

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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 2016**

### **FINANCIAL HIGHLIGHTS**

- Consolidated revenue was HK\$3,425 million, down 18.7% from last period.
- Loss attributable to shareholders was HK\$926 million.
- Loss per share was 10.34 HK 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 2016. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2016*

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	3,424,687	4,212,280
Cost of sales		<u>(3,612,077)</u>	<u>(4,555,513)</u>
Gross loss		(187,390)	(343,233)
Other income		22,030	35,005
Other gains and losses		(17,788)	3,807
Change in fair value of derivative financial instruments		(11,267)	(26,971)
Distribution and selling expenses		(37,989)	(55,558)
Administrative expenses		(202,565)	(248,433)
Impairment loss on interest in an associate	8	(257,000)	(395,000)
Finance costs		(270,595)	(360,896)
Share of results of associates		<u>(114,255)</u>	<u>(58,220)</u>
Loss before taxation		(1,076,819)	(1,449,499)
Income tax credit	4	<u>2,342</u>	<u>2,104</u>
Loss for the period	5	<u>(1,074,477)</u>	<u>(1,447,395)</u>

**Other comprehensive income (expense)**

**Items that will not be reclassified to profit or loss:**

Exchange differences arising on translation to presentation currency		119,903	3,156
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income		(49,698)	(77)
Share of exchange differences of an associate arising on translation to presentation currency		(11,115)	149
Share of fair value gains on investment in equity instruments designated as at fair value through other comprehensive income of an associate		34,440	3,509

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
<i>NOTE</i>	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Item that may be subsequently reclassified to profit or loss:</b>		
Share of exchange differences of an associate arising on translation of foreign operations	<u>(7,113)</u>	–
Other comprehensive income for the period	<u>86,417</u>	6,737
Total comprehensive expense for the period	<u><b>(988,060)</b></u>	<u>(1,440,658)</u>
Loss for the period attributable to owners of the Company	<u>(926,368)</u>	(1,233,708)
Loss for the period attributable to non-controlling interests	<u>(148,109)</u>	(213,687)
	<u><b>(1,074,477)</b></u>	<u>(1,447,395)</u>
Total comprehensive expense attributable to:		
Owners of the Company	<u>(856,835)</u>	(1,228,249)
Non-controlling interests	<u>(131,225)</u>	(212,409)
	<u><b>(988,060)</b></u>	<u>(1,440,658)</u>
Loss per share	7	
– Basic	<u><b>(10.34) HK cents</b></u>	<u>(13.77) HK cents</u>
– Diluted	<u><b>(10.34) HK cents</b></u>	<u>(13.77) HK cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AT 30 JUNE 2016*

		<b>30 June 2016</b>	31 December 2015
	<i>NOTES</i>	<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties		<b>38,115</b>	38,818
Property, plant and equipment		<b>8,652,778</b>	9,239,351
Prepaid lease rentals		<b>284,521</b>	292,754
Interests in associates	8	<b>4,925,003</b>	5,353,944
Equity investments	9	<b>5,335</b>	56,199
Deferred tax assets		<b>33,425</b>	32,582
Other financial assets		<b>301,585</b>	312,852
Deposits for acquisition of property, plant and equipment		<b>14,245</b>	15,665
Pledged bank deposits		<b>44,967</b>	191,428
		<b>14,299,974</b>	15,533,593
<b>CURRENT ASSETS</b>			
Inventories		<b>1,499,250</b>	1,531,574
Trade and bills receivables	10	<b>1,838,173</b>	2,005,306
Trade receivables from related companies	11	<b>130,344</b>	126,205
Trade receivables from ultimate holding company of a shareholder	12	<b>1,241</b>	1,313
Prepayments, deposits and other receivables		<b>365,043</b>	399,431
Prepaid lease rentals		<b>7,417</b>	7,531
Amounts due from related companies	11	<b>76,000</b>	212,946
Amount due from an associate		<b>7,303</b>	7,372
Restricted bank deposits		<b>641,172</b>	832,566
Pledged bank deposits		<b>65,825</b>	85,062
Bank balances and cash		<b>489,095</b>	519,474
		<b>5,120,863</b>	5,728,780

		<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>13</i>	<b>3,045,884</b>	3,464,157
Trade payables to related companies	<i>11</i>	<b>691,198</b>	652,676
Trade payables to ultimate holding company of a shareholder	<i>12</i>	<b>7,202,572</b>	7,074,234
Other payables, provision and accrued liabilities		<b>1,305,816</b>	1,175,267
Tax payable		<b>148,295</b>	144,669
Amounts due to related companies	<i>11</i>	<b>223,900</b>	263,378
Amount due to ultimate holding company of a shareholder	<i>12</i>	<b>1,628</b>	2,137
Bank borrowings – due within one year		<b>5,729,334</b>	5,986,616
Loans from ultimate holding company of a shareholder – due within one year		<b>991,818</b>	1,013,135
		<b>19,340,445</b>	19,776,269
<b>NET CURRENT LIABILITIES</b>		<b>(14,219,582)</b>	(14,047,489)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>80,392</b>	1,486,104
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year		<b>413,310</b>	818,938
Deferred tax liabilities		<b>26,776</b>	29,318
Loans from ultimate holding company of a shareholder – due after one year		<b>409,117</b>	417,910
		<b>849,203</b>	1,266,166
		<b>(768,811)</b>	219,938
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>14</i>	<b>5,345,183</b>	5,345,183
Reserves		<b>(4,865,706)</b>	(4,008,871)
Equity attributable to owners of the Company		<b>479,477</b>	1,336,312
Non-controlling interests		<b>(1,248,288)</b>	(1,116,374)
		<b>(768,811)</b>	219,938

## NOTES

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as 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”).

The financial information relating to the year ended 31 December 2015 that is included in the 2016 interim results announcement as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The Group had net current liabilities and net liabilities of approximately HK\$14,219,582,000 and HK\$768,811,000 as at 30 June 2016, respectively. Taking into account the financial resources of the Group, including the Group’s unutilised banking facilities of approximately HK\$1,070,043,000, the Group’s ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the directors of the Company (“Directors”) are of the opinion that the Group has sufficient working capital to meet in full its financial obligations 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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures as set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The Group’s operating segments based on information reported to the Executive Directors of the Company, being the chief operating decision makers for the purposes of resource allocation and performance assessment are as follows:

Steel manufacturing	–	manufacture and sale of steel products;
Commodity trading	–	trading of steel products, iron ore, coal and coke;
Mineral exploration and processing	–	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:

**Six months ended 30 June 2016 (unaudited)**

	Steel manufacturing HK\$'000	Commodity trading HK\$'000	Mineral exploration and processing HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	2,946,686	476,201	-	1,800	3,424,687
Inter-segment sales	-	54,121	1,561	-	55,682
Segment revenue	<u>2,946,686</u>	<u>530,322</u>	<u>1,561</u>	<u>1,800</u>	3,480,369
Elimination					<u>(55,682)</u>
Group revenue					<u>3,424,687</u>
Inter-segment sales are charged at prevailing market rates.					
Segment (loss) profit	<u>(398,521)</u>	<u>29,525</u>	<u>(47,086)</u>	<u>(6,538)</u>	(422,620)
Interest income					14,477
Central administration costs					(15,559)
Change in fair value of derivative financial instruments					(11,267)
Impairment loss on interest in an associate					(257,000)
Finance costs					(270,595)
Share of results of associates					<u>(114,255)</u>
Loss before taxation					<u>(1,076,819)</u>



Six months ended 30 June 2015 (unaudited)

	Steel manufacturing HK\$'000	Commodity trading HK\$'000	Mineral exploration and processing HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	4,027,234	173,522	9,724	1,800	4,212,280
Inter-segment sales	<u>56,756</u>	<u>36,991</u>	<u>112,043</u>	<u>–</u>	<u>205,790</u>
Segment revenue	<u>4,083,990</u>	<u>210,513</u>	<u>121,767</u>	<u>1,800</u>	4,418,070
Elimination					<u>(205,790)</u>
Group revenue					<u>4,212,280</u>
Inter-segment sales are charged at prevailing market rates.					
Segment (loss) profit	<u>(583,952)</u>	<u>15,216</u>	<u>(68,756)</u>	<u>16,398</u>	(621,094)
Interest income					28,476
Central administration costs					(15,794)
Change in fair value of derivative financial instruments					(26,971)
Impairment loss on interest in an associate					(395,000)
Finance costs					(360,896)
Share of results of associates					<u>(58,220)</u>
Loss before taxation					<u>(1,449,499)</u>

Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, central administration costs, finance costs, change in fair value of derivative financial instruments, impairment loss on interest in an associate and share of results of associates. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

#### 4. INCOME TAX CREDIT

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	36	47
Deferred tax	<u>(2,378)</u>	<u>(2,151)</u>
Income tax credit	<u><u>(2,342)</u></u>	<u><u>(2,104)</u></u>

No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2016 and 2015 since there is no assessable profits arising in Hong Kong.

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%.

#### 5. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	171,502	205,655
– retirement benefits scheme contributions	<u>24,349</u>	<u>27,210</u>
	195,851	232,865
Amortisation of prepaid lease rentals	3,754	3,851
Depreciation of property, plant and equipment	<u>431,967</u>	<u>470,013</u>
Total depreciation and amortisation	<u><u>435,721</u></u>	<u><u>473,864</u></u>

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Change in fair value of derivative financial instruments		
– change in fair value of commodity forward contracts	<b>11,267</b>	26,971
Interest expenses for bank borrowings wholly repayable within five years	<b>164,079</b>	228,695
Interest expenses for other borrowings wholly repayable within five years	<b>38,517</b>	27,404
	<hr/>	<hr/>
Total borrowing costs	<b>202,596</b>	256,099
Add: Factoring cost for discounted receivables	<b>67,999</b>	104,797
	<hr/>	<hr/>
Total finance costs	<b>270,595</b>	360,896
Allowance for doubtful debt of trade and other receivables, net	<b>7,682</b>	2,408
Allowance for inventories	<b>287,508</b>	238,660
Interest income from bank deposits	<b>(14,477)</b>	(28,476)
(Gain) loss on disposal of property, plant and equipment	<b>(22)</b>	74
Research and development cost included in administrative expenses	<b>519</b>	14,623
Net foreign exchange loss (gain)	<b>10,128</b>	(6,288)
	<hr/> <hr/>	<hr/> <hr/>

## 6. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. Directors have determined that no dividend will be paid in respect of the interim period.

## 7. LOSS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share		
Loss for the period attributable to owners of the Company	<b>(926,368)</b>	(1,233,708)
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b><u>8,957,896,227</u></b>	<u>8,957,896,227</u>

For the six months ended 30 June 2016 and 2015, the computation of diluted loss per share does not assume the exercise of share options, as it would result in a decrease in loss per share.

## 8. INTERESTS IN ASSOCIATES

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Cost of investment in associates	<b>6,854,540</b>	6,854,540
Share of post-acquisition results and other comprehensive expense, net of dividends received	<b>(356,643)</b>	(184,702)
Unrealised gain on transfer from security investment reserve upon disposal of available-for-sale investments ( <i>Note</i> )	<b>(364,213)</b>	(364,213)
Impairment loss	<b><u>(1,208,681)</u></b>	<u>(951,681)</u>
	<b><u>4,925,003</u></b>	<u>5,353,944</u>

*Note:* The amount represents unrealised gain on disposal of available-for-sale investments to the Group's associate, Shougang Fushan Resources Group Limited ("Shougang Resources"), arising from the equity interest of Shougang Resources held by the Group upon completion of the disposal of available-for-sale investments to the associate in 2009.

During the year ended 31 December 2012, Shougang Resources early adopted HKFRS 9. As at 30 June 2016 and 31 December 2015, such investments are continuously held by Shougang Resources and classified as financial assets at FVTOCI.

Such unrealised gain will be reversed upon the loss of significant influence over Shougang Resources or disposal of such investments by Shougang Resources.

Included in cost of investment in Shougang Resources, an associate of the Group, is goodwill of HK\$1,048,488,000 as at 30 June 2016 (31 December 2015: HK\$1,305,488,000) arising from the acquisition of Shougang Resources. The movement of goodwill is set out below.

	<b>Goodwill</b> HK\$'000
<b>COST</b>	
At 1 January 2015, 31 December 2015 (audited) and 30 June 2016 (unaudited)	<u>2,257,169</u>
<b>IMPAIRMENT</b>	
At 1 January 2016 (audited)	951,681
Impairment loss recognised in the period	<u>257,000</u>
At 30 June 2016 (unaudited)	<u>1,208,681</u>
<b>CARRYING VALUES</b>	
At 30 June 2016 (unaudited)	<u><u>1,048,488</u></u>
At 31 December 2015 (audited)	<u><u>1,305,488</u></u>

An impairment loss of HK\$257,000,000 has been recognised for the six months ended 30 June 2016 (for the six months ended 30 June 2015: HK\$395,000,000) in respect of the interest in Shougang Resources. The recoverable amount of the interest in Shougang Resources has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections prepared by the management with reference to the information provided by the management of the associate covering a 5-year period and using a discount rate of 12.14% (for the six months ended 30 June 2015: 13.5%), and the cash flows beyond 5 years are extrapolated using a zero growth rate. Key assumptions used in the value in use calculation are the estimation of cash inflows arising from forecasted sales and gross margins, derived from the associate's past performance and management's expectations of the market development.

During the six months ended 30 June 2016, the estimated cash flows of the cash-generating unit ("CGU") was revised due to the slowdown of economy in the PRC. As the reassessment of the recoverable amount of the CGU is less than the carrying amount of the interest in Shougang Resources, an impairment loss of HK\$257,000,000 on interest in Shougang Resources has been recognised for the six months ended 30 June 2016.

## 9. EQUITY INVESTMENTS

Equity investments comprise:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Listed investments:		
– Equity securities listed in Australia, at fair value	811	790
Unlisted investments:		
– PRC equity securities, at fair value ( <i>Note</i> )	<u>4,524</u>	<u>55,409</u>
Total	<u><u>5,335</u></u>	<u><u>56,199</u></u>

*Note:*

The unlisted PRC equity securities represent a 9.47% (31 December 2015: 10%) interest in the equity of a private entity established in the PRC by Qinhuangdao Shouqin Metal Materials Co., Ltd., the principal activities of which are ship building, ship repairing and retrofitting. A fair value loss of HK\$49,719,000 (for the six months ended 30 June 2015: fair value gain of HK\$1,567,000) has been recognised in other comprehensive expense in the security investment reserve of the Group according to HKFRS 9 during the period. The fair value of the unlisted equity securities as at 30 June 2016 and 31 December 2015 was measured using valuation technique with significant unobservable inputs.

## 10. TRADE AND BILLS 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 credit terms of trade receivables are normally not more than 60 days. The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within 60 days	1,131,672	1,473,375
61 – 90 days	234,037	148,094
91 – 180 days	259,215	149,918
181 – 365 days	<u>213,249</u>	<u>233,919</u>
	<u><u>1,838,173</u></u>	<u><u>2,005,306</u></u>

The following were the Group's bills receivables as at 30 June 2016 and 31 December 2015 that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and trade payables and has recognised the cash received from the banks as secured borrowings. These financial assets are carried at amortised cost in the condensed consolidated statement of financial position.

	<b>Bills receivables discounted to banks with full recourse HK\$'000</b>	<b>Bills receivables endorsed to suppliers with full recourse HK\$'000</b>	<b>Total HK\$'000</b>
<b>At 30 June 2016 (unaudited)</b>			
Carrying amount of bills receivables	197,171	306,247	503,418
Carrying amount of borrowings and trade payables	<u>(197,171)</u>	<u>(306,247)</u>	<u>(503,418)</u>
<b>At 31 December 2015 (audited)</b>			
Carrying amount of bills receivables	195,400	402,172	597,572
Carrying amount of borrowings and trade payables	<u>(195,400)</u>	<u>(402,172)</u>	<u>(597,572)</u>

#### **11. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES**

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

The trade receivables from related companies and an aged analysis of such balances net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates are as follows:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	<b>31 December 2015 HK\$'000 (audited)</b>
Within 60 days	48,746	45,325
61 – 90 days	8,577	75,728
91 – 180 days	11,361	3,072
181 – 365 days	59,625	176
1 – 2 years	<u>2,035</u>	<u>1,904</u>
	<u><b>130,344</b></u>	<u><b>126,205</b></u>

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

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within 90 days	<b>68,094</b>	506,913
91 – 180 days	<b>52,729</b>	61,075
181 – 365 days	<b>508,424</b>	41,537
1 – 2 years	<b>53,599</b>	34,796
Over 2 years	<b>8,352</b>	8,355
	<b><u>691,198</u></b>	<b><u>652,676</u></b>

**12. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF A SHAREHOLDER**

As at 30 June 2016 and 31 December 2015, the amount due to ultimate holding company of a shareholder is non-trade in nature, unsecured, interest-free and is repayable on demand.

The trade receivables from/trade payables to ultimate holding company of a shareholder are unsecured, interest-free and repayable within 60 days.

The trade receivables from 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, which approximated the respective revenue recognition dates are as follows:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within 60 days	<b>1,241</b>	–
181 - 365 days	<b>–</b>	1,313
	<b><u>1,241</u></b>	<b><u>1,313</u></b>



The 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:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within 90 days	922,165	750,302
91 – 180 days	520,733	516,119
181 – 365 days	1,239,776	1,424,568
1 – 2 years	3,158,670	4,383,245
Over 2 years	1,361,228	–
	<u>7,202,572</u>	<u>7,074,234</u>

### 13. TRADE AND BILLS PAYABLES

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

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within 90 days	1,697,823	1,578,493
91 – 180 days	943,495	1,505,800
181 – 365 days	142,235	130,597
1 – 2 years	110,211	166,137
Over 2 years	152,120	83,130
	<u>3,045,884</u>	<u>3,464,157</u>

### 14. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
<b>Ordinary shares issued and fully paid:</b>		
At 1 January 2015, 30 June 2015, 31 December 2015 and 30 June 2016		
– Ordinary shares with no par value	<u>8,957,896,227</u>	<u>5,345,183</u>

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2016 (2015: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY OVERVIEW

Our operations are mainly segregated into three segments, namely, steel manufacturing, mineral exploration and commodity trading. Our principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei province, PRC. In addition, we own a deep processing centre on steel products to extend our business to the downstream value chain. Our mineral exploration segment mainly includes the holding of approximately 27.61% equity stake of Shougang Fushan Resources Group Limited (“Shougang Resources”), a Hong Kong-listed hard coking coal producer in China. On commodity trading, we have long-term iron ore offtake agreements with an Australia-listed iron ore producer Mount Gibson Iron Limited (“Mt. Gibson”). Mt. Gibson will supply iron ore to the Group in a long term basis so as to stabilise our upstream supply chain. Our vertical integration strategy with different upstream, mid-stream and downstream activities is advantageous in enhancing the heavy plate manufacturing operation of the Group.

### PERFORMANCE REVIEW

	For the six months ended 30 June	
	2016	2015
	HK\$ Million	HK\$ Million
Loss attributable to shareholders before share of results of associates	(812)	(1,176)
Share of results of associates	<u>(114)</u>	<u>(58)</u>
Loss attributable to shareholders	<u><u>(926)</u></u>	<u><u>(1,234)</u></u>

As still affected by excessive production capacity and imbalance between supply and demand, the Group's core business in steel manufacturing still incurred serious loss in the first half of 2016. The operating profit of our principal associate, Shougang Resources which engages in coking coal mining and sales was further reduced because of the decrease in sales volume. In addition, Shougang Resources also made further impairment loss on its investment in coal mines related assets. The Company was also required to make impairment loss on the goodwill in relation to the investment in Shougang Resources in the amount of HK\$257 million during the period.

For the six months ended 30 June 2016, loss attributable to shareholders amounted to HK\$926 million, the loss decreased by 24.9% comparing with that of last period. The Group recorded a consolidated turnover of HK\$3,425 million during this period, representing a drop of 18.7% comparing to that of last period. Loss per share was 10.34 HK cents.

## **FINANCIAL REVIEW**

Six months ended 30 June 2016 compared to the six months ended 30 June 2015

### **Turnover and Cost of Sales**

The Group recorded consolidated turnover of HK\$3,425 million for this period, lower by about 18.7% when comparing to the HK\$4,212 million last period. Lower turnover mainly due to the 19.6% drop in the overall average selling price ("ASP") in the steel manufacturing segment as affected by the persistently weak demand.

Cost of sales for the period was HK\$3,612 million, comparing to HK\$4,556 million in last period, a drop of 20.7%. The cost of sales decreased because of the decline in purchasing cost of raw materials for steel manufacturing.

Gross loss for the period was HK\$187 million, representing 5.5% of the turnover, while the gross loss margin was 8.1% in last period.

## **E/(L)BITDA and Core Operating Loss**

For the period under review, earnings before interest, tax, depreciation, amortization, impairment loss and change in fair value of derivative financial instruments of the Group was HK\$11 million while the loss before interest, tax, depreciation, amortization, impairment loss and change in fair value of derivative financial instruments for the same period last year was HK\$120 million.

Loss after tax but before share of results of associates included significant non-cash and/or non-recurring charges and are reconciled below:

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>
Loss attributable to shareholders before share of results of associates	<b>(812)</b>	(1,176)
Adjusted by:		
Impairment loss on the goodwill in relation to the investment in Shougang Resources	<b>257</b>	395
Fair value loss on iron ore offtake agreements with Mt. Gibson	<b>11</b>	27
	<u><b>(544)</b></u>	<u>(754)</u>
<b>Core operating loss before share of results of associates</b>	<b>(544)</b>	<b>(754)</b>

## **Finance costs**

For the period under review, finance costs amounted to HK\$271 million, 25.0% lower than that of last period. The decrease in finance costs was mainly due to the decrease in the overall loan amounts of the Group.

## **Share of results of associates**

In this period, we have recognized loss of HK\$97 million and HK\$17 million from Shougang Resources and Shougang Concord Century Holdings Limited (“Shougang Century”) respectively, whereas for the last period, the share of profit from Shougang Resources was HK\$11 million and share of loss from Shougang Century was HK\$69 million respectively.

## **Taxation**

In this period, the net tax income was HK\$2 million, same as the amount in last period.

## REVIEW OF OPERATIONS

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

Operation/Entity	Attributable interest	For the six months ended 30 June	
		2016 HK\$ Million	2015 HK\$ Million
<b>1. Steel manufacturing</b>			
Shouqin <sup>1</sup>	76%	(444)	(634)
Qinhuangdao Plate Mill <sup>2</sup>	100%	(65)	(61)
Sub-total		(509)	(695)
<b>2. Mineral exploration</b>			
Shougang Resources (before impairment loss)	27.61%	16	51
Shouqin Longhui	67.84%	(32)	(61)
Sub-total		(16)	(10)
<b>3. Commodity trading</b>			
The Trading Group	100%	29	17
Sub-total		29	17
<b>4. Others</b>			
Shougang Century	35.71%	(17)	(69)
Fair value loss on iron ore offtake agreements with Mt. Gibson	–	(11)	(27)
Share of impairment loss made by Shougang Resources	–	(113)	(40)
Impairment loss on the goodwill in relation to the investment in Shougang Resources	–	(257)	(395)
Corporate and others	–	(32)	(15)
Sub-total		(430)	(546)
Total		(926)	(1,234)

<sup>1</sup> Included the Group and Shouqin's share of results in its subsidiary, Qinhuangdao Shouqin Steels Machining and Delivery Co. Ltd. ("Processing Centre")

<sup>2</sup> Included Qinhuangdao Plate Mill's share of results in its subsidiaries other than Shouqin Longhui. The results of Shouqin Longhui is included in the mineral exploration segment.

## Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) and Qinhuangdao Shougang Plate Mill Co., Ltd (“Qinhuangdao Plate Mill”). The steel industry still faces a dire operating environment. This core segment recorded net loss of HK\$509 million during the period, while that of last period was net loss of HK\$695 million. Summary of production and sales volume of the two manufacturing plants in the current and last period under this segment is as follows:

For the six months ended 30 June	Slabs		Heavy Plates	
	2016 '000 tonnes	2015 '000 tonnes	2016 '000 tonnes	2015 '000 tonnes
<b>(i) Production</b>				
Shouqin	<b>1,159</b>	1,224	<b>806</b>	865
Qinhuangdao Plate Mill	<b>–</b>	–	<b>176</b>	258
Total	<b>1,159</b>	1,224	<b>982</b>	1,123
Change	<b>-5%</b>		<b>-13%</b>	
<b>(ii) Sales</b>				
Shouqin <sup>#</sup>	<b>282</b>	259	<b>828</b>	861
Qinhuangdao Plate Mill	<b>–</b>	–	<b>171</b>	255
Total	<b>282</b>	259	<b>999</b>	1,116
Change	<b>+9%</b>		<b>-10%</b>	

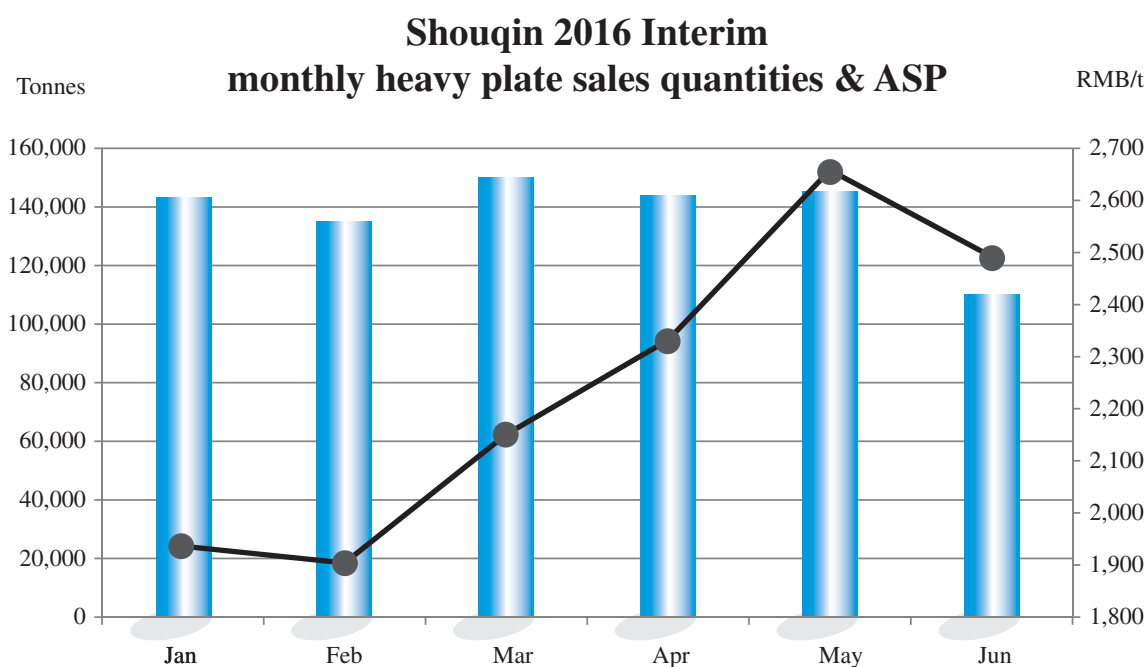
<sup>#</sup> Difference between production and sales of slabs was mainly represented by those consumed by Shouqin internally to produce heavy plates; slab sales were mainly made towards Qinhuangdao Plate Mill and Processing Centre and are eliminated on consolidation.

## Shouqin

The Group holds an effective interest of 76% in Shouqin, the remaining 20% and 4% were held by Hyundai Heavy Industries Limited and Shougang Corporation respectively.

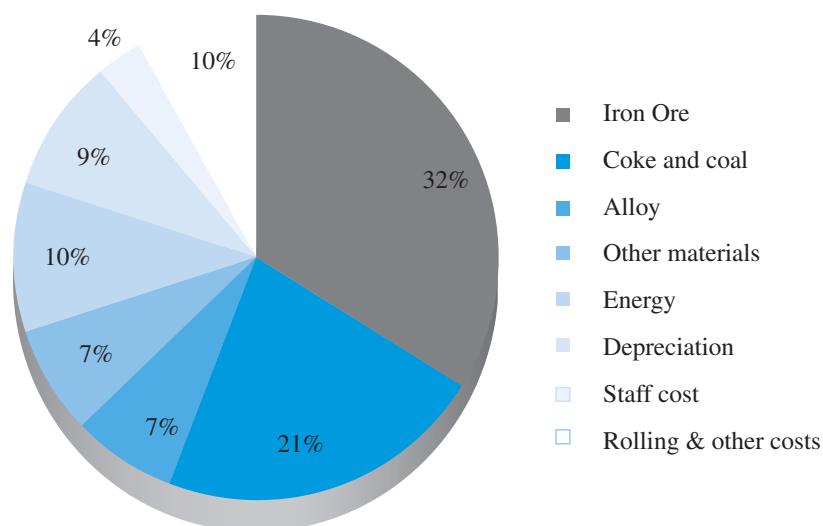
Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production. It has formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, hydro-electrical and ultra-thick plates are among the most advanced in the PRC. Its annual production capacities of heavy plate have reached 1.8 million tonnes. For the current period, Shouqin reported a turnover of HK\$2,778 million before elimination, recording a 24.3% drop on the comparative period. The drop was mainly due to decrease in ASP of heavy plates and slabs. The ASP (exclude VAT) of heavy plate was RMB2,239 (HK\$2,656) per tonne, 20.0% lower than that of the last period. Production of slab was mainly used for Shouqin's internal consumption while some sales were made towards Qinhuangdao Plate Mill and Processing Centre and are eliminated on consolidation. The ASP (exclude VAT) of slab was RMB1,658 (HK\$1,967) per tonne, 16.4% lower than that of last period.

	<b>2016 Interim</b>	2015 Interim	Change
Quantities sold -heavy plate (tonnes)	<b>828,000</b>	861,000	-3.8%
ASP (RMB)	<b>2,239</b>	2,798	-20.0%



In the above chart, the bar represents sales volume while the line represents ASP.

## Component of manufacturing cost – Shouqin



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. In this period, this entity recorded HK\$183 million in turnover, which is 46.3% decrease compared with that of last period.

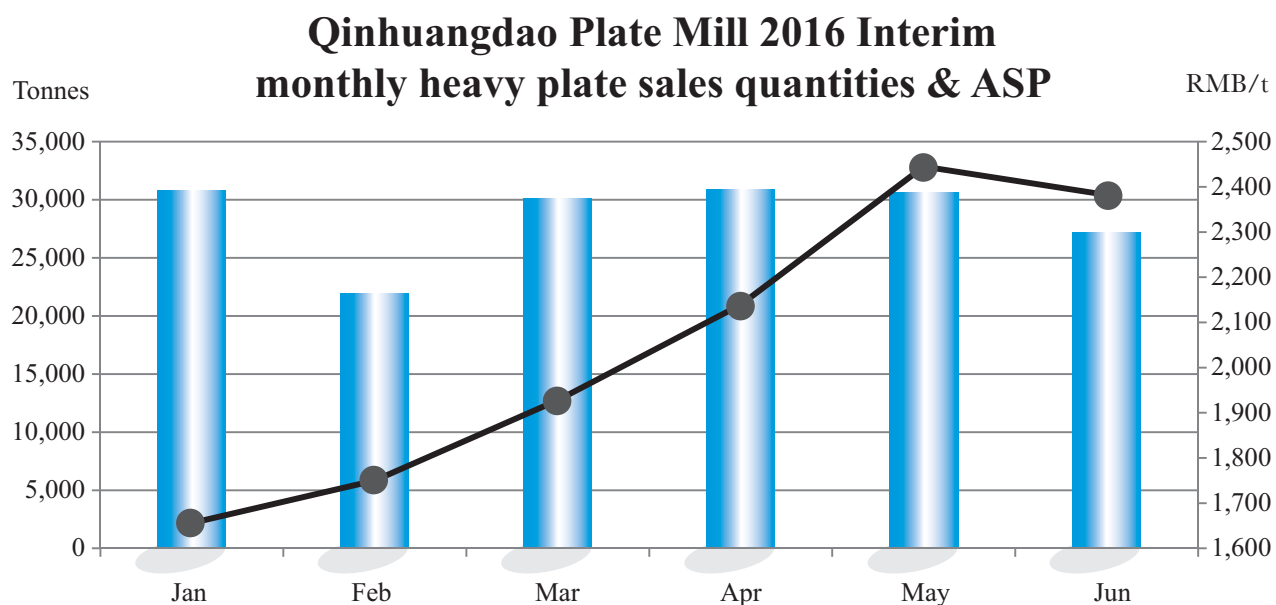
For the six months ended 30 June 2016, the aggregate net loss of Shouqin and Processing Centre attributable to the Group was HK\$444 million. The loss decreased by HK\$190 million comparing to the net loss of HK\$634 million in last period due to improvement in gross loss margin.



## *Qinhuangdao Plate Mill*

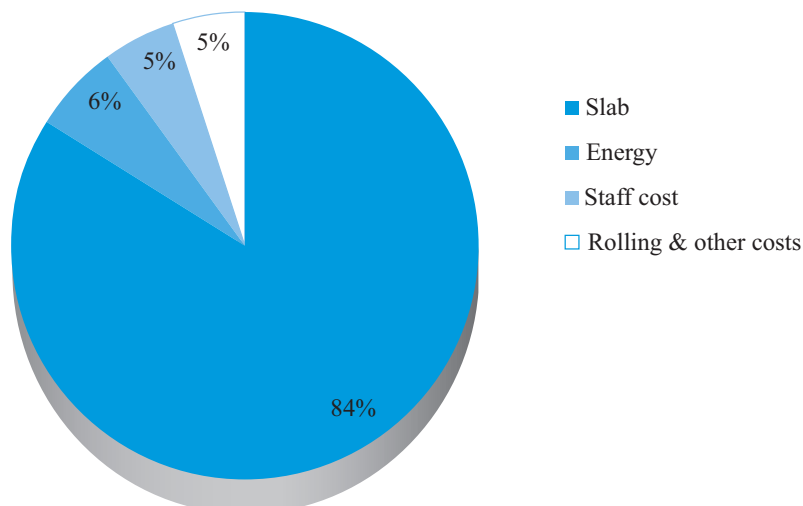
Qinhuangdao Plate Mill recorded a turnover of HK\$755 million before elimination for the six month ended 30 June 2016, a drop of 18.4% comparing with that of last period. The drop was mainly due to the lower sales volume and selling price in the weak market. During the period, the volume of heavy plate sales was only 171,000 tonnes, a drop of 32.9% compare to that of last period. ASP (exclude VAT) was RMB2,059 (HK\$2,442) per tonne, 20.1% lower than that of last period. The Group's share of net loss of Qinhuangdao Plate Mill during the period was HK\$65 million while the net loss in last period was HK\$61 million.

	<b>2016</b>	2015	Change
	<b>Interim</b>	Interim	
Quantities sold – heavy plate (tonnes)	<b>171,000</b>	255,000	-32.9%
ASP (RMB)	<b>2,059</b>	2,577	-20.1%



*In the above chart, the bar represents sales volume while the line represents ASP.*

## Component of manufacturing cost – Qinhuangdao Plate Mill



### Mineral exploration

#### *Exploration and sale of coking coal*

Shougang Resources is a 27.61% held associate of the Group listed in Hong Kong and is a major hard coking coal producer in China. Shougang Resources currently operates three premium coking coal mines in Shanxi province, PRC namely Xingwu coal mine, Zhaiyadi coal mine and Jinjiazhuang coal mine. Its consolidated turnover for the period was HK\$678 million, a drop of 38.0% over that of last period. As the material for the refining of coke, which is the second largest raw materials for steel manufacturing, the selling price and sales volume of coking coal continued to decline. The operating profit of Shougang Resources was reduced and Shougang Resources was forced to make further impairment loss on its coal mines related assets in the amount of HK\$596 million during the period of which HK\$409 million is attributable to the shareholder of Shougang Resources. Loss attributable to shareholders of Shougang Resources in this period was HK\$307 million while there was profit of HK\$85 million in last period. Loss of Shougang Resources attributable to the Group was HK\$97 million in this period.

Although the selling price and volume of coking coal were still weak during the period, with the brand quality of Shougang Resources's products, we are still confident towards its future operations.

### *Production and processing of iron ore products*

The Group holds an effective 67.84% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd (“Shouqin Longhui”) which is situated at Qinglong County, Qinhuangdao City, Hebei province, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities. Due to the difficult operating environment of iron ore industry, Shouqin Longhui did not record any sales during the period, but concentrated on costs saving. Loss of Shouqin Longhui attributable to the Group during the period was HK\$32 million, a decrease of HK\$29 million comparing to an attributable loss of HK\$61 million in last period.

### **Commodity trading**

Our trading operations are mainly conducted by SCIT Trading Limited and SCIT Services Limited (“The Trading Group”). The Trading Group reported a turnover of HK\$530 million before elimination for the six months ended 30 June 2016, increased by 152.0% comparing to last period. The Trading Group mainly traded the iron ores provided under the offtake agreements with Mt. Gibson since 2009. Following the occurrence of seawall slump and flooding of the Koolan Island mine in late 2014, the volume of iron ore supplied by Mt. Gibson decreased significantly. Hence, the Group has procured supply of iron ore from other suppliers in order to increase the trade volume. It sold 1.39 million tonnes of iron ores during the current period, substantially increased by 172.5% and much more than the 0.51 million tonnes sold of last period. Selling price increased by 11.4% to USD49 (HK\$382) per tonne. The resulting net profit of this segment was HK\$29 million in this period, comparing to HK\$17 million in last period.

### **Other business**

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

Shougang Century is a 35.71% associate of the Group listed in Hong Kong whose businesses are manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products. There is keen competition in the steel cord market. The operation of steel cord business remains loss making. The Group’s share of its net loss was HK\$17 million, comparing to share of loss of HK\$69 million in last period. The loss in last period was greater because of the impairment loss of HK\$93 million made by Shougang Century on its property, plant and equipment in last period. The attributable amount of this impairment loss shared by the Group was HK\$33 million.

Further to the non-legally binding memorandum of understanding (“MOU”) dated 13 July 2014 and the supplemental MOUs dated 30 June 2015 and 30 June 2016 between Shougang Century and an independent third party in relation to the proposed capital injection into one of the wholly-owned major subsidiaries of Shougang Century, 滕州東方鋼簾線有限公司 (Tengzhou Eastern Steel Cord Co., Ltd<sup>#</sup>) (“TESC”) as well as the proposed strategic cooperation between Shougang Century and the independent third party. Upon completion of the proposal, Shougang Century and the independent third party will each own 50% interests in TESC. The proposed capital injection would enhance the capital base of TESC and provide additional financial resources to TESC, which will be utilised to fund the phase II construction of TESC’s steel cord production facilities with an annual production capacity of 100,000 tonnes. The completion of the proposal is subject to the fulfilment of certain conditions.

<sup>#</sup> For identification only

## **Environmental Policies and Compliance with Laws and Regulations**

To ensure compliance with the laws and regulations of environmental policies, the Group has implemented sufficient environmental protection measures. Shouqin, the Company’s flagship subsidiary, focuses on investment in environmental protection and creating green production. With the construction goal of environment protective type, energy recycling type and cost-effective type, which comprised of the following measures:

### **1. Dust Clearing System**

Shouqin has applied fully enclosed joint silos, which eliminates the traditional raw steel enterprises yard mode and integrates storage and distribution as a whole. This resolves the dusting problem of raw materials, reduces the cost of dumping and ensures the quality of raw materials and fuels whilst eliminating pollution. Dust is removed in a fully enclosed loop, which utilizes all vacuum suction tankers in pneumatic conveying to eliminate secondary dusting. In addition, pulse dust-dry technique is applied at large blast furnace to treat blast furnace gas.

### **2. Water System**

Shouqin has constructed a centralized water supply and closed-loop water system, which implements the water for use in production on cascade basis. By combining the principles of voicing diversion, rain and sewage diversion and loop principle, the smelting of steel, iron and rolling of steel were built with water treatment system with separate loop. There is zero waste water discharge from production.

### 3. Energy Recycling

The residual resources are adequately utilized from comprehensive application of power generation projects (pressure generation), which do not only save energy but reduce emissions of pollutants and noise. The recovery of gas from by-products through the use of advanced technologies are all applied in sintering, hot stove, sleeve kilns, furnaces and captive power generation.

- Recycling of blast furnace gas

The blast furnace gas generated from the production of Shouqin after going through gravity dusting and dry dusting are all recovered and stored, which are applied pressure generation of electricity, sintering ignition, stove, furnace coal injection mixing air and rolling furnace production.

- Converter gas recovery and utilization

The converter gas generated from the production of Shouqin after one time dusting are applied in torpedo baking, bake steel package, captive power plant boilers, lime sleeve kiln production.

- Residual heat recycling

The steam generated from the factory area of Shouqin accounted for 75% of the total usage of steam in the residual heat recycling within the factory area, which is applied to sintering mixing, RH furnace production, the production of liquid oxygen and other areas.

#### **4. Energy-saving measures**

- Energy centre

Through information technology, digital technology, precise control, segment management, Shouqin implements total process management over the procurement, production, operation, use and recycle of energy products. Comprehensive monitoring and economic distribution of energy is realized and the goals of systematic energy saving are achieved.

- Energy Management Contracts

Shouqin first introduced new mechanisms of energy saving for energy management contracts in the steel industry, which accumulated the implementation for a number of energy conservation projects, with annual reduction capacity in energy conservation.

#### **5. Noise Control**

Shouqin selected low-noise equipment, using silencers, noise separation, vibration reduction and flexible connections in air compressors, oxygen compressors, blowers, etc.

#### **6. Green landscaping**

The green landscaping site in the factory area of Shouqin amounted to 720,000 square metres with a green ratio of approximately 40%.

## 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. Cash/Bank balances and Loans

The cash and bank balances, loans and financial leverage of the Group as at 30 June 2016 as compared to 31 December 2015 is summarized below:

	<b>PRC (exclude HK) 30 June 2016 HK\$ Million</b>	<b>Other than PRC 30 June 2016 HK\$ Million</b>	<b>Group Total 30 June 2016 HK\$ Million</b>	<b>Group Total 31 December 2015 HK\$ Million</b>
Cash and bank deposits	<u>743</u>	<u>498</u>	<u>1,241</u>	<u>1,629</u>
Loans				
– from banks*	5,125	821	5,946	6,610
– from parent company	<u>1,401</u>	<u>–</u>	<u>1,401</u>	<u>1,431</u>
Total loans	<u>6,526</u>	<u>821</u>	<u>7,347</u>	<u>8,041</u>
Total assets	<u>13,313</u>	<u>6,108</u>	<u>19,421</u>	<u>21,263</u>
Total loans to total assets	<u>49.0%</u>	<u>13.4%</u>	<u>37.8%</u>	<u>37.8%</u>

\* excluding financing from discounted bills.

Our controlling shareholder, Shougang Corporation has provided corporate guarantee for most of the bank loans in PRC granted to the Group. Taking into account the financial resources of the Group, including the Group's ability to renew and refinance the banking facilities upon maturity, the Group has sufficient working capital to meet in full its financial obligations.

## **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 through borrowings. For the six months ended 30 June 2016, approximately 86% 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 interest rate swaps to mitigate interest rate risks if necessary. No amount of such derivatives was outstanding as at the end of the period.

## **3. Financing activities**

The Company has no new bank financing during this period.

There are various financial covenants under the existing bank loan agreements entered into by the Company. The Company has been from time to time monitoring the compliance with such financial covenants. In the event the Company foresees the possibility that the Company may not be able to attain any required financial indicators for any relevant period, the Company will take pre-caution measures to obtain consents from the relevant banks either to waive compliance with the relevant financial covenants for the relevant period or to revise the relevant financial covenants, as the case may be.

## **MATERIAL ACQUISITIONS & DISPOSALS**

There were no material acquisitions and disposals by the Group during this period.



## **CAPITAL STRUCTURE**

The Company did not issue any new shares during this period.

The issued share capital of the Company was HK\$5,345 million (represented by 8,957,896,227 ordinary shares).

## **EMPLOYEES AND REMUNERATION POLICIES**

The Group has a total of approximately 3,580 employees as at 30 June 2016.

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

## **PROSPECTS**

After a referendum which took place in June 2016, the United Kingdom decided to leave European Union (“Brexit”), bringing shocking waves to financial market and significant uncertainties over the future global economic situation. Since the United States ended its long term Quantitative Easing (“QE”) policies at the end of last year and lifted up rates a quarter point, no further action has been taken. Along with the effect of Brexit, rates lift up process will be full of variables. Europe and Japan still need to rely on QE policies to stimulate their weak economies, while steady growth remains the future established aim in China in signs of sluggish economic growth.

Steel price kept falling to its low in the first quarter, yet a strong rebound could be seen in the second quarter. However, facing the fact of excessive production capacity and weak demand, changes of which are hard to be in short period of time, steel price cannot remain on the long-term rising track with significant increase or decrease in price. Benefited from the rebound of steel price in the second quarter, loss from steel manufacturing and sales business of the Group decreased as compared to the corresponding period of last year. Nevertheless, the future

prospect is still clouded with great uncertainties. As the operation of the steel business of the Group continued to face difficulties and suffered significant losses in recent years, in order to achieve better integration of resources and structure rationalization, the Group is considering to alter its production model, restructure its product portfolio as well as consolidate the production line so as to allocate most of the resources on the production line with higher efficiency.

In respect of commodity trading business, the production of Mount Gibson's mine Koolan Island is halted without definite restoration schedule. In view to enhance the Group's business in this respect, the Company started to strengthen its cooperation with other suppliers, including Shougang Group, in order to secure certain amount of stable supply.

The Group has been engaged in manufacturing and sales of hard coking coal in China through its Hong Kong listed key associate Shougang Resources. The sales volume of coking coal recorded a further decrease as affected by weak demand in steel industry, while the price stopped falling and stabilized. Coking Coal market condition is closely related to steel industry, as such the future performance of Shougang Resources is greatly depends on the recovery of steel industry. Due to the continuous decrease of gross profit of coking coal operation, Shougang Resources continued to make impairment on its coal mine-related assets of HK\$596 million in the period of which HK\$409 million is attributable to the shareholders of Shougang Resources, while the Group also made impairment on goodwill of HK\$257 million, which incurred from the acquisition of Shougang Resources. Nevertheless, the strong financial base of Shougang Resources with close to zero gearing ratio and substantial cash and bank balances enable it to maximize its value when appropriate investment opportunities arise.

Severe adversity in steel industry in recent years has led to years of serious loss of the Group. To improve the Group's financial position, the Group intends to withdraw the Qinhuangdao business, which makes significant loss out of the listing entity. It is expected the Group's net assets and gearing ratio will be greatly improved after withdrawing of the Qinhuangdao business. In the following periods, the Group will expand the current commodity trading business to increase income.

The Company would like to express gratitude for the immense support from Shougang Corporation, the controlling shareholder of the Company, to assist the Company to navigate such difficult times. The Company remains full confidence in its future development.

## **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 CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “CG Code”) during the six months ended 30 June 2016, except for the following deviation:

- Under the first part of code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The Chairman of the Board, who is also the chairman of the Nomination Committee of the Company, did not attend the annual general meeting of the Company held on 29 June 2016 (the “2016 AGM”) as he had another business engagement. The Managing Director of the Company, who took the chair of the 2016 AGM, and other members of the Board together with the chairmen of the Audit and Remuneration Committees and all other members of each of the Audit, Remuneration and Nomination Committees attended the 2016 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2016 AGM were already of sufficient calibre and number for answering questions at the 2016 AGM.

## 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  
**Shougang Concord International  
Enterprises Company Limited**  
**Li Shaofeng**  
*Managing Director*

Hong Kong, 25 August 2016

*As at the date of this announcement, the Board comprises Mr. Zhang Bingcheng (Chairman), Mr. Li Shaofeng (Managing Director), Mr. Ding Rucai (Deputy Managing Director), Mr. Shu Hong (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).*