SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

Stock Code : 697

INTERIM REPORT 2012

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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	Kan Lai Kuen, Alice *(Chairman)* Wong Kun Kim Leung Kai Cheung
Nomination Committee	Wang Qinghai *(Chairman)* Leung Shun Sang, Tony Kan Lai Kuen, Alice Wong Kun Kim Leung Kai Cheung
Remuneration Committee	Wong Kun Kim *(Chairman)* Li Shaofeng Leung Shun Sang, Tony Kan Lai Kuen, Alice Leung Kai Cheung

CORPORATE INFORMATION (continued)

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 2012. 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 2012

		Six months ended 30 June	
	NOTES	**2012** ***HK$'000*** **(unaudited)**	2011 *HK$'000* (unaudited)
Revenue	*3*	**8,523,737**	10,445,482
Cost of sales		**(9,040,584)**	(10,123,782)
Gross (loss) profit		**(516,847)**	321,700
Other income		**29,900**	28,769
Other gains and losses		**30,772**	(13,926)
Change in fair value of derivative financial instruments		**68,547**	194,729
Distribution and selling expenses		**(46,575)**	(80,270)
Administrative expenses		**(282,650)**	(246,017)
Finance costs		**(354,881)**	(281,081)
Share of results of associates		**233,742**	274,738
(Loss) profit before taxation		**(837,992)**	198,642
Income tax credit (expense)	*4*	**1,238**	(32,030)
(Loss) profit for the period	*6*	**(836,754)**	166,612
Other comprehensive (expense) income			
Exchange differences arising on translation		**(33,328)**	71,483
Loss on investments in equity instruments designated as at fair value through other comprehensive income		**(17,770)**	–
Fair value loss on available-for-sale investments		**–**	(77,994)
Release on deemed disposal of partial interest in an associate		**–**	(20)
Share of other comprehensive (expense) income of associates			
Exchange differences arising on translation		**(26,697)**	69,799
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income		**(102,907)**	–
Fair value loss on available-for-sale investments		**–**	(57,072)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2012

	NOTES	Six months ended 30 June **2012** ***HK$'000*** **(unaudited)**	 2011 *HK$'000* (unaudited)
Other comprehensive (expense) income for the period		**(180,702)**	6,196
Total comprehensive (expense) income for the period		**(1,017,456)**	172,808
(Loss) profit for the period attributable to:			
Owners of the Company		**(619,494)**	214,123
Non-controlling interests		**(217,260)**	(47,511)
		(836,754)	166,612
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(792,353)**	203,243
Non-controlling interests		**(225,103)**	(30,435)
		(1,017,456)	172,808
(Loss) earnings per share	*8*		
– Basic		**(6.92) HK cents**	2.62 HK cents
– Diluted		**(6.92) HK cents**	2.61 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
NON-CURRENT ASSETS			
Investment properties	9	**31,077**	41,835
Property, plant and equipment	9	**11,828,650**	12,179,608
Prepaid lease rentals		**351,634**	359,937
Mining assets		**182,929**	184,825
Goodwill		**146,015**	146,015
Interests in associates		**7,504,718**	7,573,677
Equity investments	10	**168,573**	–
Available-for-sale investments	10	**–**	187,836
Deferred tax assets		**45,842**	45,822
Other financial assets		**750,810**	585,738
Deposits for acquisition of property, plant and equipment		**53,516**	84,268
Pledged bank deposits	15, 19(a)	**–**	467,547
		21,063,764	21,857,108
CURRENT ASSETS			
Inventories		**4,050,692**	4,068,485
Trade and bill receivables	11	**2,124,328**	2,896,781
Trade receivables from related companies	12	**728,019**	966,230
Prepayments, deposits and other receivables		**744,636**	908,807
Prepaid lease rentals		**8,350**	7,912
Tax recoverable		**1,276**	–
Amounts due from related companies	12	**5,246**	55,476
Amount due from an associate		**9,404**	10,750
Amount due from a non-controlling shareholder of a subsidiary		**3,702**	3,702
Amount due from ultimate holding company of a shareholder	13	**9,307**	4,610
Other financial assets		**123,030**	308,102
Restricted bank deposits	19(a)	**609,824**	502,600
Pledged bank deposits	15, 19(a)	**696,735**	123,396
Bank balances and cash		**825,989**	1,846,927
		9,940,538	11,703,778

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2012

	NOTES	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
CURRENT LIABILITIES			
Trade and bill payables	14	3,274,392	3,684,954
Trade payables to related companies	12	264,103	296,968
Trade payables to ultimate holding company of a shareholder	13	2,996,410	2,849,955
Other payables, provision and accrued liabilities		1,486,355	1,522,858
Tax payable		203,647	208,484
Amounts due to related companies	12	336,688	380,685
Loan from a related company	12	222,649	–
Amount due to ultimate holding company of a shareholder	13	102,019	103,069
Bank borrowings – due within one year	15	10,306,209	9,986,483
Other financial liabilities		4,591	5,173
Loans from ultimate holding company of a shareholder	16	999,634	1,009,995
		20,196,697	20,048,624
NET CURRENT LIABILITIES		(10,256,159)	(8,344,846)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,807,605	13,512,262
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	15	679,653	2,363,941
Deferred tax liabilities		30,750	33,034
		710,403	2,396,975
		10,097,202	11,115,287
CAPITAL AND RESERVES			
Share capital	17	1,790,661	1,790,661
Share premium and reserves		7,566,796	8,357,720
Equity attributable to owners of the Company		9,357,457	10,148,381
Non-controlling interests		739,745	966,906
		10,097,202	11,115,287

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company												
	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	Non-distributable reserve HK$'000 (Note c)	Accumulated profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total 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 losses on available-for-sale investments	–	–	–	–	–	–	–	(77,994)	–	–	(77,994)	–	(77,994)
Share of other comprehensive income (expense) 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	–	–	–
Reversal of enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	(4,555)	–	–	4,555	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	–	(81,754)	(81,754)	–	(81,754)
Dividend 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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2012

	Attributable to owners of the Company												
	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	Non-distributable reserve HK$'000 *(Note c)*	Accumulated profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012													
– originally stated (audited)	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(164,238)	51,979	2,744,861	10,148,381	966,906	11,115,287
– change in accounting policy *(note 2)*	–	–	–	–	–	–	–	(144,568)	–	144,568	–	–	–
– as restated	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(308,806)	51,979	2,889,429	10,148,381	966,906	11,115,287
Loss for the period	–	–	–	–	–	–	–	–	–	(619,494)	(619,494)	(217,260)	(836,754)
Exchange differences arising on translation	–	–	–	–	(25,485)	–	–	–	–	–	(25,485)	(7,843)	(33,328)
Loss on investments in equity instruments designated as at fair value through other comprehensive income	–	–	–	–	–	–	–	(17,770)	–	–	(17,770)	–	(17,770)
Share of other comprehensive expense of associates	–	–	–	–	(26,697)	–	–	(102,907)	–	–	(129,604)	–	(129,604)
Total comprehensive expense for the period	–	–	–	–	(52,182)	–	–	(120,677)	–	(619,494)	(792,353)	(225,103)	(1,017,456)
Release on disposal of a subsidiary *(note 5)*	–	–	–	(4,987)	–	–	–	–	–	4,987	–	–	–
Transfer to enterprise expansion fund and statutory reserve fund	–	–	–	–	–	–	323	–	–	(323)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,058)	(2,058)
Recognition of equity-settled share based payment	–	–	–	–	–	1,429	–	–	–	–	1,429	–	1,429
At 30 June 2012 (unaudited)	1,790,661	3,530,626	22,611	28,338	1,075,379	286,052	726,695	(429,483)	51,979	2,274,599	9,357,457	739,745	10,097,202

Notes:

(a) Revaluation reserve represented (i) the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") in 2005; and (ii) the difference between the carrying value and the fair value of the prepaid lease rentals of Shougang Concord Godown Limited ("Godown"), a former wholly-owned subsidiary disposed of during the current period, arisen from the transfer of prepaid lease rentals to investment properties as its use had changed as evidenced by end of owner-occupation in previous years.

(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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	NOTE	Six months ended 30 June 2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Net cash used in operating activities		**(139,258)**	(61,834)
Net cash used in investing activities			
Placement of pledged bank deposits		**(108,007)**	(84,276)
Purchase of property, plant and equipment		**(103,212)**	(55,599)
Increase in restricted bank deposits		**(102,068)**	(35,733)
Deposit paid for acquisition of property, plant and equipment		**(52,652)**	(3,051)
Dividends received from an associate		**190,315**	141,787
Repayment of entrusted loan receivables		**86,144**	–
Proceeds from disposal of a subsidiary	*5*	**27,502**	–
Interest received		**22,578**	12,627
Repayment from associates		**4,397**	6,862
Other investing activities		**25**	86
		(34,978)	(17,297)
Net cash used in financing activities			
New borrowings raised		**6,129,245**	3,897,483
Bank advances from discounted bills		**391,043**	550,500
Loan from a related company		**222,649**	47,539
Repayment of bank borrowings		**(7,533,705)**	(4,186,727)
Settlement of amounts due to related companies		**(43,997)**	(48,442)
Dividend paid to non-controlling shareholders of a subsidiary		**(2,058)**	(2,029)
(Repayment to) advance from ultimate holding company of a shareholder		**(1,050)**	1,690
Payment of dividends		**–**	(81,754)
		(837,873)	178,260
Net (decrease) increase in cash and cash equivalents		**(1,012,109)**	99,129
Cash and cash equivalents at 1 January		**1,846,927**	1,702,696
Effect of foreign exchange rate changes		**(8,829)**	9,048
Cash and cash equivalents at 30 June, represented by bank balances and cash		**825,989**	1,810,873

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company and its subsidiaries (collectively referred to as the "Group") had net current liabilities of HK$10,256,159,000 as at 30 June 2012 of which current liabilities of HK$10,306,209,000 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 or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the Directors of the Company 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 values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

- amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets;* and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

In addition, the Group has applied HKFRS 9 *Financial Instruments* (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of their effective date of 1 January 2015 in the current period.

Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios which are located in the PRC and Hong Kong.

The Directors concluded that the Group's investment properties which are located in the PRC are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is rebutted.

For the investment properties located in Hong Kong, the Directors concluded that they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group continues to recognise deferred taxes on changes in fair value of investment properties located in the PRC on the basis that reflects the tax consequences follow from the manner in which the entity expects to recover the carrying amount of the assets. For the investment properties located in Hong Kong, upon application of the amendments to HKAS 12, no deferred tax should be provided on changes in fair value of these investment properties as the Group is not subject to any income taxes on disposal of these investment properties. The previously recognised deferred taxes on changes in fair value of the investment properties located in Hong Kong of approximately HK$314,000 as at 31 December 2011 is not adjusted retrospectively, as the amount is not significant. The Directors considered that the application of the amendments to HKAS 12 have had no material effect on the Group's result and financial position for the current and prior periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Impact of application of HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* ("HKFRS 9") (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of their effective dates of 1 January 2015. The Group has chosen 1 January 2012 as its date of initial application (i.e. the date on which the Group has reassessed the classification of its financial assets and financial liabilities in accordance with requirements of HKFRS 9). The classification is based on the facts and circumstances as at 1 January 2012. In accordance with transition provisions set out in HKFRS 9, the Group has chosen not to restate comparative information and will provide additional disclosures in accordance with HKFRS 7 *Financial Instruments – Disclosures* in the annual consolidated financial statements for the year ending 31 December 2012, and any difference between the measurement under HKAS 39 "*Financial Instruments: Recognition and Measurement*" and HKFRS 9 as at 1 January 2012 is recognised in the opening accumulated profits and security investment reserve at the date of initial application. HKFRS 9 does not apply to financial assets and financial liabilities that have already been derecognised at date of initial application. Other than the changes in classification of certain financial assets, the changes in accounting policies had no material financial impact on the amounts recognised on the consolidated statement of financial position of the Group as at 1 January 2012.

Financial assets

HKFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*. Specifically, HKFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by HKFRS 9, debt instruments and hybrid contracts are subsequently measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (collectively referred to as the "amortised cost criteria"). If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss ("FVTPL").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognised in profit or loss in accordance with HKAS 18 *Revenue*.

As at 1 January 2012, the Directors have reviewed and reassessed the Group's existing financial assets based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets and concluded that the Group's financial assets, previously classified as "loans and receivables" under HKAS 39 are held within a business model whose objective is to hold these financial assets in order to collect contractual cash flows that are solely payments of principal and interest. In addition, the Directors concluded that the Group's investments in equity securities that previously classified as available-for-sale investments under HKAS 39 are not held for trading, but held for medium or long-term strategic purpose. Therefore, the investments in equity securities are designated as at FVTOCI under HKFRS 9 as the Directors believe that this provides a more meaningful presentation than reflecting changes in fair value in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

The initial application of HKFRS 9 has affected the classification of financial assets of the Group and its associate and the Group's security investment reserve and accumulated profits as at 1 January 2012 as follows:

(i) the Group's investments in listed equity securities (not held for trading) that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI. As at 1 January 2012, at the date of initial application, the accumulated impairment loss of listed equity securities of HK$144,568,000 that had been reclassified from security investment reserve to profit or loss upon impairment in prior periods under HKAS 39 is now reclassified from the opening accumulated profits to security investment reserve. Accordingly, as at 1 January 2012, the accumulated profits have been increased by HK$144,568,000 and the security investment reserve has been decreased by the same amount;

(ii) The Group's investment in unlisted equity securities (not held for trading) previously classified as available-for-sale investment and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2012. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs);

(iii) The investment in listed equity securities (not held for trading) of the Group's associate that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI; and

(iv) The investment in unlisted equity securities (not held for trading) of the Group's associate previously classified as available-for-sale investment and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2012. The fair value measurements of the unlisted equity securities held by the Group's associate are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

The list below illustrates the classification and measurement of the financial assets under HKAS 39 and HKFRS 9 at 1 January 2012, the date of initial application.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 *HK$'000*	New carrying amount under HKFRS 9 *HK$'000*
Investments in listed equity securities *(Note 10)*	Available-for-sale investments	Financial assets designated as at FVTOCI	42,228	42,228
Investments in unlisted equity securities *(Note 10)*	Available-for-sale investments	Financial assets designated as at FVTOCI	145,608	145,608
Other financial assets: Commodity forward contracts	Financial assets at FVTPL	Financial assets at FVTPL	893,840	893,840
Trade and bill receivables *(Note 11)*	Loans and receivables	Financial assets at amortised cost	2,221,527	2,221,527
Trade receivables from related companies *(Note 12)*	Loans and receivables	Financial assets at amortised cost	966,230	966,230
Other receivables	Loans and receivables	Financial assets at amortised cost	681,362	681,362
Amounts due from related companies *(Note 12)*	Loans and receivables	Financial assets at amortised cost	55,476	55,476
Amount due from an associate	Loans and receivables	Financial assets at amortised cost	10,750	10,750

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

	Original measurement category under HKAS 39	**New measurement category under HKFRS 9**	**Original carrying amount under HKAS 39** *HK$'000*	**New carrying amount under HKFRS 9** *HK$'000*
Amount due from a non-controlling shareholder of a subsidiary	Loans and receivables	Financial assets at amortised cost	3,702	3,702
Amount due from ultimate holding company of a shareholder *(Note 13)*	Loans and receivables	Financial assets at amortised cost	4,610	4,610
Restricted bank deposits *(Note 19(a))*	Loans and receivables	Financial assets at amortised cost	502,600	502,600
Pledged bank deposits *(Note 19(a))*	Loans and receivables	Financial assets at amortised cost	590,943	590,943
Bank balances and cash	Loans and receivables	Financial assets at amortised cost	1,846,927	1,846,927

The application of HKFRS 9 in the current period has affected the Group's results, other comprehensive expense, security investment reserve and accumulated profits as follows:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

Listed equity securities held by the Group and its associate were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI. During the current period, an impairment loss of HK$17,770,000 and HK$931,519,000 for the listed equity securities held by the Group and its associate, respectively, would have been recognised under HKAS 39 in relation to these investments due to further decline in fair values of the Group's investments during the current interim period and the decline in fair values of the associate's investments below their respective costs, which are considered as significant and prolonged. The fair value loss of these investments are recognised as other comprehensive expense and are included in security investment reserve of the Group and its associate under HKFRS 9. Accordingly, the other gains and losses has been increased by HK$17,770,000 and the share of results of associates has been increased by HK$267,145,000 with regard to the equity interest of the associate held by the Group, and the other comprehensive expense has been increased by HK$284,915,000 for the six months ended 30 June 2012. In addition, the accumulated profits as at 30 June 2012 has been increased by approximately HK$284,915,000 while the loss reported for the six months ended 30 June 2012 and the security investment reserve as at 30 June 2012 have been decreased by HK$284,915,000 as a result of the change in accounting policy. This has also resulted in a decrease on both the Group's basic and diluted loss per share by HK3.18 cents for the six months ended 30 June 2012.

Financial liabilities

HKFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability.

In relation to the classification and remeasurement of financial liabilities, the application of HKFRS 9 has had no impact on the classification of financial liabilities of the Group and its associates and the Group's result and financial position as the Group and its associates do not have financial liabilities designated as at fair value through profit or loss under HKAS 39 that were subject to reclassification upon adoption of HKFRS 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

3. SEGMENT INFORMATION

The Group's operating segments based on information reported to the Executive 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;
Commodity trading	– trading of steel products, iron ore, coal and coke;
Mineral exploration	– mining, processing and sale of iron ore; and
Others	– management services business.

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2012 (unaudited)

	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Commodity trading *HK$'000*	Mineral exploration *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue						
External sales	6,053,801	57,633	1,963,871	446,686	1,746	8,523,737
Inter-segment sales	29,628	–	–	544,673	–	574,301
Segment revenue	6,083,429	57,633	1,963,871	991,359	1,746	9,098,038
Elimination						(574,301)
Group revenue						8,523,737

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing *HK$'000*	Shipping operations *HK$'000*	Commodity trading *HK$'000*	Mineral exploration *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment (loss) profit	(655,461)	(18,639)	(34,015)	(35,829)	3,045	(740,899)
Interest income						22,578
Central administration costs						(32,237)
Finance costs						(354,881)
Gain from change in fair value of derivative financial instruments						582
Gain on deemed acquisition of interests in an associate						17,564
Gain on disposal of a subsidiary						15,559
Share of results of associates						233,742
Loss before taxation						(837,992)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2011 (unaudited)

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity 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						(438,030)
Group revenue						10,445,482

Inter-segment sales are charged at prevailing market rates.

	Steel manufacturing HK$'000	Shipping operations HK$'000	Commodity trading HK$'000	Mineral exploration HK$'000	Others HK$'000	Total HK$'000
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 interests in an associate						(44)
Share of results of associates						274,738
Profit before taxation						198,642

Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, central administration costs, finance costs, gain or loss from change in fair value of interest rates swap contracts and foreign currency forward contracts, gain on disposal of a subsidiary, gain on deemed acquisition of interests in an associate, loss on dilution of interests in an associate, and share of results of associates. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

4. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**–**	428
PRC Enterprise Income Tax	**807**	1,959
	807	2,387
Underprovision in prior periods:		
PRC Enterprise Income Tax *(Note)*	**136**	31,713
	943	34,100
Deferred tax:		
Current period	**(2,181)**	(2,070)
Income tax (credit) expense	**(1,238)**	32,030

No tax is payable on the profit for the six months ended 30 June 2012 arising in Hong Kong since there is no assessable profits.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2011.

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.

Note: The underprovision of PRC Enterprise Income Tax for the six months ended 30 June 2011 mainly attributable to the disallowance of the preferential tax treatment in relation to the proportion of profit attributable to the new capital injected in 2008 under the EIT Law 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 2012

5. DISPOSAL OF A SUBSIDIARY

On 27 March 2012, the Group entered into a sale and purchase agreement with an independent third party (the "Acquirer") to dispose of its entire interest in Godown to the Acquirer. The disposal was completed on 2 April 2012, when the Group lost control of Godown.

	HK$'000 (unaudited)
The net assets of Godown at the date of disposal were as follows:	
Investment properties	10,476
Property, plant and equipment	645
Prepaid lease rentals	822
Net assets disposed of	11,943
Gain on disposal of a subsidiary:	
Consideration received	27,502
Net assets disposed of	(11,943)
Gain on disposal *(Note)*	15,559
Consideration satisfied by:	
Cash	27,502
Cash inflow arising on disposal:	
Cash consideration received	27,502

Note: The gain on disposal of Godown is mainly attributable to the leasehold land previously held for owner-occupation which was recognised as prepaid lease rentals and measured at cost.

An amount of revaluation reserve of HK$4,987,000, represented the difference between the carrying value and fair value of the prepaid lease rentals arisen from the transfer from prepaid lease rentals to investment property as its use had changed as evidenced by end of owner-occupation in previous years, was transferred directly to accumulated profits upon disposal of Godown.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

6. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	**249,843**	223,225
– retirement benefits scheme contributions	**33,682**	25,175
– share-based payments	**1,429**	9,829
	284,954	258,229
Amortisation of mining assets, included in cost of sales	**–**	1,826
Amortisation of prepaid lease rentals	**4,203**	4,153
Depreciation of property, plant and equipment	**426,438**	424,972
Total depreciation and amortisation	**430,641**	430,951
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	**(787)**	–
– change in fair value of interest rate swap contracts	**205**	2,328
– change in fair value of commodity forward contracts	**(67,965)**	(197,057)
	(68,547)	(194,729)
Fair value of commodity forward contracts upon delivery, included in cost of inventories	**87,965**	77,057

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

6. (LOSS) PROFIT FOR THE PERIOD (continued)

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expenses for bank borrowings	**329,741**	255,701
Interest expenses for other borrowings	**32,059**	23,335
Total borrowing costs	**361,800**	279,036
Add: Factoring cost for discounted receivables	**38,162**	30,715
Less: Amounts capitalised *(Note a)*	**(45,081)**	(28,670)
Total finance costs	**354,881**	281,081
Reversal of allowance for doubtful debts of trade receivables, net *(Note b)*	**(382)**	(234)
Reversal of allowance for doubtful debts of trade receivables from related companies, net *(Note b)*	**–**	(75)
Allowance for (reversals of) inventories, net, included in cost of sales *(Note c)*	**107,054**	(7,382)
Interest income from bank deposits	**(22,578)**	(12,627)
(Gain) loss on disposal of property, plant and equipment *(Note b)*	**(18)**	1,276
Loss on dilution of interests in an associate *(Note b)*	**–**	44
Gain on deemed acquisition of interests in an associate *(Note b and d)*	**(17,564)**	–
Gain on disposal of a subsidiary *(Note b)*	**(15,559)**	–
Other tax expenses	**20,730**	17,654
Research and development cost recognised as expenses, included in administrative expenses	**10,041**	6,143
Net foreign exchange loss *(Note b)*	**2,751**	12,915

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

6. (LOSS) PROFIT FOR THE PERIOD (continued)

Note a: Borrowing costs capitalised during the six months ended 30 June 2012 arose from general borrowing pool and are calculated by applying a capitalisation rate of 5.01% (six months ended 30 June 2011: 4.34%) per annum to expenditure on qualifying assets.

Note b: Amounts included in other gains and losses.

Note c: During the six months ended 30 June 2012, the net realisable value of certain inventories fell below their respective costs because of the decline in selling prices. As a result, an allowance for inventories of HK$107,054,000 has been recognised in cost of sales in the current period.

Note d: During the six months ended 30 June 2012, the Group's interest in an associate, Shougang Fushan Resources Group Limited ("SG Resources"), has been increased by 0.39% from 27.22% to 27.61% as SG Resources has repurchased its own shares, resulting in the Group's share of net assets of SG Resources increased by HK$17,564,000 and credited as gain on deemed acquisition.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period.

During the interim period ended 30 June 2011, a final dividend of HK1 cent per ordinary share in respect of year ended 31 December 2010 was paid to the owners of the Company. The aggregate amount of the final dividend paid in the interim period ended 30 June 2011 amounted to HK$81,754,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share:		
(Loss) profit for the period attributable to owners of the Company	**(619,494)**	214,123
Effect of dilutive potential ordinary shares of associates:		
Adjustment to the share of profits of associates based on dilution of their earnings per share	**(146)**	(469)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(619,640)**	213,654

	Six months ended 30 June	
	2012	2011
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earnings per share	**8,953,306,227**	8,175,381,214
Effect of dilutive potential ordinary shares on share options *(Note)*	**–**	9,135,577
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**8,953,306,227**	8,184,516,791

Note: For the six months ended 30 June 2012, the computation of diluted loss per share does not assume the exercise of the Company's share options as their exercise would result in a decrease in loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

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

In the opinion of the Directors of the Company, the carrying amount of the Group's investment properties as at 30 June 2012 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$199,132,000 (HK$198,739,000 for the six months ended 30 June 2011) on acquisition of property, plant and equipment in order to upgrade its operating capacities, in which amount of HK$84,268,000 (HK$84,568,000 for the six months ended 30 June 2011) was transferred from deposit for acquisition of property, plant and equipment paid in previous year.

10. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS

Equity investments/available-for-sale investments comprise:

	30 June 2012 ***HK$'000*** **(unaudited)**	31 December 2011 *HK$'000* (audited)
Listed investments:		
– Equity securities listed in Australia, at fair value	**24,458**	42,228
Unlisted investments:		
– PRC equity securities, at fair value *(Note)*	**144,115**	–
– PRC equity securities, at cost *(Note)*	**–**	145,608
Total	**168,573**	187,836

Note: The unlisted PRC equity securities represent the Group's investment in 10% equity interest of unlisted equity securities issued by a private entity established in the PRC, for which the principal activities are ship building, ship repairing and retrofitting. The unlisted equity investments previously measured at cost less impairment under HKAS 39 are now measured at fair value under HKFRS 9. The fair value of the investment as at 1 January 2012 and 30 June 2012 was measured using valuation technique with significant unobservable inputs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

10. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS (continued)

These investments in equity securities are not held for trading. Upon the application of HKFRS 9 on 1 January 2012, the Group's investments in listed and unlisted equity securities that were previously classified as available-for-sale investments have been classified as equity investments designated as at FVTOCI. The Group has chosen to designate these investments in equity instruments as at FVTOCI as the management believes that this provides a more meaningful presentation for medium or long-term strategic investments, than reflecting changes in fair value in profit or loss.

11. 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 60 days.

The following is an analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 60 days	**1,628,952**	2,224,290
61 – 90 days	**70,774**	170,118
91 – 180 days	**293,997**	428,451
181 – 365 days	**130,605**	73,922
	2,124,328	2,896,781

Included in trade and bill receivables as at 30 June 2012 was an amount of approximately HK$298,301,000 (31 December 2011: HK$162,822,000) that had been discounted to banks.

As at 30 June 2012, the outstanding bill receivables of approximately HK$207,643,000 (31 December 2011: HK$512,432,000) have been endorsed to certain creditors of the Group but continue to be recognised as bill receivables until maturity. At the end of the reporting period, all bill receivables are with maturity date within six months based on the issuance date of relevant bills.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

12. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES/LOAN FROM A RELATED COMPANY

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 allowance for doubtful debts, presented based on the invoice date at the end of the reporting period are as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 60 days	**247,785**	599,655
61 – 90 days	**127,136**	113,680
91 – 180 days	**350,806**	229,068
181 – 365 days	**1,234**	19,367
1 – 2 years	**1,058**	4,460
	728,019	966,230

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

12. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES/LOAN FROM A RELATED COMPANY (continued)

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

	30 June 2012 *HK$'000* **(unaudited)**	31 December 2011 *HK$'000* (audited)
0 – 90 days	**166,897**	202,232
91 – 180 days	**23,574**	18,765
181 – 365 days	**25,579**	12,111
1 – 2 years	**9,233**	43,718
Over 2 years	**38,820**	20,142
	264,103	296,968

As at 30 June 2012, the loan from a related company is unsecured, interest bearing at 6% per annum and repayable within one year.

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

As at 30 June 2012 and 31 December 2011, the amount due from ultimate holding company of a shareholder is non-trade in nature, unsecured, interest-free and is 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 payable to ultimate holding company of a shareholder is unsecured, interest-free and is repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

13. TRADE PAYABLES/AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF A SHAREHOLDER (continued)

The trade payables to ultimate holding company of a shareholder and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period as follows:

	30 June 2012 *HK$'000* (unaudited)	31 December 2011 *HK$'000* (audited)
Within 90 days	**2,996,272**	2,731,018
91 – 180 days	**–**	118,797
1 – 2 years	**138**	140
	2,996,410	2,849,955

14. 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 2012 *HK$'000* (unaudited)	31 December 2011 *HK$'000* (audited)
Within 90 days	**2,364,163**	2,647,314
91 – 180 days	**714,833**	705,341
181 – 365 days	**131,538**	275,657
1 – 2 years	**60,632**	46,038
Over 2 years	**3,226**	10,604
	3,274,392	3,684,954

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

15. PLEDGED BANK DEPOSITS/BANK BORROWINGS

During the period, the Group obtained new bank loans of HK$6,129,245,000 (HK$3,897,483,000 for the six months ended 30 June 2011).

As at 30 June 2012, the fixed-rate bank borrowings carry interest at rates ranged from 3.47% to 9.80% (31 December 2011: 4.42% to 10%) per annum.

As at 30 June 2012, the variable-rate bank borrowings carry interest at the London Interbank Offered Rates ("LIBOR") plus 0.9% to 2.5% (31 December 2011: LIBOR plus 0.52% to 2.2%) per annum, which are ranged from 1.28% to 2.97% (31 December 2011: 0.52% to 2.2%) per annum, Hong Kong Interbank Offered Rates ("HIBOR") plus 1.2% (31 December 2011: HIBOR plus 1.2%) per annum, which is 1.53% (31 December 2011: 1.48%) per annum, and the People's Bank of China's lending rate ("Lending Rate"), or with a 5% to 30% addition or reduction on the Lending Rate, which are ranged from 5.20% to 9.0% (31 December 2011: 5.18% to 7.93%) 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 HK$7,533,705,000 (HK$4,186,727,000 for the six months ended 30 June 2011) during the period.

The Group has classified the bank borrowings of HK$1,528,562,000 as current liabilities because the Group did not have unconditional right to defer the settlements of these bank borrowings for at least twelve months after the end of the reporting period due to certain conditions stipulated in the bank borrowing agreements. As such, the related pledged bank deposits of HK$396,408,000 have been also reclassified from non-current assets to current assets as at 30 June 2012. As at the date of report, such conditions have been revised upon rectification from the relevant banks.

Included in bank borrowings as at 30 June 2012 was an amount of HK$298,301,000 of discounted bills (31 December 2011: HK$162,822,000) that had been discounted to banks.

16. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing at fixed-rates at 5.56% as at 30 June 2012 (as at 31 December 2011: ranged from 6.31% to 6.56%) per annum, except for HK$146,556,000 which were non-interest bearing (31 December 2011: HK$148,075,000). The balance is repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

17. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.20 each		
Authorised:		
At 1 January 2011 and 31 December 2011	10,000,000,000	2,000,000
Increase on 25 May 2012 *(Note a)*	10,000,000,000	2,000,000
At 30 June 2012	20,000,000,000	4,000,000
Issued and fully paid:		
At 1 January 2011	8,175,381,214	1,635,076
Issue for the acquisition of additional interest in an associate *(Note b)*	777,925,013	155,585
At 31 December 2011 and 30 June 2012	8,953,306,227	1,790,661

Notes:

a. On 25 May 2012, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK$2,000,000,000 divided into 10,000,000,000 ordinary shares to HK$4,000,000,000 divided into 20,000,000,000 ordinary shares at the Company's Annual General Meeting.

b. During the year ended 31 December 2011, 777,925,013 shares were issued as consideration for the acquisition of additional interests in an associate at HK$0.71 per share, which was based on the market price on 18 July 2011.

All new shares issued rank pari passu with the then existing issued shares of the Company in all respects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

18. CAPITAL COMMITMENTS

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**396,244**	445,936

19. PLEDGE OF ASSETS

Other than as disclosed in note 11, as at 30 June 2012, the following items were used to secure banking facilities granted to the Group:

(a) Restricted and pledged bank deposits amounting to HK$1,306,559,000 (31 December 2011: HK$1,093,543,000).

(b) Pledge of total assets of Equity Dragon Assets Limited and Pointer Investments Limited, wholly owned subsidiaries of the Company, with total assets amounting to HK$156,304,000 and HK$183,587,000, as at 31 December 2011 respectively. No such pledge was noted as at 30 June 2012 as the related bank borrowings were fully repaid during the period.

(c) As at 30 June 2012, pledge of the Group's prepaid lease rentals with net book value of HK$101,422,000 (31 December 2011: HK$85,038,000).

(d) Pledge of 1,446,500,000 shares (31 December 2011: 1,344,500,000 shares) of the Group's listed associate with the market value of approximately HK$2,878,535,000 as at 30 June 2012 (31 December 2011: HK$3,536,035,000).

(e) As at 30 June 2012, pledge of the Group's plant and machinery with net book value of HK$303,595,000 (31 December 2011: HK$369,682,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

20. 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 supervision of the Beijing State-owned Assets Supervision and Administration Commission. Accordingly, the Group are significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the PRC government. Accordingly, the Group is government related entities in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 20(a)(I) to 20(a)(III).

(I) Transactions with Shougang Group

	Notes	Six months ended 30 June **2012** ***HK$'000*** **(unaudited)**	 2011 *HK$'000* (unaudited)
Shougang Group			
Sales of goods by the Group	(a)	**2,017,310**	1,403,628
Purchases of goods by the Group	(b)	**4,622,817**	5,441,536
Lease rentals charged to the Group	(c)	**1,430**	1,729
Management fees charged to the Group	(d)	**480**	480
Purchases of spare parts by the Group	(e)	**42,367**	48,705
Management fees charged by the Group	(f)	**1,602**	1,602
Rental income charged by the Group	(g)	**76**	76
Interest charged to the Group	(h)	**32,059**	23,335
Service fees charged to the Group	(i)	**34,670**	33,675
Service fees charged by the Group	(j)	**–**	10
Purchase of property, plant and equipment by the Group	(k)	**12,851**	77,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

20. 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 raw materials 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 premises.

(h) The interest expenses were charged by Shougang Corporation and Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang HK in respect of loans granted to the Group at interest rate from 5.56% to 6.31% and of 6% (5.56% and nil for the six months ended 30 June 2011) per annum, respectively.

(i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services.

(j) The Group charged Shougang Group service fees in respect of processing of 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 2012

20. RELATED PARTY DISCLOSURES (continued)

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

(II) Balances with Shougang Group

As at 30 June 2012, deposits for acquisition of property, plant and equipment of HK$23,165,000 (2011: HK$65,639,000) was paid to the Shougang Group.

Details of balances with the Group's related parties are set out in notes 12, 13 and 16.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2012, the Group had bank loans guaranteed by Shougang Corporation amounting to HK$6,051,540,000 (31 December 2011: HK$5,811,947,000).

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

Apart from the transactions and balances with the Shougang Group as disclosed in notes 20(a)(I) and 20(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.

(b) Balance with non-PRC government-related entities

Balance with an associate

The amount due from an associate is unsecured, interest-free and is repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2012

20. RELATED PARTY DISCLOSURES (continued)

(c) Compensation of key management personnel

The remuneration of key management personnel, which represents the Directors of the Company during the period was as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term benefits	**5,995**	5,266
Post employment benefits	**258**	258
Share-based payments	**1,429**	8,525
	7,682	14,049

The remuneration of key management personnel is determined by the Remuneration Committee of the Board of Directors having regard to the market practice, competitive market position and individual performance.

21. COMPARATIVE INFORMATION

Certain comparative information in respect of trade and bill receivables, trade and bill payables and bank borrowings has been re-presented to conform to current period presentation in the condensed consolidated statement of financial position.

22. MAJOR NON-CASH TRANSACTION

During the current interim period, bill receivables discounted with banks of approximately HK$255,564,000 was set off with advances drawn on bill receivables.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries set out on pages 4 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2012 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

We are a flagship listed vehicle of China Shougang Corporation in Hong Kong. Currently, our operations are mainly segregated into four segments, namely, steel manufacturing, mineral exploration, commodity trading and shipping. Our principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei, PRC. We hold approximately 28% (30 June 2011: 24%) equity stake of Shougang Fushan Resources Group Limited ("Fushan"), a Hong Kong-listed hard coking coal producer in China and approximately 68% equity stake in a PRC iron ore producer. We have long-term iron ore offtake agreements with Australia-listed iron ore producer Mount Gibson Iron Limited ("Mt. Gibson") to enhance our investment in upstream supply chain. 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

The Group's core business in steel manufacturing was significantly affected by the persistently high raw material cost, selling prices coming under pressure and weak downstream customer demand in the first half of 2012. These factors are prevalent and common to the steel industry right now. Profit from the associate in coking coal mining showed a small decline as well. Raw materials, in particular iron ore, comprise our most significant production cost. Iron ore cost has remained high during the period (although it has reduced significantly at the end of the period and comparing to that of last) and this had a major impact on our operating results. In addition, there is simply too much steel capacity facing weak underlying demand.

For the first six months in 2012, net loss attributable to shareholders amounted to HK$619 million, comparing to attributable profit of HK$214 million in the last period, including share of loss in steel manufacturing segment at HK$747 million, comparing to HK$187 million in the last. The Group recorded a consolidated turnover of HK$8,524 million in this period, representing a drop of 18% comparing to that of last. Basic loss per share was HK6.9 cents.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW

Six months ended 30 June 2012 compared to the six months ended 30 June 2011

Turnover and Cost of Sales

For the interim period, the Group recorded consolidated turnover of HK$8,524 million, lower by about 18% when comparing to that of last. Lower turnover mainly comes from drop in average selling price ("ASP") and sales volume in the steel manufacturing segment.

Cost of sales for the period was HK$9,041 million, comparing to HK$10,124 million (as restated) in the last, a drop of 11%.

EBITDA and Core Operating Profit

For the interim period, earnings before interest, tax, depreciation and amortization ("EBITDA") of the Group reached HK$165 million, comparing to HK$958 million in the last.

(Loss)/profit after taxation included current significant non-cash and/or non-recurring charges and are reconciled below:

In HK$ million	**30 June 2012 (unaudited)**	30 June 2011 (unaudited)
(Loss)/profit attributable to shareholders of the Group	**(619)**	214
Add/Less: Fair value loss (gain) on iron ore offtake contract with Mt Gibson	**20**	(120)
Add: Employee share option expenses	**1**	10
Core operating (loss)/profit	**(598)**	104

Finance costs

For the interim period, finance costs amounted to HK$355 million, 26% higher than that of last period. The Group maintains a higher leverage currently to take advantage of the low interest environment.

Share of results of associates

In this interim period, we have recognized loss of HK$33 million and profit of HK$262 million from each of Shougang Concord Century Holdings Limited ("Shougang Century") and Fushan.

Taxation

In this interim period, it was HK$1 million in net tax credit, comparing to HK$32 million in expenses in the last.

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**	**2012 (unaudited)**	2011 (unaudited)
1. Steel manufacturing			
Shouqin	76%	**(659,906)**	(146,197)
Qinhuangdao Plate Mill	100%	**(87,542)**	(40,458)
Sub-total		**(747,448)**	(186,655)
2. Mineral exploration			
Fushan	27.6%	**279,721**	265,184
Shouqin Longhui	67.8%	**(35,558)**	(15,841)
Sub-total		**244,163**	249,343
3. Commodity trading			
The Trading Group	100%	**(1,043)**	93,555
4. Shipping operations			
Shougang Shipping Group	100%	**(18,738)**	(19,928)
5. Others			
Shougang Century	35.7%	**(33,154)**	9,485
Fair value (loss)/gain on Mt. Gibson offtake contract	100%	**(20,000)**	120,000
Corporate	100%	**(43,274)**	(51,677)
Sub-total		**(96,428)**	77,808
Total		**(619,494)**	214,123

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 Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"). The steel industry currently faces a dire operating environment which is a transitional conundrum. This core segment recorded net loss of HK$747 million during the current period, while that of last period was net loss HK$187 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	**2012**	2011	**2012**	2011
(i) Production				
Shouqin	**1,306**	1,280	**857**	855
Qinhuangdao Plate Mill	**–**	–	**292**	334
Total	**1,306**	1,280	**1,149**	1,189
Change		+2%		–3%
(ii) Sales				
Shouqin#	**319**	326	**850**	849
Qinhuangdao Plate Mill	**–**	–	**258**	319
Total	**319**	326	**1,108**	1,168
Change		–2%		–5%

\# 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 Limited and Shougang Corporation respectively.

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production, it has formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, hydro-electrical and ultra-thick plates are among the most advanced in the PRC, its annual production capacity of heavy plate has reached 1.8 million tonnes. For the current interim period, Shouqin reported a turnover of HK$5,742 million before elimination, recording a 10% drop on the comparative period. Reasons for such change are two-fold:

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Steel manufacturing (continued)

Shouqin (continued)

(i) Sales volume of heavy plates flattens, ASP (net of VAT) was HK$5,250 (RmB 4,280), about 15% lower than that of the last period; and

(ii) Sales volume of slabs decreased, ASP (net of VAT) was HK$4,040 (RmB 3,293), about 17% lower than that of the last period.

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$120 million in turnover, 70% lower than that of last, and resulted in attributable loss of HK$27 million in the interim period.

For the six months ended 30 June 2012, Shouqin recorded a gross loss of HK$407 million, comparing to gross profit of HK$167 million in the last period, and thus contributed a net loss of HK$660 million to the Group.

Qinhuangdao Plate Mill

Qinhuangdao Plate Mill recorded a turnover of HK$1,566 million before elimination for the six months ended 30 June 2012, a drop of 27% comparing with that of last. Lower sales volume and selling price from the weak market, ASP (net of VAT) was HK$4,736 (RmB 3,860), about 17% lower than that of last period. As a result, the Group's share of loss of Qinhuangdao Plate Mill was HK$88 million, comparing to loss of HK$40 million last period.

Mineral exploration

Production and sale of coking coal

Fushan is a 27.6% 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 for the current period was HK$3,339 million; net profit attributable to shareholders was HK$1,006 million, a drop of 14% and 11% respectively over that of last. Profit attributable to the Group was HK$280 million in this period, which includes deemed acquisition gain of HK$18 million.

Market demand towards quality coking coal remains strong, with continuing supply and demand gap. New and sizeable blast furnaces of steel mills have higher stringent requirements for coking coal quality, supporting selling price well. We are confident towards its future operations, expecting this upstream business to provide a sustainable profit base for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

Mineral exploration (continued)

Production of iron ore products

The Group holds an effective 68% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd. ("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.

In the interim period, Shouqin Longhui's production was lower by improvement initiatives towards environmental requirements, thereby affecting its output. It sold approximately 690,000t. pellets, similar to that of last period, while ASP has decreased by 15% to HK$1,372 (RmB 1,118). It recorded a turnover of HK$991 million for the period, loss attributable to the group was about HK$36 million, comparing to loss of HK$16 million in the last.

Iron ore market is expected to weaken following that of steel industry in general, we expect the results of Shouqin Longhui to remain sluggish in the short term.

Commodity 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$1,964 million in the six months ended 30 June 2012, lower by 19% comparing to the last. It sold approximately 1.4 million tonnes of iron ore, which was higher from the 1.25 million tonnes sold from that of last period, through long term offtake arrangements with Mt. Gibson starting from 1 July 2009. Selling price was lower by 25% and profit was hit by offering concessions due to a deteriorated market. Trading of other steel products still recorded a small gain. The resulting net loss was HK$1 million in the current period, comparing to a gain of HK$94 million in the last. The Trading Group has since this year strengthened its business development in the Mainland; results from this operation are expected to be more favorable in the foreseeable future.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net loss of HK$19 million in the current period, comparing to a net loss of HK$20 million in the last. This operating segment mainly conducts chartering services of two capsized vessels, the lease contracts of which shall expire within this year. The weak rate environment is not just due to new build deliveries, demand growth has been decelerating ex-China.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

REVIEW OF OPERATIONS (continued)

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. The Group's share of its net loss was HK$33 million, comparing to share of profit of HK$9 million in the last period.

In the middle of excessive expansion of steel cord production capacity and overlapping construction, the resulting severe competition has driven profitability lower, resulting in a transitional conundrum.

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 2012 as compared to 31 December 2011 is summarized below:

HK$ million	**30 June 2012 (unaudited)**	31 December 2011 (audited)
Total Debt*		
– from banks	**10,688**	12,188
– from parent company	**1,000**	1,010
– from related company	**223**	–
sub-total	**11,911**	13,198
Cash and bank deposits	**2,133**	2,940
Net debt	**9,778**	10,258
Total capital (Equity and debt)	**21,268**	23,346
Financial leverage		
– Net debt to total capital	**46%**	44%
– Net debt to total assets	**32%**	31%

* excluding financing from discounted bills

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)

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 2012, 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 HK$195 million.

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$1,791 million (represented by 8,953 million ordinary shares).

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,700 employees as at 30 June 2012.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

Steel manufacturing is a challenging yet foundation industry to the society. It is cyclical and will certainly be subject to factors such as economic fluctuations and raw material costs, which are beyond our control, it is difficult to see any reversal of industry supply-demand imbalance. In response to these challenges, we have been introducing measures to protect our core businesses. These included non-vital capex freeze, economical steel manufacturing, and maintenance outages under certain times. In the meantime, we continue to explore new markets on high-end products in different customer segments, such as petrochemical and wind power industries. Such efforts should be beneficial to the Group in the long term.

We do expect a pickup in industry profitability driven by stabilizing growth incentives, build-outs from infrastructure and social housing, for instance, should stimulate steel demand. We also continue to develop and promote our steel plates as customers' prime choice, improving product mix and leveraging our networks by the support of the parent company, Shougang Corporation, these shall improve our competitiveness.

A lower iron ore price recently is definitely welcomed if sustained. We will continue to take whatever measures to protect our shareholders' returns, managing the prevailing difficulties while remaining committed to our long term strategy. Our financial position is strong and we are equipped to deal with the current challenges. We will continue to look to the future to ensure success of the Group.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2012 (2011: 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 2012 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 2012 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: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of the Company as at 30.06.2012
Cao Zhong	Beneficial owner	10,000,000	65,000,000	75,000,000	0.83%
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.39%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.50%
Ip Tak Chuen, Edmond	Beneficial owner	–	12,590,000	12,590,000	0.14%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%
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 "2002 Scheme"). Upon exercise of the share options in accordance with the 2002 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: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Shougang Century as at 30.06.2012
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"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of Shougang Resources as at 30.06.2012
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 2012, 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 2012.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2012, 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 30.06.2012	*Note(s)*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	4,214,625,699	47.07%	*1*
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.80%	*1*
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.58%	*1*
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	*2*
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	*2*

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 7 September 2011 (being the latest disclosure form filed up to 30 June 2012) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.

2. 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 2012, 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 2002 Scheme was adopted by the shareholders of the Company. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the 2002 Scheme during the six months ended 30 June 2012. Details of the outstanding share options under the 2002 Scheme during the period are 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				
Cao 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[2]	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]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	13,000,000			
Other participants	50,000[2]	23.08.2002	23.08.2002 –22.08.2012	HK$0.295
	50,000,000[1]	20.12.2007	20.12.2007 – 19.12.2014	HK$2.944
	50,050,000			
	245,140,000			

Notes:

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.

2. Subsequent to the end of the reporting period, those share options lapsed on 23 August 2012, being the date immediately succeeding the exercise period of the options concerned.

On 25 May 2012, a new share option scheme (the "2012 Scheme") was adopted by the shareholders of the Company, which was conditional upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme (the "Listing Approval"). The Listing Approval was granted on 29 May 2012. Accordingly, the 2012 Scheme became effective on 29 May 2012. The 2002 Scheme was terminated from the date on which the 2012 Scheme became effective. However, the share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme. No share options have been granted under the 2012 Scheme.

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2012 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 22 August 2012 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

The Code on Corporate Governance Practices (the "Former Code") as set out in Appendix 14 of the Listing Rules was revised to, and renamed as, Corporate Governance Code (the "Revised Code") from 1 April 2012. The Company has complied with the code provisions of the Former Code during the period from 1 January 2012 to 31 March 2012 and the Revised Code during the period from 1 April 2012 to 30 June 2012, except for the following deviations:

- Under code provision A.6.7 of the Revised Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

  All of the three independent non-executive directors and one of the non-executive directors of the Company attended the annual general meeting of the Company held on 25 May 2012 (the "Meeting"). Three out of the four non-executive directors of the Company did not attend the Meeting due to other business engagements. The Company considers that the independent non-executive directors and the non-executive director in attendance at the Meeting were already of sufficient number and calibre of forming a balanced understanding of the views of the shareholders of the Company.

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

  The Chairman of the Board, who is also the chairman of the Nomination Committee of the Company, did not attend the 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 chairmen of the Audit and Remuneration Committees and all other 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 2012.

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 2011 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, has served as the chairman of the Nomination Committee of the Company with effect from 1 April 2012. Mr. Wang was re-designated from the vice chairman and general manager of Shougang Corporation, the ultimate holding company of Shougang Holding, to the chairman of Shougang Corporation in June 2012.

(b) Mr. Li Shaofeng, the Managing Director of the Company, ceased to act as the chairman and a member of the Nomination Committee of the Company with effect from 1 April 2012.

(c) Mr. Ip Tak Chuen, Edmond, a Non-executive Director of the Company, resigned as a non-executive director of Excel Technology International Holdings Limited with effect from 3 July 2012.

(d) Mr. Leung Shun Sang, Tony, a Non-executive Director of the Company, ceased to serve as the chairman of the Remuneration Committee of the Company with effect from 1 April 2012 but remains a member of the Remuneration Committee.

(e) Ms. Kan Lai Kuen, Alice, an Independent Non-executive Director of the Company, has served as the chairman of the Audit Committee of the Company with effect from 1 April 2012.

(f) Mr. Wong Kun Kim, an Independent Non-executive Director of the Company, ceased to serve as the chairman of the Audit Committee of the Company with effect from 1 April 2012 but remains a member of the Audit Committee. Mr. Wong has also served as the chairman of the Remuneration Committee of the Company with effect from 1 April 2012.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

(a) Under the facility letter entered into by the Company on 24 June 2011 with Bank of China (Hong Kong) Limited ("BOC") relating to the banking facilities (the "Facilities") of (i) forward foreign exchange and currency option transaction facilities of USD80,000,000 (the "Facility I"); and (ii) term loan of up to USD70,000,000 (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 drawdown of the Facility II.

(b) Under the loan agreement dated 16 December 2011 entered into between Nanyang Commercial Bank (China) Limited, Qingdao Branch and Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin", a 76% indirectly owned subsidiary of the Company) in relation to a loan in an amount of RMB280,000,000 (the "Loan"), breach of any of the following undertakings by Shougang Corporation during the term of the Loan will constitute an event of default upon which the Loan will become immediately due and payable: (i) Shougang Corporation will hold not less than 51% interests in Beijing Shougang Company Limited; (ii) Shougang Corporation will beneficially own not less than 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 on the final maturity day being the date which is falling 1 year after the date of first drawdown of the Loan.

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, 28 August 2012