

# Discover

 THE VALUE  
INTERIM REPORT 2010



**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697



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## CORPORATE INFORMATION

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### **Board of Directors**

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

### **Executive Committee**

Li Shaofeng (*Chairman*)  
Zhang Wenhui  
Chen Zhouping

### **Audit Committee**

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

### **Nomination Committee**

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

### **Remuneration Committee**

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



## **CORPORATE INFORMATION (continued)**

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<b>Company Secretary</b>	Cheng Man Ching
<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Share Registrars</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered Office and Principal Place of Business</b>	7th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Stock Code</b>	697
<b>Website</b>	<a href="http://www.shougang-intl.com.hk">www.shougang-intl.com.hk</a>



## INTERIM RESULTS

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

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

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



**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(continued)**

For the six months ended 30 June 2010

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



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	<i>NOTES</i>	<b>30 June 2010 HK\$'000 (unaudited)</b>	31 December 2009 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	8	<b>31,679</b>	31,477
Property, plant and equipment	8	<b>11,228,358</b>	10,251,792
Prepaid lease rentals		<b>344,478</b>	326,316
Mining assets		<b>175,616</b>	174,212
Goodwill		<b>168,015</b>	168,015
Interests in associates		<b>6,285,467</b>	6,211,843
Available-for-sale investments		<b>174,587</b>	231,688
Deferred tax assets		<b>38,639</b>	38,639
Other financial assets		<b>390,844</b>	275,140
Deposits for acquisition of property, plant and equipment		<b>360,797</b>	773,040
		<b>19,198,480</b>	18,482,162
<b>CURRENT ASSETS</b>			
Inventories	9	<b>3,131,128</b>	1,619,661
Trade and bill receivables	10	<b>1,569,562</b>	783,869
Trade receivables from related companies	11	<b>792,743</b>	722,395
Prepayments, deposits and other receivables		<b>561,940</b>	338,184
Prepaid lease rentals		<b>7,515</b>	7,459
Amounts due from related companies	11	<b>150,654</b>	301,007
Amount due from an associate		<b>17,335</b>	–
Amount due from a non-controlling shareholder of a subsidiary		<b>3,407</b>	3,407
Amount due from ultimate holding company of a shareholder	12	<b>722</b>	185,784
Other financial assets		<b>180,634</b>	149,706
Restricted bank deposits	18(a)	<b>288,331</b>	280,838
Bank balances and cash		<b>1,716,399</b>	1,372,258
		<b>8,420,370</b>	5,764,568



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(continued)**

At 30 June 2010

	<i>NOTES</i>	<b>30 June 2010 HK\$'000 (unaudited)</b>	31 December 2009 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bill payables	13	<b>2,473,542</b>	1,165,507
Other payables and accrued liabilities		<b>1,473,550</b>	1,414,060
Tax payable		<b>199,439</b>	184,741
Amount due to a shareholder		–	350,000
Amounts due to related companies	11	<b>709,551</b>	541,708
Amount due to ultimate holding company of a shareholder	12	<b>837,095</b>	99,041
Bank borrowings – due within one year	14	<b>6,785,966</b>	6,010,188
Other financial liabilities		<b>2,934</b>	–
Loans from ultimate holding company of a shareholder	15	<b>939,617</b>	793,479
		<b>13,421,694</b>	10,558,724
<b>NET CURRENT LIABILITIES</b>		<b>(5,001,324)</b>	(4,794,156)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>14,197,156</b>	13,688,006
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	14	<b>3,963,813</b>	3,898,921
Deferred tax liabilities		<b>29,875</b>	48,267
		<b>3,993,688</b>	3,947,188
		<b>10,203,468</b>	9,740,818
<b>CAPITAL AND RESERVES</b>			
Share capital	16	<b>1,635,076</b>	1,635,076
Share premium and reserves		<b>7,387,050</b>	6,946,160
Equity attributable to owners of the Company		<b>9,022,126</b>	8,581,236
Non-controlling interests		<b>1,181,342</b>	1,159,582
		<b>10,203,468</b>	9,740,818





## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										Attributable to non-controlling interests	
	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Exchange reserve	Share option reserve	Enterprise expansion fund and statutory reserve	Security investment reserve	Non-distributable reserve	Accumulated profits	Share of net assets of Sub-total subsidiaries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (audited)	1,435,076	2,242,475	22,611	32,587	557,948	170,603	729,318	88,536	51,979	2,232,705	7,563,638	9,061,338
Loss for the period	-	-	-	-	-	-	-	-	-	(872,511)	(872,511)	(1,045,409)
Exchange differences arising on translation	-	-	-	-	340	-	-	-	-	-	340	394
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	1,756,404	-	-	-	1,756,404	1,756,404
Share of other comprehensive income of associates	-	-	-	-	474	-	-	10,844	-	-	11,318	11,318
Total comprehensive income and expense for the period	-	-	-	-	814	-	-	1,767,248	-	(872,511)	895,551	722,707
Released on dilution of interest in an associate	-	-	-	(39)	(860)	-	(189)	182	-	189	(717)	(717)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	259	-	-	(259)	-	-
Share issued for acquisition of associate	110,000	374,000	-	-	-	-	-	-	-	-	484,000	484,000
Share issue expenses	-	(30)	-	-	-	-	-	-	-	-	(30)	(30)
Dividends recognised as distribution (note 6)	-	-	-	-	-	-	-	-	-	(231,762)	(231,762)	(231,762)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(65,328)
Contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	17,998
Recognition of equity-settled share based payment	-	-	-	-	-	29,849	-	-	-	-	29,849	29,849
At 30 June 2009 (unaudited)	1,545,076	2,616,445	22,611	32,548	557,902	200,452	729,388	1,855,966	51,979	1,128,362	8,740,729	10,018,055



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2010

	Attributable to owners of the Company											Attributable to non-controlling interests	Total
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000 (Note a)	Exchange reserve HK\$'000	Share option reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000 (Note b)	Security investment reserve HK\$'000 (Note d)	Non-distributable reserve HK\$'000 (Note c)	Accumulated profits HK\$'000	Sub-total subsidiaries HK\$'000		
At 1 January 2010 (audited)	1,635,076	3,133,915	22,611	33,326	564,805	229,975	729,477	8,391	51,979	2,171,681	8,581,236	1,159,582	9,740,818
Profit for the period	-	-	-	-	-	-	-	-	-	434,449	434,449	13,112	447,561
Exchange differences arising on translation	-	-	-	-	38,131	-	-	-	-	-	38,131	11,461	49,592
Fair value loss on available-for-sale financial assets	-	-	-	-	-	-	-	(58,517)	-	-	(58,517)	-	(58,517)
Share of other comprehensive income of associates	-	-	-	-	38,988	-	-	(28,442)	-	-	10,546	-	10,546
Total comprehensive income and expense for the period	-	-	-	-	77,119	-	-	(86,959)	-	434,449	424,609	24,573	449,182
Released on dilution of interest in an associate	-	-	-	-	(7)	-	-	(82)	-	-	(89)	-	(89)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	32	-	-	(32)	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,813)	(2,813)
Recognition of equity-settled share based payment	-	-	-	-	-	16,370	-	-	-	-	16,370	-	16,370
At 30 June 2010 (unaudited)	1,635,076	3,133,915	22,611	33,326	641,917	246,345	729,509	(78,650)	51,979	2,606,098	9,022,126	1,181,342	10,203,468

### Notes:

- (a) Revaluation reserve mainly represented the fair value recognised on prepaid lease rentals for the original equity interests held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005.
- (b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after tax of the Company's subsidiaries under the applicable laws and regulations in the People's Republic of China (the "PRC") (other than Hong Kong).
- (c) The non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.
- (d) As at 30 June 2010, the Directors of the Company considered that the decline in the fair value of the available-for-sale financial assets below its cost is not significant or prolonged.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	<b>Six months ended 30 June</b>	
	<b>2010 HK\$'000 (unaudited)</b>	<b>2009 HK\$'000 (unaudited)</b>
Net cash from operating activities	<b>265,262</b>	31,129
Net cash used in investing activities		
Purchase of property, plant and equipment	<b>(399,230)</b>	(120,190)
Deposit paid for acquisition of property, plant and equipment	<b>(352,632)</b>	(647,270)
Repayment of amount due to a shareholder	<b>(191,750)</b>	–
Dividends received from an associate	<b>154,938</b>	–
Decrease in amounts due from related companies	–	216,286
Purchase of available-for-sale investments	–	(825,208)
Increase in pledged bank deposits	–	(127,027)
Decrease in amount due from ultimate holding company of a shareholder	–	412
Other investing activities	<b>(8,139)</b>	(2,448)
	<b>(796,813)</b>	(1,505,445)
Net cash from financing activities		
New borrowings raised	<b>3,984,177</b>	4,450,172
Increase in loan from ultimate holding company of a shareholder	<b>137,758</b>	–
Repayment of bank borrowings	<b>(3,228,583)</b>	(2,404,445)
Decrease in amounts due to related companies	<b>(17,081)</b>	(51,827)
Decrease in amount due to ultimate holding company of a shareholder	<b>(2,818)</b>	(29,515)
Payment of dividends	–	(231,762)
Other financing activities	<b>(2,813)</b>	(47,360)
	<b>870,640</b>	1,685,263
Net increase in cash and cash equivalents	<b>339,089</b>	210,947
Cash and cash equivalents at 1 January	<b>1,372,258</b>	3,382,952
Effect of foreign exchange rate changes	<b>5,052</b>	243
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>1,716,399</b>	3,594,142



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 1. BASIS OF PREPARATION

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

The Company and its subsidiaries (collectively referred to as the "Group") had net current liabilities of approximately HK\$5,001,324,000 as at 30 June 2010. Taking into account the financial resources of the Group, including the financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, and the marketable securities held by the Group that can be disposed of, if necessary, the Directors of the Company are of the opinion that the Group has sufficient working capital to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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For the six months ended 30 June 2010

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

#### *Amendment to HKAS 17 Leases*

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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For the six months ended 30 June 2010

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION

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

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

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

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

#### Six months ended 30 June 2010 (unaudited)

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Steel and iron ore trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue						
External sales	4,409,742	115,451	1,465,439	955,973	1,331	6,947,936
Inter-segment sales	71,385	–	–	268,801	–	340,186
Total segment revenue	4,481,127	115,451	1,465,439	1,224,774	1,331	7,288,122
Elimination	(71,385)	–	–	(268,801)	–	(340,186)
Group's revenue	4,409,742	115,451	1,465,439	955,973	1,331	6,947,936

Inter-segment sales are charged at prevailing market rates.

Segment profit	55,940	35,067	302,937	99,400	(7,936)	485,408
Interest income						10,649
Central administration costs						(38,896)
Finance costs						(225,989)
Loss from change in fair value of derivative financial instrument						(2,940)
Loss on dilution of interest in an associate						(1,680)
Share of result of associates						219,569
Profit before tax						446,121



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION (continued)

#### Six months ended 30 June 2009 (unaudited)

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Steel and iron ore trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue						
External sales	4,028,309	76,360	1,479,745	-	1,116	5,585,530
Inter-segment sales	320,375	-	-	-	-	320,375
Total segment revenue	4,348,684	76,360	1,479,745	-	1,116	5,905,905
Elimination	(320,375)	-	-	-	-	(320,375)
Group's revenue	<u>4,028,309</u>	<u>76,360</u>	<u>1,479,745</u>	<u>-</u>	<u>1,116</u>	<u>5,585,530</u>

Inter-segment sales are charged at prevailing market rates.

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

Segment profit (loss) represents the profit (loss) generated by each segment without allocation of interest income, central administration costs, finance costs, (loss) gain from change in fair value of foreign currency forward contracts and option to subscribe for shares of a listed company in Australia, loss on dilution of interest in an associate, and share of result of associates. This is the measure reported to the Directors for the purposes of resource allocation and performance assessment.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 4. INCOME TAX (CREDIT) EXPENSE

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

The PRC Enterprise Income Tax is calculated at 25% for the six months ended 30 June 2010 and 2009. Shouqin and certain other subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC income tax and are exempted from PRC income taxes for the two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. The PRC income tax charges are arrived at after taking into account these tax incentives.

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 5. PROFIT (LOSS) FOR THE PERIOD

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

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

*Note:* Amounts included in other gains and losses.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 6. DIVIDENDS

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

### 7. EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Earnings (loss)</b>		
Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the period attributable to owners of the Company)	<b>434,449</b>	(872,511)
Effect of dilutive potential ordinary shares: Adjustment to the share of result of associates based on dilution of their earnings per share	<b>(2,357)</b>	(206)
Earnings (loss) for the purpose of diluted earnings (loss) per share	<b>432,092</b>	(872,717)



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 7. EARNINGS (LOSS) PER SHARE (continued)

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<b>8,175,381,214</b>	7,561,292,816
Effect of dilutive potential ordinary shares on share options ( <i>Note</i> )	<b>5,095,768</b>	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<b>8,180,476,982</b>	7,561,292,816

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

### 8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Directors are of the opinion that the market value of the Group's investment properties as at 30 June 2010 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group incurred approximately HK\$1,212,548,000 (HK\$579,300,000 for the six months ended 30 June 2009) on acquisition of property, plant and equipment in order to upgrade its operating capacities.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 9. MOVEMENT IN INVENTORIES

Due to the significant increase in market prices of raw materials for the production of steel products, the inventory level of raw materials, work-in-progress and finished goods increased accordingly in the current period.

### 10. TRADE AND BILL RECEIVABLES

For most customers, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 30 days, except for certain well established customers, where the terms are extended to 60 days.

The following is an analysis of trade and bill receivables by age, net of provision for impairment, presented based on the invoice date:

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 11. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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

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

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

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

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

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

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

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

### 13. TRADE AND BILL PAYABLES

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 14. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$3,984,177,000 (HK\$4,450,172,000 for the six months ended 30 June 2009). The loans carry interest at 0.77% to 5.52% per annum (0.90% to 7.18% per annum for the six months ended 30 June 2009). The proceeds were used to finance the acquisition of property, plant and equipment and the general operations of the Group. In addition, the Group also repaid bank loans of approximately HK\$3,228,583,000 (HK\$2,404,445,000 for the six months ended 30 June 2009) during the period.

### 15. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at 5.76% to 7.47% per annum (5.76% to 7.47% per annum for the six months ended 30 June 2009) and are repayable according to the repayment schedules.

### 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 30 June 2010	<u>10,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2009	7,175,381,214	1,435,076
Issue of shares for the acquisition of interest in an associate	<u>550,000,000</u>	<u>110,000</u>
At 30 June 2009	7,725,381,214	1,545,076
Issue of shares for the acquisition of interest in an associate	<u>450,000,000</u>	<u>90,000</u>
At 31 December 2009 and 30 June 2010	<u>8,175,381,214</u>	<u>1,635,076</u>





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 17. CAPITAL COMMITMENTS

	<b>30 June 2010 HK\$'000 (unaudited)</b>	31 December 2009 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>675,257</b>	868,928

### 18. PLEDGE OF ASSETS

As at 30 June 2010, the following items were used to secure banking facilities granted to the Group:

- (a) Restricted bank deposits amounting to approximately HK\$288,331,000 (31 December 2009: HK\$280,838,000).
- (b) Pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Group, with total assets amounting to approximately HK\$156,314,000 and HK\$183,593,000 (31 December 2009: HK\$156,315,000 and HK\$183,593,000) respectively.
- (c) As at 30 June 2010, pledge of the Group's prepaid lease rentals with net book value of approximately HK\$133,206,000 (31 December 2009: HK\$81,714,000).
- (d) Pledge of 170,000,000 shares of the Group's listed associate with a carrying amount of approximately HK\$713,938,000 (31 December 2009: nil).
- (e) Pledge of the Group's plant and machinery with net book value of approximately HK\$325,967,000 (31 December 2009: HK\$33,537,000).



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 19. RELATED PARTY DISCLOSURES

#### (a) Transactions and balances with PRC government related entities

The Group is an associate of Shougang Holding (Hong Kong) Limited ("Shougang HK"), which is a wholly-owned subsidiary of Shougang Group, a state-owned enterprise under the direct supervision of the State Council of the PRC. Accordingly, the Company and the Group are significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the government of the PRC. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 19(a)(I) to 19(a)(III).

The significant transactions with Shougang Group during the period, and significant balances with them at the end of the reporting period are as follows:

#### (I) Transactions with Shougang Group

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2010 HK\$'000 (unaudited)</b>	2009 HK\$'000 (unaudited)
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	<b>2,041,489</b>	1,216,194
Purchases of goods by the Group	(b)	<b>3,592,450</b>	2,544,331
Lease rentals charged to the Group	(c)	<b>1,488</b>	2,308
Management fees charged to the Group	(d)	<b>480</b>	480
Purchases of spare parts by the Group	(e)	<b>61,321</b>	63,832
Management fees charged by the Group	(f)	<b>1,187</b>	972
Rental income charged by the Group	(g)	<b>76</b>	76
Interest charged to the Group	(h)	<b>21,295</b>	23,215
Service fees charged to the Group	(i)	<b>39,441</b>	50,700
Service fees charged by the Group	(j)	<b>5,136</b>	9,591
Purchase of property, plant and equipment by the Group	(k)	<b>184,218</b>	181,866



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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For the six months ended 30 June 2010

### 19. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (I) Transactions with Shougang Group (continued)

Notes:

- (a) The Group sold steel products, iron ore and scrap materials to Shougang Group.
- (b) The Group purchased materials and steel products from Shougang Group.
- (c) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.
- (d) Management fees were paid to Shougang HK, the Company's shareholder, for the provision of management services.
- (e) The Group purchased spare parts from Shougang Group.
- (f) The Group provided business and strategic development services to Shougang Group.
- (g) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, a wholly-owned subsidiary of Shougang HK, for renting property.
- (h) The interest expenses were charged by Shougang Group in respect of loans granted to the Group at interest rates from 5.76% to 7.47% (30.6.2009: 5.76% to 7.47%) per annum.
- (i) Shougang Group charged the Group service fees in respect of processing and repair and maintenance and transportation services provided.
- (j) The Group charged Shougang Group service fees in respect of processing, transportation and administration services provided.
- (k) The Group acquired property, plant and equipment from Shougang Group.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2010

### 19. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (II) Balances

Details of balances with the Group's related companies are set out in the condensed consolidated statement of financial position and notes 11, 12 and 15.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2010, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$5,642,291,000 (31 December 2009: HK\$5,634,443,000).

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

Apart from the transactions and balances with the Shougang Group as disclosed in notes 19(a)(I) and 19(a)(II), the Group also conducts business with entities directly and indirectly owned or controlled by the PRC government in the ordinary course of business, including deposits placements, borrowings and other general banking facilities.

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

##### *Compensation of key management personnel*

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

	<b>Six months ended 30 June</b>	
	<b>2010 HK\$'000 (unaudited)</b>	2009 HK\$'000 (unaudited)
Short-term benefits	<b>6,471</b>	5,948
Post employment benefits	<b>317</b>	291
Share-based payments	<b>13,740</b>	27,916
	<b>20,528</b>	34,155

The remuneration of directors and key executives is determined by the remuneration committee of the Board of Directors of the Company having regard to the performance of individuals and market trends.



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

# Deloitte.

## 德勤

### TO THE BOARD OF DIRECTORS OF SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

首長國際企業有限公司

*(Incorporated in Hong Kong with limited liability)*

#### Introduction

We have reviewed the interim financial information set out on pages 4 to 27 which comprises the condensed consolidated statement of financial position of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

26 August 2010



## MANAGEMENT DISCUSSION AND ANALYSIS

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### COMPANY OVERVIEW

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

### PERFORMANCE OVERVIEW

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW

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

#### Turnover and Cost of Sales

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

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

#### EBITDA and Core Operating Profit

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

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

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

#### Finance costs

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



## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

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### **FINANCIAL REVIEW (continued)**

#### **Share of result of associates**

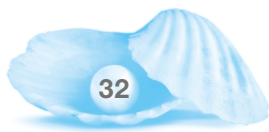
This item includes the share of results of 24.4%-held Fushan International and 35.7%-held Shougang Concord Century Holdings Limited ("Shougang Century") whilst we have started to equity account for the results of Fushan International only from 1 September 2009.

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

#### **Taxation**

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





## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS

Summary net profit contribution to the group by operation/entity

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel manufacturing

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

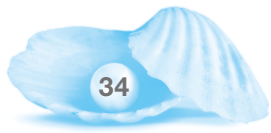
<i>In '000 mt.</i>	Slabs		Heavy Plates	
	2010	2009	2010	2009
For the six months ended 30 June				
(i) Production				
Shouqin	<b>1,137</b>	1,116	<b>504</b>	626
Qinhuangdao Plate Mill	–	–	<b>334</b>	329
Total	<b>1,137</b>	1,116	<b>838</b>	955
Change		+2%		-12%
(ii) Sales				
Shouqin#	<b>553</b>	426	<b>505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

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

#### Shouqin

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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### REVIEW OF OPERATIONS (continued)

#### Steel manufacturing (continued)

##### *Shouqin (continued)*

- (i) Production of heavy plates was lower due to the installation of a new roughing mill (600,000mt. capacity) and an ultra-thick slab caster,
- (ii) Sales volume of heavy plates dropped by 18%, average realized selling price (net of VAT) was HK\$4,845 (RmB 4,243), about 14% higher than that of last period; and
- (iii) Sales volume of slabs increased by 30%, average realized selling price (net of VAT) was HK\$3,972 (RmB 3,478), about 16% higher than that of the last period.

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

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

##### *Qinhuangdao Plate Mill*

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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### REVIEW OF OPERATIONS (continued)

#### Mineral exploration

##### *Production and sale of coking coal*

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

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

##### *Production of iron ore products*

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

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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### REVIEW OF OPERATIONS (continued)

#### Steel and iron ore trading

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

#### Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net profit of HK\$36 million for the current period, compared to a net loss of HK\$11 million last period. This operating segment mainly conducts chartering services of two capsized vessels. Shipping market has improved in the first half of 2010, but dropped sharply since June due to slower imports of iron ore into China and the fact that the grain season has come to an end. While we expect the market to pick up again in the medium term through global demand recovery and higher scrapping, oversupply of new ships on the other hand could well cap a sustained rise in shipping rates. Our operational strategy is to lease out the vessels on longer terms when rates are high and vice versa, serving as a hedge on shipping rates for imported raw materials.

#### Other business

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

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

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

#### 1. Leverage

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

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

#### 2. Currency and Interest Rate Risk

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

The Group conducts its businesses mainly in Hong Kong and Mainland China, therefore it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings. For the six months ended 30 June 2010, approximately 78% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements.

#### 3. Financing activities

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



## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

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### **MATERIAL ACQUISITIONS & DISPOSALS**

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

### **CAPITAL STRUCTURE**

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

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

### **EMPLOYEES AND REMUNERATION POLICIES**

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

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

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

### **PROSPECTS**

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

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



## INTERIM DIVIDEND

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

## 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.

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

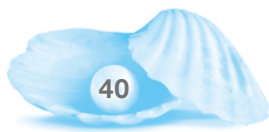
The Directors of the Company who held office at 30 June 2010 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2010 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in the Company			Total interests as to % of the issued share capital of the Company as at 30.06.2010
		Interests in shares	Interests in underlying shares*	Total interests	
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.91%
Zhang Wenhui	Beneficial owner	-	35,000,000	35,000,000	0.42%
Chen Zhouping	Beneficial owner	-	45,000,000	45,000,000	0.55%
Ip Tak Chuen, Edmond	Beneficial owner	-	12,590,000	12,590,000	0.15%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	-	7,590,000	0.09%
Kan Lai Kuen, Alice	Beneficial owner	-	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	-	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	-	1,500,000	1,500,000	0.01%

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





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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in Shougang Century			Total interests as to % of the issued share capital of Shougang Century as at 30.06.2010
		Interests in shares	Interests in underlying shares*	Total interests	
Cao Zhong	Beneficial owner	7,652,000	74,350,000	82,002,000	4.26%
Li Shaofeng	Beneficial owner	7,652,000	44,414,000	52,066,000	2.70%
Chen Zhouping	Beneficial owner	7,652,000	-	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	16,592,000	24,244,000	1.26%

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



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

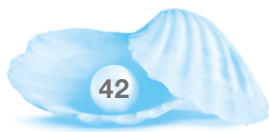
**(c) Long positions in the shares and underlying shares of Fushan International Energy Group Limited ("Fushan Energy"), an associated corporation of the Company**

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in Fushan Energy			Total interests as to % of the issued share capital of Fushan Energy as at 30.06.2010
		Interests in shares	Interests in underlying shares*	Total interests	
Cao Zhong	Beneficial owner	3,000,000	-	3,000,000	0.05%
Chen Zhouping	Beneficial owner	-	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	-	6,000,000	6,000,000	0.11%

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

Save as disclosed above, as at 30 June 2010, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2010.

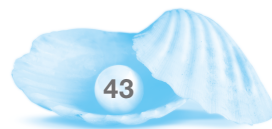


## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2010, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

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

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	3,425,850,686	41.90%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,979,904,761	24.21%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	9.39%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.57%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	5.17%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.57%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.57%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.57%	3



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

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

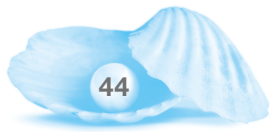
Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010	Note(s)
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.57%	3
Lazard Asset Management LLC	Investment manager	814,915,500	9.96%	

### (b) Lending Pool

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010
State Street Corporation	Custodian corporation/ approved lending agent	485,373,400	5.93%

#### Notes:

1. Shougang Holding indicated in its disclosure form dated 17 February 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 17 February 2010, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to 30 June 2010) that as at 24 February 2009, its interests included the interests held by Max Same, a wholly-owned subsidiary of Cheung Kong.



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

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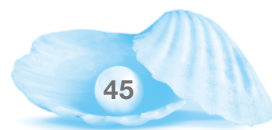
*Notes: (continued)*

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

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

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

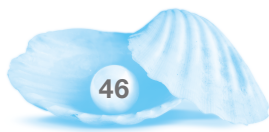
Save as disclosed above, as at 30 June 2010, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.



## SHARE OPTIONS

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2010. Details of movements in the share options under the Scheme during the period were as follows:

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Transferred to other category during the period	Transferred from other category during the period	At the end of the period			
<b>Directors of the Company</b>							
Cao Zhong	65,000,000 <sup>1 &amp; 2</sup>	-	-	65,000,000 <sup>1 &amp; 2</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Zhang Wenhui	35,000,000 <sup>1</sup>	-	-	35,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Chen Zhouping	45,000,000 <sup>1</sup>	-	-	45,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Luo Zhenyu	25,000,000 <sup>1</sup>	(25,000,000) <sup>3</sup>	-	-	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Ip Tak Chuen, Edmond	8,000,000	-	-	8,000,000	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	4,590,000	-	-	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	<u>12,590,000</u>	<u>-</u>	<u>-</u>	<u>12,590,000</u>			
Kan Lai Kuen, Alice	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Wong Kun Kim	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Leung Kai Cheung	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>187,090,000</u>	<u>(25,000,000)</u>	<u>-</u>	<u>162,090,000</u>			

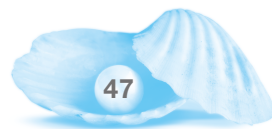


## SHARE OPTIONS (continued)

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Transferred to other category during the period	Transferred from other category during the period	At the end of the period			
<b>Employees of the Group</b>	12,500,000 <sup>1</sup>	-	-	12,500,000 <sup>1</sup>	20.12.2007	20.12.2007 - 19.12.2014	HK\$2.944
	12,500,000	-	-	12,500,000			
<b>Other participants</b>	50,000	-	-	50,000	23.08.2002	23.08.2002 - 22.08.2012	HK\$0.295
	26,000,000 <sup>1</sup>	-	25,000,000 <sup>3</sup>	51,000,000 <sup>1</sup>	20.12.2007	20.12.2007 - 19.12.2014	HK\$2.944
	26,050,000	-	25,000,000	51,050,000			
	<u>225,640,000</u>	<u>(25,000,000)</u>	<u>25,000,000</u>	<u>225,640,000</u>			

### Notes:

- Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.
- Mr. Cao Zhong was re-designated from an Executive Director to a Non-executive Director of the Company on 10 May 2010. The Board approved that the share options held by Mr. Cao remain exercisable up to the original expiry date.
- Mr. Luo Zhenyu resigned as a Director of the Company on 10 May 2010. The Board approved that the share options held by Mr. Luo remain exercisable up to the original expiry date and such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the period.



## **AUDIT COMMITTEE**

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The Company has engaged the Auditor to assist the Audit Committee to review the 2010 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 20 August 2010 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2010.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

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The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2010, except for the following deviation:

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

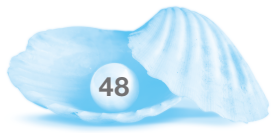
The Chairman of the Board did not attend the annual general meeting of the Company held on 8 June 2010 (the "Meeting") as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with majority of members of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2010.

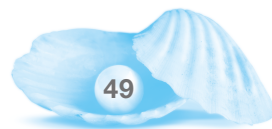




## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

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- (a) Under the loan agreement dated 22 November 2007 entered into between Bank of China (Hong Kong) Limited and Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”), a 76% indirectly owned subsidiary of the Company, in relation to a loan in an amount not exceeding RMB1,500,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreement will constitute an event of default upon which the loan will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loan shall be repaid by Shouqin by instalments with the last instalment due on the date falling 36 months after the date of first drawn down of the loan (i.e. 23 November 2007).
- (b) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to term and revolving credit facilities in a total principal amount of US\$320,000,000 made available by the banks to the Company, each of the following will constitute an event of default upon which the facilities will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation; and (iii) Shougang Corporation ceases to have management control in Shougang Holding. The US\$200,000,000 term loan facility shall be repaid by the Company by instalments with the last instalment due on the date falling 48 months after the date of the facility agreement. The US\$120,000,000 revolving loan facility may be reborrowed by the Company and the final maturity day is the date falling 48 months after the date of the facility agreement.
- (c) Under the loan agreement dated 26 March 2008 entered into between Bank of China (Hong Kong) Limited and Shouqin in relation to a loan in an amount not exceeding RMB350,000,000 and the loan agreement dated 14 August 2008 entered into between Nanyang Commercial Bank (China) Limited and Shouqin in relation to a loan in an amount not exceeding RMB250,000,000, breach of any of the following undertakings by Shougang Corporation during the term of the loan agreements will constitute an event of default upon which the loans will, among others, become immediately due and payable: (i) Shougang Corporation will beneficially own at least 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own at least 35% of the issued share capital of the Company; and (iii) the net asset value of Shougang Corporation will not be less than RMB15,000,000,000. The loans shall be repaid by Shouqin by instalments with the last instalment due on 23 November 2010.



## **DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

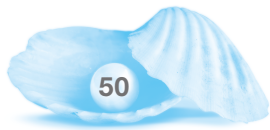
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The following are changes in the information of Directors since the date of the 2009 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- (a) Mr. Wang Qinghai, the Chairman of the Company, resigned as a non-executive director and the chairman of each of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Fushan Energy on 10 May 2010.
- (b) Mr. Cao Zhong has been re-designated from an Executive Director and the Managing Director of the Company to a Non-executive Director and the Vice Chairman of the Company with effect from 10 May 2010 and ipso facto ceased to act as a member of each of the Executive Committee, the Nomination Committee and the Remuneration Committee from the same date. Mr. Cao also resigned from all his directorships in Shougang Holding, Grand Invest, China Gate, Shougang Concord Technology Holdings Limited ("Shougang Technology"), Shougang Grand, Global Digital Creations Holdings Limited (a subsidiary of Shougang Grand), Shougang Century and Fushan Energy on 10 May 2010. Each of Shougang Holding, Grand Invest and China Gate is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

An engagement letter has been entered into with Mr. Cao for a term commencing on 10 May 2010 and expiring on 31 December 2010. Under the engagement letter, Mr. Cao will be entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the shareholders of the Company. For the financial year ending 31 December 2010, the director's fee of Mr. Cao will be HK\$150,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Cao. Such director's fee was determined with reference to Mr. Cao's experience and duties as well as the prevailing market conditions.

- (c) Mr. Zhang Wenhui, a Deputy Managing Director of the Company, has been appointed as a non-executive director of Fushan Energy with effect from 10 May 2010.



## **DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES (continued)**

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- (d) Mr. Chen Zhouping, a Deputy Managing Director of the Company, has been re-designated from a non-executive director of Fushan Energy to an executive director and a vice chairman and the managing director of Fushan Energy with effect from 10 May 2010.
- (e) Ms. Kan Lai Kuen, Alice, an Independent Non-executive Director of the Company, retired as an independent non-executive director of Shougang Technology on 8 June 2010.

## **APPRECIATION**

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

By Order of the Board  
**Li Shaofeng**  
*Managing Director*

Hong Kong, 26 August 2010