



SHOUGANG CONCORD INTERNATIONAL
ENTERPRISES COMPANY LIMITED

Stock Code : 697

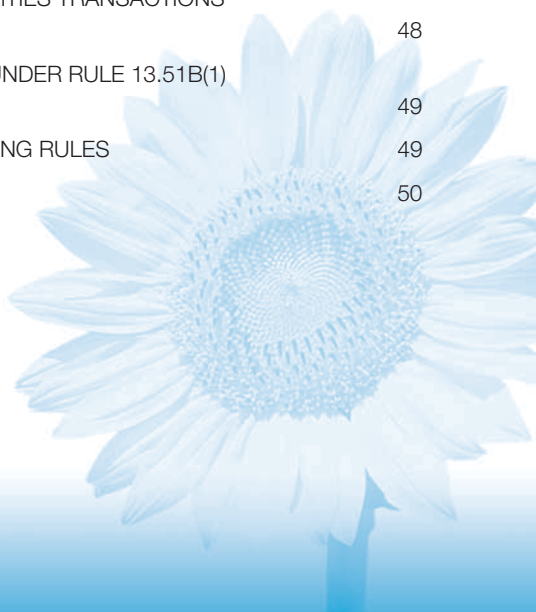
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2011 Interim Report



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CORPORATE INFORMATION

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

Company Secretary

Cheng Man Ching

Auditor

Deloitte Touche Tohmatsu

Share Registrars

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office and Principal Place of Business

7th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code

697

Website

www.shougang-intl.com.hk

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 2011. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

For the six months ended 30 June 2011

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
NON-CURRENT ASSETS			
Investment properties	9	34,602	34,234
Property, plant and equipment	9	12,071,215	12,096,114
Prepaid lease rentals		357,472	357,078
Mining assets		180,820	179,593
Goodwill		168,015	168,015
Interests in associates		6,888,956	6,742,974
Available-for-sale investments		186,325	261,931
Deferred tax assets		49,694	46,827
Other financial assets		415,943	367,942
Deposits for acquisition of property, plant and equipment		99,930	178,396
		20,452,972	20,433,104
CURRENT ASSETS			
Inventories		3,731,909	3,491,190
Trade and bill receivables	10	1,421,633	1,622,373
Trade receivables from related companies	11	1,118,026	749,972
Prepayments, deposits and other receivables		1,179,900	1,006,681
Prepaid lease rentals		7,774	7,680
Amounts due from related companies	11	34,177	108,044
Amounts due from associates		51,533	17,756
Amount due from a non-controlling shareholder of a subsidiary		3,526	3,526
Amount due from ultimate holding company of a shareholder	12	1,131	1,887
Other financial assets		274,194	202,195
Restricted bank deposits	18(a)	322,032	281,486
Pledged deposits	18(f)	84,276	–
Bank balances and cash		1,810,873	1,702,696
		10,040,984	9,195,486

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

At 30 June 2011

	Notes	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
CURRENT LIABILITIES			
Trade and bill payables	13	3,419,254	2,966,135
Other payables and accrued liabilities		1,490,852	1,802,613
Tax payable		228,242	218,457
Amounts due to related companies	11	546,451	1,056,185
Amount due to ultimate holding company of a shareholder	12	2,432,552	1,172,981
Bank borrowings – due within one year	14	8,538,895	8,845,339
Other financial liabilities		2,328	–
Loans from ultimate holding company of a shareholder	15	299,181	968,868
		16,957,755	17,030,578
NET CURRENT LIABILITIES		(6,916,771)	(7,835,092)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,536,201	12,598,012
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	14	2,043,312	1,888,612
Deferred tax liabilities		10,523	12,139
Loans from ultimate holding company of a shareholder	15	686,251	–
		2,740,086	1,900,751
		10,796,115	10,697,261
CAPITAL AND RESERVES			
Share capital	16	1,635,076	1,635,076
Share premium and reserves		8,063,336	7,932,018
Equity attributable to Owners of the Company		9,698,412	9,567,094
Non-controlling interests		1,097,703	1,130,167
		10,796,115	10,697,261

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to Owners of the Company												
	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Exchange reserve	Share option reserve	Enterprise expansion fund and statutory reserve fund	Security investment reserve	Non-distributable reserve	Accumulated profits	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000 (Note d)	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	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 investments	-	-	-	-	-	-	-	(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
Release on deemed disposal of partial interest of an associate	-	-	-	-	(7)	-	-	(82)	-	-	(89)	-	(89)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	32	-	-	(32)	-	-	-
Dividends 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

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 30 June 2011

	Attributable to Owners of the Company												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 HK\$'000	Non-controlling interests HK\$'000	
At 1 January 2011 (audited)	1,635,076	3,133,915	22,611	33,325	833,650	265,357	729,686	190,446	51,979	2,671,049	9,567,094	1,130,167	10,697,261
Profit for the period	-	-	-	-	-	-	-	-	-	214,123	214,123	(47,511)	166,612
Release on deemed disposal of partial interest of an associate	-	-	-	-	(20)	-	-	-	-	-	(20)	-	(20)
Exchange differences arising on translation	-	-	-	-	54,407	-	-	-	-	-	54,407	17,076	71,483
Fair value loss on available-for-sale investments	-	-	-	-	-	-	-	(77,994)	-	-	(77,994)	-	(77,994)
Share of other comprehensive income of associates	-	-	-	-	69,799	-	-	(57,072)	-	-	12,727	-	12,727
Total comprehensive income and expense for the period	-	-	-	-	124,186	-	-	(135,066)	-	214,123	203,243	(30,435)	172,808
Release on deemed disposal of partial interest of an associate	-	-	-	-	-	-	(3)	-	-	3	-	-	-
Transfer from enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	(4,555)	-	-	4,555	-	-	-
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(81,754)	(81,754)	-	(81,754)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,029)	(2,029)
Recognition of equity-settled share based payment	-	-	-	-	-	9,829	-	-	-	-	9,829	-	9,829
At 30 June 2011 (unaudited)	1,635,076	3,133,915	22,611	33,325	957,836	275,186	725,128	55,380	51,979	2,807,976	9,698,412	1,097,703	10,796,115

Notes:

- 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.
- 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).
- The non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.
- As at 30 June 2011, the directors of the Company considered that the decline in the fair value of the available-for-sale investments below its cost is not significant or prolonged.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Net cash from operating activities	482,835	265,262
Net cash used in investing activities		
Placement of pledged deposits	(84,276)	–
Deposits paid for acquisition of property, plant and equipment	(3,051)	(352,632)
Purchase of property, plant and equipment	(85,501)	(399,230)
Decrease in amounts due from associates	6,862	–
Dividends received from associates	141,787	154,938
Settlement of consideration payable to a shareholder	–	(191,750)
Other investing activities	12,713	(8,139)
	(11,466)	(796,813)
Net cash (used in) from financing activities		
New borrowings raised	3,897,483	3,984,177
Increase in loan from ultimate holding company of a shareholder	–	137,758
Repayment of bank borrowings	(4,186,727)	(3,228,583)
Settlement of amounts due to related companies	(48,442)	(51,929)
Increase in amounts due to related companies	47,539	34,848
Settlement of amount due to ultimate holding company of a shareholder	–	(4,012)
Increase in amount due to ultimate holding company of a shareholder	1,690	1,194
Payment of dividends	(81,754)	–
Dividends paid to non-controlling shareholders of a subsidiary	(2,029)	–
Other financing activities	–	(2,813)
	(372,240)	870,640
Net increase in cash and cash equivalents	99,129	339,089
Cash and cash equivalents at 1 January	1,702,696	1,372,258
Effect of foreign exchange rate changes	9,048	5,052
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,810,873	1,716,399

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

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

The Company and its subsidiaries (collectively referred to as the “Group”) had net current liabilities of approximately HK\$6,916,771,000 as at 30 June 2011 of which current liabilities of approximately HK\$8,538,895,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group, including the Group’s unutilised banking facilities, the Group’s ability to renew the banking facilities upon maturity, the financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, and the marketable securities held by the Group that can be disposed of, if necessary, the directors of the Company are of the opinion that the Group has sufficient working capital to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

3. SEGMENT INFORMATION (continued)

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

Six months ended 30 June 2011 (unaudited)

	Steel manufacturing 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	7,305,940	57,329	2,413,345	667,122	1,746	10,445,482
Inter-segment sales	7,389	-	-	430,641	-	438,030
Segment revenue	7,313,329	57,329	2,413,345	1,097,763	1,746	10,883,512
Elimination	(7,389)	-	-	(430,641)	-	(438,030)
Group revenue	7,305,940	57,329	2,413,345	667,122	1,746	10,445,482

Inter-segment sales are charged at prevailing market rates.

Segment profit (loss)	33,215	(16,555)	213,584	6,329	(3,578)	232,995
Interest income						12,627
Central administration costs						(38,265)
Finance costs						(281,081)
Loss from change in fair value of derivative financial instruments						(2,328)
Loss on dilution of interest in an associate						(44)
Share of result of associates						274,738
Profit before taxation						198,642

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

3. SEGMENT INFORMATION (continued)**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
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 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 (loss)	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 instruments						(2,940)
Loss on dilution of interest in an associate						(1,680)
Share of result of associates						219,569
Profit before taxation						446,121

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

3. SEGMENT INFORMATION (continued)

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

4. CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

5. INCOME TAX EXPENSE (CREDIT)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

5. INCOME TAX EXPENSE (CREDIT) (continued)

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

The income tax expense is recognised based on the income tax rates applicable to subsidiaries of the Group and their estimated assessable profit. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2011 and 2010.

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

6. PROFIT FOR THE PERIOD

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

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

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

Note 2: Amounts included in other gains and losses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the period attributable to Owners of the Company)	214,123	434,449
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of associates based on dilution of their earnings per share	(469)	(2,357)
Earnings for the purpose of diluted earnings per share	213,654	432,092

	Six months ended 30 June	
	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,175,381,214	8,175,381,214
Effect of dilutive potential ordinary shares on share options	9,135,577	5,095,768
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,184,516,791	8,180,476,982

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

In the opinion of the directors of the Group, the carrying amount of the Group's investment properties as at 30 June 2011 does not differ significantly from their estimated market value. Consequently, no revaluation surplus or deficit has been recognised in respect of the Group's investment properties in the current period.

During the period, the Group incurred approximately HK\$198,739,000 (HK\$1,212,548,000 for the six months ended 30 June 2010) on acquisition of property, plant and equipment in order to upgrade its operating capacities, in which amount of HK\$84,568,000 (HK\$773,040,000 for the six months ended 30 June 2010) was transferred from deposit for acquisition of property, plant and equipment paid in previous year.

10. TRADE AND BILL RECEIVABLES

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

The following is an aged analysis of trade and bill receivables, net of provision for impairment based on the invoice date at the end of the reporting period:

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

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

For the six months ended 30 June 2011

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

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

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

Included in amounts due to related companies are HK\$251,214,000 (2010: HK\$760,045,000) trade payables to related companies and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period are as follows:

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

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

As at 30 June 2011 and 31 December 2010, the amount due from ultimate holding company of a shareholder are non-trade in nature, unsecured, interest-free and are repayable on demand.

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

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

For the six months ended 30 June 2011

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

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

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

13. TRADE AND BILL PAYABLES

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

14. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$3,897,483,000. The fixed-rate bank borrowings carry interest at rates ranged from 4.94% to 7.84% (31 December 2010: 4.78% to 5.56%) per annum. The variable-rate bank borrowings carry interest at rates ranged from 0.77% to 6.94% (31 December 2010: 0.77% to 5.81%) per annum.

The variable-rate bank borrowings carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.52% to 1.50% (31 December 2010: LIBOR plus 0.52%) per annum, Hong Kong Interbank Offered Rates ("HIBOR") plus 0.8% (31 December 2010: HIBOR plus 0.8%) per annum and the People's Bank of China's lending rate ("lending rate"), or with a 10% reduction to 5% addition on the lending rate per annum.

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\$4,186,727,000 (HK\$3,228,583,000 for the six months ended 30 June 2010) during the period.

15. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at 5.56% (31 December 2010: 5.31% to 5.56%) per annum, except for HK\$144,474,000 which were non-interest bearing (31 December 2010: HK\$142,045,000). Amounts of HK\$299,181,000 (31 December 2010: HK\$968,868,000) are repayable within twelve months while the remaining balances of HK\$686,251,000 (31 December 2010: nil) are repayable after twelve months but within twenty four months.

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

For the six months ended 30 June 2011

16. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1 January 2010, 31 December 2010 and 30 June 2011	10,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2010, 31 December 2010 and 30 June 2011	8,175,381,214	1,635,076

17. CAPITAL COMMITMENTS

	30 June 2011 HK\$'000 (unaudited)	31 December 2010 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	554,127	467,702

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

18. PLEDGE OF ASSETS

As at 30 June 2011, the following items were used to secure banking facilities granted to the Group:

- (a) Restricted bank deposits amounting to approximately HK\$322,032,000 (31 December 2010: HK\$281,486,000).
- (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\$156,309,000 (31 December 2010: HK\$156,315,000) and HK\$183,590,000 (31 December 2010: HK\$183,593,000) respectively.
- (c) Pledge of the Group's land use rights with net book value of approximately HK\$83,878,000 (31 December 2010: HK\$83,362,000).
- (d) Pledge of 456,000,000 shares of the Group's listed associate with the market value of approximately HK\$2,166,000,000 (31 December 2010: 170,000,000 shares, approximately HK\$766,941,000).
- (e) As at 31 December 2010, the Group has pledged its plant and machinery with net book value of approximately HK\$336,115,000. The Group had no such pledge of assets as at 30 June 2011 as the loan was repaid during the period.
- (f) Pledge of bank deposits amounting to approximately HK\$84,276,000 (31 December 2010: nil).

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 Corporation, 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 PRC government. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 19(a)(I) to 19(a)(III).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

19. RELATED PARTY DISCLOSURES (continued)**(a) Transactions and balances with PRC government related entities**

(continued)

(i) *Transactions with Shougang Group*

		Six months ended 30 June	
	Notes	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Shougang Group			
Sales of goods by the Group	(a)	1,403,628	2,041,489
Purchases of goods by the Group	(b)	5,441,536	3,592,450
Lease rentals charged to the Group	(c)	1,729	1,488
Management fees charged to the Group	(d)	480	480
Purchases of spare parts by the Group	(e)	48,705	61,321
Management fees charged by the Group	(f)	1,602	1,187
Rental income charged by the Group	(g)	76	76
Interest charged to the Group	(h)	23,335	21,295
Service fees charged to the Group	(i)	33,675	39,441
Service fees charged by the Group	(j)	10	5,136
Purchase of property, plant and equipment by the Group	(k)	77,283	184,218

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

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.
- (d) Management fees were paid to Shougang HK, the Company's major shareholder with significant influence over the Group, 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 office.
- (h) The interest expenses were charged by Shougang Group in respect of loans granted to the Group at interest rate of 5.56% (5.76% to 7.47% for the six months ended 30 June 2010) per annum.
- (i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services provided.
- (j) The Group charged Shougang Group service fees in respect of processing steel plates, 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 2011

19. RELATED PARTY DISCLOSURES (continued)

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

(II) *Balances with Shougang Group*

As at 30 June 2011, deposits for acquisition of property, plant and equipment of HK\$38,905,000 (2010: HK\$108,513,000) was paid to the Shougang Group.

Details of balances with the Group's related parties are set out in 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 2011, the Group has bank loans guaranteed by Shougang Corporation amounting to approximately HK\$5,801,833,000 (31 December 2010: HK\$6,227,506,000).

- (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 has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

For the six months ended 30 June 2011

19. RELATED PARTY DISCLOSURES (continued)

(b) Compensation of key management personnel

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

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Short-term benefits	5,266	6,471
Post employment benefits	258	317
Share-based payments	8,525	13,740
	14,049	20,528

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.

20. EVENT AFTER THE END OF THE INTERIM PERIOD

On 5 May 2011, the Company entered into an acquisition agreement that it has conditionally agreed to acquire Fair Gain Investments Limited ("Fair Gain"), an investment holding company, from Shougang HK, the major shareholder of the Company with significant influence over the Group at a consideration of approximately HK\$785,704,000, which would be satisfied in full by the allotment of 777,925,013 shares of the Company to Shougang HK or its nominee(s). The sole asset held by Fair Gain is the holding of 149,089,993 shares of Shougang Fushan Resources Group Limited (formerly known as Fushan International Energy Group Limited) ("Fushan"), representing approximately 2.77% of the issued share capital of Fushan (the "Acquisition").

The Acquisition was completed on 18 July 2011 upon fulfilment of certain conditions, and 777,925,013 shares were issued by the Company to China Gate Investments Limited, a wholly-owned subsidiary of Shougang HK at market price of HK\$0.71 per share as at completion date pursuant to the terms of the agreement. After the Acquisition, the Group's equity interest in Fushan increased from 24.44% to 27.21%. Additional interest in Fushan is equity accounted for as interest in an associate and as at the date of this report, the directors of the Company are in the midst of assessing the financial impact of such transaction.

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 3 to 28 which comprises the condensed consolidated statement of financial position of Shougang Concord International Enterprises Company Limited (the “Company”) and its subsidiaries as of 30 June 2011 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.

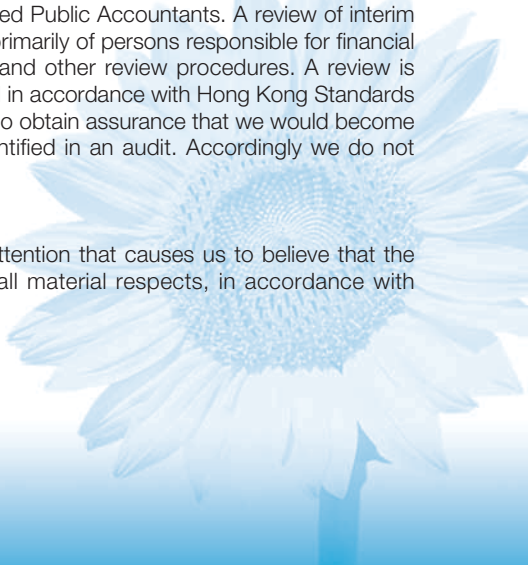
CONCLUSION

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 2011



MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

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

PERFORMANCE REVIEW

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW

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

Turnover and Cost of Sales

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

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

EBITDA and Core Operating Profit

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

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

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

Finance costs

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Share of result of associates

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

Taxation

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**REVIEW OF OPERATIONS**

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") and Qinhuangdao Plate Mill. In this interim period, we saw a mild recovery in the steel manufacturing sector from robust demand and higher prices, yet dragged by higher raw material cost. This core segment recorded net loss of HK\$187 million during the current period, while that of last period was net loss HK\$103 million. Summary of production and sales quantities of the two manufacturing plants in the current and last interim period under this segment is as follows:

In '000 mt.		Slabs		Heavy Plates	
For the six months ended 30 June		2011	2010	2011	2010
(i)	Production				
	Shouqin	1,280	1,137	855	504
	Qinhuangdao Plate Mill	—	—	334	334
	Total	1,280	1,137	1,189	838
	Change		+13%		+42%
(ii)	Sales				
	Shouqin [#]	326	553	849	505
	Qinhuangdao Plate Mill	—	—	319	304
	Total	326	553	1,168	809
	Change		-41%		+44%

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

Shouqin

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Steel Manufacturing (continued)

Shouqin (continued)

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

- (i) Sales volume of heavy plates increased by 68%, ASP (net of VAT) was HK\$6,034 (RmB 5,060), about 19% higher than that of the last period; but,
- (ii) Sales volume of slabs decreased by 41%, with Shouqin using up more of the slabs being produced itself, ASP (net of VAT) was HK\$4,758 (RmB 3,990), about 15% higher than that of the last. We scheduled a medium overhaul of the entire plant for two weeks during the period, resulting in lower overall utilization.

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

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

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK\$2,137 million before elimination for the six months ended 30 June 2011, a rise of 25% comparing with that of last. Slightly lower sales volume is offset by higher ASP (net of VAT) was HK\$5,576 (RmB 4,676), about 17% higher than that of last period. As a result, the Group's share of loss of Qinhuangdao Plate Mill was HK\$40 million, comparing to loss of HK\$69 million last period.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Mineral exploration

Production and sale of coking coal

Fushan is a 24.4% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover from continuing operations for the current period was HK\$3,899 million; net profit attributable to shareholders was HK\$1,131 million, a rise of 53% and 35% respectively over that of last. Profit attributable to the Group was HK\$265 million in this period.

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

Production of iron ore products

The Group holds an effective 68% interest in Shouqin Longhui which is situated in Qinglong County, Qinhuangdao City, Hebei, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities. Iron ore fines concentrated from raw ores from the mines are used as feeds (shortfalls are currently satisfied by purchasing feeds from the market) for the pellet plant to give the final product – iron ore pellets.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Iron ore and steel trading (“Trading”)

Our Trading operations are jointly conducted by SCIT Trading Limited and Shougang Concord Steel Holdings Limited and its subsidiaries (“The Trading Group”), both of which are wholly owned by the Group. The Trading Group reported a turnover of HK\$2,413 million in the six months ended 30 June 2011, which was HK\$1,465 million in the last period. It sold approximately 1.25 million tonnes of iron ore to external parties, which was lower by 12% from that of last period, through long term offtake arrangements with Mt. Gibson starting from 1 July 2009. Lower volume is a result of significant rainfall and an extreme wet season that caused flooding in Mt. Gibson’s operations in the first quarter of the year, resulting in drop in ore output. Trading of other steel products still recorded a small gain. The resulting net gain was HK\$94 million in the current period, comparing to a net gain of HK\$141 million in the last. The Trading Group has since this year strengthened its business development in the Mainland and is prepared to cover more varieties and quantities; results from this operation are expected to be favorable in the foreseeable future.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries (“Shougang Shipping Group”) reported a net loss of HK\$20 million for the current period, compared to a net profit of HK\$36 million last period. This operating segment mainly conducts chartering services of two capsized vessels. The weak rate environment is not just due to newbuild deliveries; demand growth has been decelerating ex-China.

Other business

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

Shougang Century, a 35.7% associate of the Group, recorded net profit of HK\$27 million in the current period. The Group’s share of its net results was a profit of HK\$9 million, comparing to share of profit of HK\$28 million in the last period.

Lower profit from Shougang Century is mainly the result of a competitive operating environment in the steel cord sector. With expanding capacity in its new plants, we believe its results will improve in the future.



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 2011 as compared to 31 December 2010 is summarized below:

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

2. Currency and Interest Rate Risk

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

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

3. Financing activities

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

MATERIAL ACQUISITIONS & DISPOSALS

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

CAPITAL STRUCTURE

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

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

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,700 employees as at 30 June 2011.

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

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

PROSPECTS

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

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

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2011 (2010: 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 2011 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 2011 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 were held	Number of shares/underlying shares in the Company			Total interests as to % of the issued share capital of the Company as at 30.06.2011
		Interests in shares	Interests in underlying shares*	Total interests	
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.91%
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.24%
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 were held	Number of shares/underlying shares in Shougang Century			Total interests as to % of the issued share capital of Shougang Century as at 30.06.2011
		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 Shougang Fushan Resources Group Limited ("Shougang Resources", formerly known as Fushan International Energy Group Limited), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources			Total interests as to % of the issued share capital of Shougang Resources as at 30.06.2011
		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 Shougang Resources adopted on 20 June 2003. Upon exercise of the share options in accordance with the share option scheme of Shougang Resources, ordinary shares of HK\$0.10 each in the share capital of Shougang Resources are issuable. The share options are personal to the respective Directors.

Save as disclosed above, as at 30 June 2011, 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 2011.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2011, 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:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2011	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	4,203,775,699	51.41%	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
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.57%	3

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

Long positions in the shares of the Company (continued)

Notes:

1. Shougang Holding indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to 30 June 2011) that as at 5 May 2011, 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 2011) that as at 24 February 2009, its interests included the interests held by Max Same, a wholly-owned subsidiary of Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

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

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

Save as disclosed above, as at 30 June 2011, 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 2011. Details of the outstanding share options under the Scheme during the period were as follows:

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Gao Zhong	65,000,000 ¹	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Li Shaofeng	20,000,000 ¹	14.12.2010	14.12.2010 – 13.12.2017	HK\$1.180
Zhang Wenhui	35,000,000 ¹	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Chen Zhouping	45,000,000 ¹	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Ip Tak Chuen, Edmond	8,000,000	23.08.2002	23.08.2002 – 22.08.2012	HK\$0.295
	4,590,000	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
	12,590,000			
Kan Lai Kuen, Alice	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Wong Kun Kim	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Leung Kai Cheung	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	182,090,000			

SHARE OPTIONS (continued)

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Employees of the Group	13,000,000 ¹ <hr/> 13,000,000 <hr/>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Other participants	50,000 50,000,000 ¹ <hr/> 50,050,000 <hr/> 245,140,000 <hr/>	23.08.2002 20.12.2007	23.08.2002 – 22.08.2012 20.12.2007 – 19.12.2014	HK\$0.295 HK\$2.944

Note:

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

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2011 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 19 August 2011 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2011.



COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2011, except for the following deviation:

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

The Chairman of the Board did not attend the annual general meeting of the Company held on 19 May 2011 (the “Meeting”) as he had another business engagement. The Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with the chairman and majority of members of each of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 2011.

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

The following are the changes in the information of Directors since the date of the 2010 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- (a) Mr. Li Shaofeng, the Managing Director of the Company, has been re-designated from the chairman and managing director of Shougang Century to the chairman of Shougang Century with effect from 1 April 2011.
- (b) Ms. Kan Lai Kuen, Alice, an Independent Non-executive Director of the Company, resigned as an independent non-executive director of Sunac China Holdings Limited, a listed company in Hong Kong, on 8 June 2011. Ms. Kan also retired as an independent non-executive director of G-Vision International (Holdings) Limited, a listed company in Hong Kong, on 11 August 2011.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

- (a) Under the loan agreement dated 22 November 2007 (the "Loan Agreement") entered into between Bank of China (Hong Kong) Limited ("BOC") 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 (the "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).

A supplemental loan agreement dated 22 November 2010 (the "Supplemental Loan Agreement") was entered into between Shouqin and Nanyang Commercial Bank (China) Limited ("Nanyang Commercial Bank"), to which the rights and obligations of part of the loan under the Loan Agreement in an amount of RMB300,000,000 (the "Outstanding Loan") had been novated from BOC subsequent to the entering into of the Loan Agreement. Pursuant to the Supplemental Loan Agreement, the parties agreed to extend the due date in respect of the Outstanding Loan for one year to 23 November 2011. The Undertakings made by Shougang Corporation under the Loan Agreement shall continue to be applicable to the Supplemental Loan Agreement and breach of any of the Undertakings by Shougang Corporation will constitute an event of default upon which the Outstanding Loan will become immediately due and payable.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

- (b) Under the facility agreement dated 28 February 2008 entered into between a syndicate of banks and the Company in relation to a term loan facility of US\$200,000,000 and a revolving loan facility up to an amount of US\$120,000,000 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 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 revolving loan facility may be re-borrowed by the Company and the final maturity day is the date falling 48 months after the date of the facility agreement.
- (c) Under the facility letter entered into by the Company on 24 June 2011 with BOC relating to the banking facilities (the "Facilities") of (i) forward foreign exchange and currency option transaction facilities of US\$80,000,000 (the "Facility I"); and (ii) term loan of up to US\$70,000,000 (the "Facility II"), the Company shall procure that (i) Shougang Holding owns not less than 40% interest in the Company and Shougang Holding in turn shall be wholly-owned by Shougang Corporation throughout the life of the Facilities; (ii) Shougang Corporation should maintain management control in Shougang Holding; and (iii) Shougang Holding, either directly or through its subsidiaries indirectly, remains the single largest beneficial shareholder of the Company. Breach of any of the above will constitute an event of default upon which the Facilities will, among others, become immediately due and payable. There is no specific term regarding the life of the Facility I while the Facility II shall be repaid by the Company by instalments with the last instalment due on the date falling 42 months after the date of first drawn down of the Facility II.

APPRECIATION

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

By Order of the Board

Li Shaofeng

Managing Director

Hong Kong, 26 August 2011