bank balances and cash		1,810,873	1,702,696
		<u>10,040,984</u>	<u>9,195,486</u>

		30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bill payables	12	3,419,254	2,966,135
Other payables and accrued liabilities		1,490,852	1,802,613
Tax payable		228,242	218,457
Amounts due to related companies	10	546,451	1,056,185
Amount due to ultimate holding company of a shareholder	11	2,432,552	1,172,981
Bank borrowings – due within one year		8,538,895	8,845,339
Other financial liabilities		2,328	–
Loans from ultimate holding company of a shareholder		299,181	968,868
		16,957,755	17,030,578
NET CURRENT LIABILITIES		(6,916,771)	(7,835,092)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,536,201	12,598,012
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year		2,043,312	1,888,612
Deferred tax liabilities		10,523	12,139
Loans from ultimate holding company of a shareholder		686,251	–
		2,740,086	1,900,751
		10,796,115	10,697,261
CAPITAL AND RESERVES			
Share capital		1,635,076	1,635,076
Share premium and reserves		8,063,336	7,932,018
Equity attributable to Owners of the Company		9,698,412	9,567,094
Non-controlling interests		1,097,703	1,130,167
		10,796,115	10,697,261

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 (“HKAS”) 34 “Interim Financial Reporting”.

The Company and its subsidiaries (collectively referred to as the “Group”) had net current liabilities of approximately HK\$6,916,771,000 as at 30 June 2011 of which current liabilities of approximately HK\$8,538,895,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group, including the Group’s unutilised banking facilities, the Group’s ability to renew the banking facilities upon maturity, 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, a number of new or revised Hong Kong Financial Reporting Standards (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the financial year beginning on 1 January 2011. The application of these new HKFRSs in the current interim period had no material effect on the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group is a government related entity. In its annual consolidated financial statements for the year ended 31 December 2010, the Group had applied early the partial exemption from the disclosure requirements for government-related entities. In the current interim period, the Group has applied for the first time the revised definition of a related party as set out in HKAS 24 (as revised in 2009). No material effect on the disclosure set out in these condensed consolidated financial statements.

The Group has not early applied the following new or revised Standards that have been issued but are not yet effective. The following new or revised Standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 have authorised for issuance and are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of the Other Comprehensive Income ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

The five new or revised Standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised Standards are applied early at the same time. The directors of the Company anticipate that these new or revised Standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013. The directors of the Company are currently evaluating the impact of the adoption of these new or revised Standards on its financial statements.

3. SEGMENT INFORMATION

The Group's operating segments based on information reported to the Board of Directors of the Company, being the chief operating decision maker, 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.

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

Six months ended 30 June 2011 (unaudited)

	Steel manufacturing <i>HK\$'000</i>	Shipping operations <i>HK\$'000</i>	Steel and iron ore trading <i>HK\$'000</i>	Mineral exploration <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue						
External sales	7,305,940	57,329	2,413,345	667,122	1,746	10,445,482
Inter-segment sales	<u>7,389</u>	<u>–</u>	<u>–</u>	<u>430,641</u>	<u>–</u>	<u>438,030</u>
Segment revenue	7,313,329	57,329	2,413,345	1,097,763	1,746	10,883,512
Elimination	<u>(7,389)</u>	<u>–</u>	<u>–</u>	<u>(430,641)</u>	<u>–</u>	<u>(438,030)</u>
Group revenue	<u>7,305,940</u>	<u>57,329</u>	<u>2,413,345</u>	<u>667,122</u>	<u>1,746</u>	<u>10,445,482</u>
Inter-segment sales are charged at prevailing market rates.						
Segment profit (loss)	<u>33,215</u>	<u>(16,555)</u>	<u>213,584</u>	<u>6,329</u>	<u>(3,578)</u>	232,995
Interest income						12,627
Central administration costs						(38,265)
Finance costs						(281,081)
Loss from change in fair value of derivative financial instruments						(2,328)
Loss on dilution of interest in an associate						(44)
Share of result of associates						<u>274,738</u>
Profit before taxation						<u>198,642</u>

Six months ended 30 June 2010 (unaudited)

	Steel manufacturing <i>HK\$'000</i>	Shipping operations <i>HK\$'000</i>	Steel and iron ore trading <i>HK\$'000</i>	Mineral exploration <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue						
External sales	4,409,742	115,451	1,465,439	955,973	1,331	6,947,936
Inter-segment sales	<u>71,385</u>	<u>–</u>	<u>–</u>	<u>268,801</u>	<u>–</u>	<u>340,186</u>
Segment revenue	4,481,127	115,451	1,465,439	1,224,774	1,331	7,288,122
Elimination	<u>(71,385)</u>	<u>–</u>	<u>–</u>	<u>(268,801)</u>	<u>–</u>	<u>(340,186)</u>
Group 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 (loss)	<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 instruments						(2,940)
Loss on dilution of interest in an associate						(1,680)
Share of result of associates						<u>219,569</u>
Profit before taxation						<u>446,121</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 interest rate swap contracts, 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. CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

During the six months ended 30 June 2011, the fair value of derivative financial instruments increased by HK\$117,672,000 (HK\$144,060,000 for the six months ended 30 June 2010). Such increase mainly came from the change in fair value of commodity forward contracts to purchase iron ore, due to the increase in forecasted market price of iron ore.

5. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	428	15,484
PRC Enterprise Income Tax	1,959	1,635
	<u>2,387</u>	<u>17,119</u>
Underprovision in prior periods – PRC (<i>Note</i>)	31,713	–
	<u>34,100</u>	<u>17,119</u>
Deferred tax:		
Current period	(2,070)	(18,559)
Income tax expense (credit)	<u>32,030</u>	<u>(1,440)</u>

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 are 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 income tax expense is recognised based on the 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 2011 and 2010.

Note: The underprovision of PRC Enterprise Income Tax arose from the disallowance of the preferential tax treatment under the EIT Law in the PRC for a subsidiary in the PRC in relation to the year ended 31 December 2008, as notified by the State Administration of Taxation during the six months ended 30 June 2011.

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of mining assets, included in cost of sales	1,826	434
Depreciation of property, plant and equipment	424,972	341,751
Total depreciation and amortisation	426,798	342,185
Interest expenses for bank borrowings	255,701	242,807
Interest expenses for other borrowings	23,335	21,295
Total borrowing costs	279,036	264,102
Add: Factoring cost for discounted receivables without recourse	30,715	2,165
Less: Amounts capitalised (<i>Note 1</i>)	(28,670)	(40,278)
Total finance costs	281,081	225,989
Reversal of provision for impairment of trade receivables, net (<i>Note 2</i>)	(234)	(5,642)
Reversal of provision for impairment of trade receivables from related companies, net (<i>Note 2</i>)	(75)	-
(Reversal of) allowance for inventories	(7,382)	13,806
Interest income from bank deposits	(12,627)	(10,649)
Loss (gain) on disposal of property, plant and equipment (<i>Note 2</i>)	1,276	(2)
Amortisation of prepaid lease rentals	4,153	3,744
Loss on dilution of interest in an associate (<i>Note 2</i>)	44	1,680
Net foreign exchange loss (<i>Note 2</i>)	12,915	7,340

Notes:

1. Borrowing costs capitalised during the six months ended 30 June 2011 arose from general borrowing pool and are calculated by applying a capitalisation rate of 4.34% (six months ended 30 June 2010: 4.42%) per annum to expenditure on qualifying assets.
2. Amounts included in other gains and losses.

7. DIVIDENDS

During the current interim period, a final dividend of HK1 cent per ordinary share in respect of year ended 31 December 2010 (2010: nil) was paid to the Owners of the Company. The aggregate amount of the final dividend paid in the current interim period amounted to approximately HK\$81,754,000 (2010: nil).

No dividends were declared or proposed during the six months ended 30 June 2011.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share		
(Profit for the period attributable to Owners of the Company)	214,123	434,449
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	(469)	(2,357)
Earnings for the purpose of diluted earnings per share	213,654	432,092
	Six months ended 30 June	
	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,175,381,214	8,175,381,214
Effect of dilutive potential ordinary shares on share options	9,135,577	5,095,768
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,184,516,791	8,180,476,982

9. TRADE AND BILL RECEIVABLES

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 based on the invoice date at the end of the reporting period:

	30 June	31 December
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 – 60 days	1,256,384	1,514,457
61 – 90 days	14,468	10,127
91 – 180 days	75,377	64,368
181 – 365 days	75,404	33,421
	1,421,633	1,622,373

10. 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 aged analysis of such balances net of provision for impairment presented based on the invoice date at the end of the reporting period are as follows:

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
0 – 60 days	1,070,621	734,527
61 – 90 days	2,711	1,198
91 – 180 days	16,162	1,104
181 – 365 days	28,532	7,601
1 – 2 years	–	5,542
	<u>1,118,026</u>	<u>749,972</u>

Included in amounts due to related companies are HK\$251,214,000 (2010: HK\$760,045,000) 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 are as follows:

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
0 – 90 days	106,694	694,076
91 – 180 days	83,205	8,276
181 – 365 days	38,986	836
1 – 2 years	5,179	18,541
Over 2 years	17,150	38,316
	<u>251,214</u>	<u>760,045</u>

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

As at 30 June 2011 and 31 December 2010, 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.

Included in amount due to ultimate holding company are HK\$2,331,989,000 (2010: HK\$1,074,108,000) trade payables to ultimate holding company of a shareholder and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period are as follows:

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
0 – 90 days	515,686	1,074,108
91 – 180 days	1,316,902	–
181 – 365 days	499,401	–
	<u>2,331,989</u>	<u>1,074,108</u>

12. TRADE AND BILL PAYABLES

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

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
0 – 90 days	2,953,355	2,456,267
91 – 180 days	352,880	447,981
181 – 365 days	71,292	57,217
1 – 2 years	39,121	1,551
Over 2 years	2,606	3,119
	<u>3,419,254</u>	<u>2,966,135</u>

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

We are a heavy plate manufacturing enterprise in the PRC with various interests in upstream areas. Principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei, PRC. Currently, our operations are mainly segregated into four segments, namely, steel manufacturing, mineral exploration, iron ore and steel trading and shipping. Apart from having long-term iron ore offtake agreements 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 city, in order to enhance our investment in upstream supply chain. Currently, we hold approximately 27.2% (30 June 2011: 24.4%) equity stake of Shougang Fushan Resources Group Limited (“Fushan”), a Hong Kong-listed hard coking coal producer in China. In addition, we own a deep processing centre on steel products to extend our operation to the downstream value chain. Such vertical integration strategy is advantageous in enhancing the heavy plate manufacturing operation of the Group.

PERFORMANCE REVIEW

China steel production has been strong so far this year, staying above 700 million mt. on an annualized basis. Prices have been recovering and end user demand stays strong. However, steel manufacturers have nothing to smile about yet with raw material prices lingering at elevated levels. We judge the disequilibrium between high raw material cost and low steel manufacturer profits to be primarily temporary. With steel demand on the uptick through still-strong investment growth, social housing and replacement needs, the industry is currently at its darkest before dawn. Our steel manufacturing segment has focused on serving heavy machinery segments with premium thick plate products, which helps drive average selling price (“ASP”) and thus turnover, although cost pressure remains severe. Strong positive contributions by our mineral exploration segment help compensate the overall results.

For the first six months in 2011, net profit attributable to shareholders amounted to HK\$214 million, comparing to HK\$434 million in the last period. The Group recorded a consolidated turnover of HK\$10,445 million in this period, representing an increase of 50% comparing to that of last. Basic earnings per share was HK2.6 cents.

FINANCIAL REVIEW

Six months ended 30 June 2011 compared to the six months ended 30 June 2010

Turnover and Cost of Sales

For the interim period, the Group recorded consolidated turnover of HK\$10,445 million, higher by 50% when comparing to that of last. Higher turnover comes from increase in quantities sold and ASP and hence turnover of the steel manufacturing segment, turnover from steel and iron ore trading also climbed sharply.

Cost of sales for the period was HK\$10,047 million, resulting in gross profit of HK\$399 million, comparing to HK\$597 million in the last.

EBITDA and Core Operating Profit

For the interim period, earnings before interest, tax, depreciation and amortization (“EBITDA”) of the Group reached HK\$958 million, comparing to HK\$1,005 million in the last period.

Profit after taxation included current significant non-cash and/or non-recurring charges and are reconciled below:

<i>In HK\$ million</i>	30 June 2011 (unaudited)	30 June 2010 (unaudited)
Profit attributable to shareholders of the Group	214	434
Adjusted by: Non-cash items		
Fair value (gain) on iron ore offtake contract with Mt. Gibson	(120)	(147)
Employee share option expenses	10	16
Core operating profit	104	303

Finance costs

For the interim period, finance costs amounted to HK\$281 million, approximately 24% higher than that of last period. The Group maintains a higher leverage currently to take advantage of the low interest environment.

Share of result of associates

In this interim period, we have recognized profit contribution of HK\$265 million and HK\$9 million from each of Fushan and Shougang Concord Century Holdings Limited (“Shougang Century”).

Taxation

In this interim period, taxation expenses amounted to HK\$32 million which mainly represented under-recognized tax expenses of Qinhuangdao Shougang Plate Mill Co., Ltd. (“Qinhuangdao Plate Mill”) in prior years, it was HK\$1 million in net tax credit in the last period.

REVIEW OF OPERATIONS

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

<i>HK\$'000</i> Operation/Entity	Attributable interest	For the six months ended 30 June	
		2011 (unaudited)	2010 (unaudited)
1. Steel manufacturing			
Shouqin	76%	(146,197)	(33,226)
Qinhuangdao Plate Mill	100%	(40,458)	(69,341)
Sub-total		(186,655)	(102,567)
2. Mineral exploration			
Fushan	24.4%	265,184	189,466
Shouqin Longhui	67.8%	(15,841)	54,453
Sub-total		249,343	243,919
3. Steel and iron ore trading			
The Trading Group	100%	93,555	141,193
4. Shipping operations			
Shougang Shipping Group	100%	(19,928)	35,832
5. Others			
Shougang Century	35.7%	9,485	28,398
Fair value gain on Mt. Gibson offtake contract	100%	120,000	147,000
Corporate	100%	(51,677)	(59,326)
Sub-total		77,808	116,072
Total		214,123	434,449

Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) and Qinhuangdao Plate Mill. In this interim period, we saw a mild recovery in the steel manufacturing sector from robust demand and higher prices, yet dragged by higher raw material cost. This core segment recorded net loss of HK\$187 million during the current period, while that of last period was net loss HK\$103 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		2011	2010	2011	2010
(i)	Production				
	Shouqin	1,280	1,137	855	504
	Qinhuangdao Plate Mill	–	–	334	334
	Total	1,280	1,137	1,189	838
	Change		+13%		+42%
(ii)	Sales				
	Shouqin [#]	326	553	849	505
	Qinhuangdao Plate Mill	–	–	319	304
	Total	326	553	1,168	809
	Change		-41%		+44%

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

Shouqin

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

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to 4300m wide hot rolling plate production line imported from Germany, focusing on serving industries such as heavy machinery, shipping, infrastructure and petrochemical. Currently, annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current interim period, Shouqin reported a turnover of HK\$6,766 million before elimination, recording a 44% rise on the comparative period. Reasons for such change are two-fold:

- (i) Sales volume of heavy plates increased by 68%, ASP (net of VAT) was HK\$6,034 (RmB 5,060), about 19% higher than that of the last period; but,

- (ii) Sales volume of slabs decreased by 41%, with Shouqin using up more of the slabs being produced itself, ASP (net of VAT) was HK\$4,758 (RmB 3,990), about 15% higher than that of the last. We scheduled a medium overhaul of the entire plant for two weeks during the period, resulting in lower overall utilization.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. This entity recorded HK\$396 million in turnover, increased by 1.4 times from that of last, and contributed an attributable loss of HK\$7 million in the interim period.

For the six months ended 30 June 2011, Shouqin recorded a gross profit of HK\$193 million, comparing to gross profit of HK\$212 million in the last period, and thus contributed a net loss of HK\$146 million to the Group.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK\$2,137 million before elimination for the six months ended 30 June 2011, a rise of 25% comparing with that of last. Slightly lower sales volume is offset by higher ASP (net of VAT) was HK\$5,576 (RmB 4,676), about 17% higher than that of last period. As a result, the Group's share of loss of Qinhuangdao Plate Mill was HK\$40 million, comparing to loss of HK\$69 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 is a 24.4% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover from continuing operations for the current period was HK\$3,899 million; net profit attributable to shareholders was HK\$1,131 million, a rise of 53% and 35% respectively over that of last. Profit attributable to the Group was HK\$265 million in this period.

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

Production of iron ore products

The Group holds an effective 68% interest in Shouqin Longhui which is situated in Qinglong County, Qinhuangdao City, Hebei, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities. 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 give the final product – iron ore pellets.

In the interim period, Shouqin Longhui's production was lower by improvement initiatives of its design and operations, thereby affecting its output. It sold approximately 680,000mt. pellets, a decrease of 23% from that of last period, while ASP has increased by 15%. It recorded a turnover HK\$1,100 million for the period, loss attributable to the group was about HK\$16 million, comparing to an attributable profit of HK\$54 million in the last.

Iron ore market is expected to remain tight for the short to medium term, with delays to new supply and strong demand driving prices. We believe with strong steel production, price downside of iron ore is limited. We expect to see improvement in the results of Shouqin Longhui in the foreseeable future.

Iron ore and steel trading (“Trading”)

Our Trading operations are jointly conducted by SCIT Trading Limited and Shougang Concord Steel Holdings Limited and its subsidiaries (“The Trading Group”), both of which are wholly owned by the Group. The Trading Group reported a turnover of HK\$2,413 million in the six months ended 30 June 2011, which was HK\$1,465 million in the last period. It sold approximately 1.25 million tonnes of iron ore to external parties, which was lower by 12% from that of last period, through long term offtake arrangements with Mt. Gibson starting from 1 July 2009. Lower volume is a result of significant rainfall and an extreme wet season that caused flooding in Mt. Gibson's operations in the first quarter of the year, resulting in drop in ore output. Trading of other steel products still recorded a small gain. The resulting net gain was HK\$94 million in the current period, comparing to a net gain of HK\$141 million in the last. The Trading Group has since this year strengthened its business development in the Mainland and is prepared to cover more varieties and quantities; 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 loss of HK\$20 million for the current period, compared to a net profit of HK\$36 million last period. This operating segment mainly conducts chartering services of two capsized vessels. The weak rate environment is not just due to newbuild deliveries; demand growth has been decelerating ex-China.

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\$27 million in the current period. The Group's share of its net results was a profit of HK\$9 million, comparing to share of profit of HK\$28 million in the last period.

Lower profit from Shougang Century is mainly the result of a competitive operating environment in the steel cord sector. With expanding capacity in its new plants, we believe its results will improve 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 2011 as compared to 31 December 2010 is summarized below:

<i>HK\$ million</i>	30 June 2011 (unaudited)	31 December 2010 (audited)
Total Debt		
– from banks	10,582	10,734
– from parent company	985	969
sub-total	11,567	11,703
Cash and bank deposits	2,217	1,984
Net debt	9,350	9,719
Total capital (Equity and debt)	21,265	21,270
Financial leverage		
– Net debt to total capital	44.0%	45.7%
– Net debt to total assets	30.7%	32.8%

2. Currency and Interest Rate Risk

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

The Group conducts its businesses mainly in Hong Kong and Mainland China, it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non-Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the six months ended 30 June 2011, approximately 76% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements. The Group also enters into certain interest rate swaps to mitigate interest rate risks. Notional amounts of such derivative instruments amounted to approximately HK\$195 million as at end of this period.

3. Financing activities

The Company has concluded three new financing deals in the interim period, totaling HK\$1,170 million (US\$150 million), of tenors between 36 to 42 months.

MATERIAL ACQUISITIONS & DISPOSALS

There were no material acquisitions and disposals during the interim period. See “Event after the end of the interim period” in Note 20 to the financial statements.

CAPITAL STRUCTURE

The Company did not issue any new shares during the interim period. See “Event after the end of the interim period” in Note 20 to the financial statements.

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 2011.

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

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

PROSPECTS

The key message of China’s 12th five year plan is that her industrialization continues to become the single most important topic over the coming five years. For the steel industry, we shall see increased M&A activities and restriction on steel capacity expansions. The higher cost structure (in particular iron ore) and environmental targets are among the major challenges the industry faces, this is well counterbalanced by some macro measures.

Looking ahead to the second half of 2011 and beyond, we believe in stable growth in the economy and yet uneven but continuous improvements in the operating environment for the steel industry. Consumption by end-customer sectors is mostly robust although the monetary policy shall play an important role in determining both sentiment and profitability. Our focus is twofold, both to expand the upstream operations and to enhance our steel manufacturing business. We embrace a pioneering business structure with investments along the entire value chain in steel manufacturing, we are confident that it shall eventually bear sweet fruit to our shareholders.

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 2011, except for the following deviation:

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

The Chairman of the Board did not attend the annual general meeting of the Company held on 19 May 2011 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with the chairman and majority of members of each 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 2011

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).