

SEHK:697



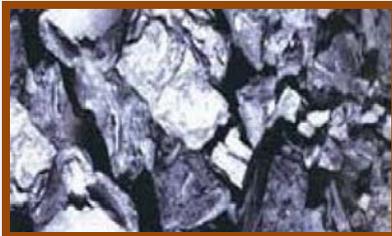
首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES
COMPANY LIMITED

TRANSFORMATION

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES CO., LTD.

6 MONTHS ENDED 30 JUNE 2010



Index

1

Overview - Summary

2

Market Overview

3

Business Review

4

Conclusion

5

Appendix: 1H10 Results

1

Overview - Summary

2

Market Overview

3

Business Review

4

Conclusion

5

Appendix: 1H10 Results

Company overview

- Hong Kong based red-chip focused on heavy plate manufacturing with interests in upstream assets
- Principal shareholder is Shougang Corporation, a Top 10 SOE with >30mmt. steel capacity in FY10E
- Plate production was 2.0mmt. in FY09
- Transformation of earnings profile from FY10 via upstream interests in iron ore and coking coal



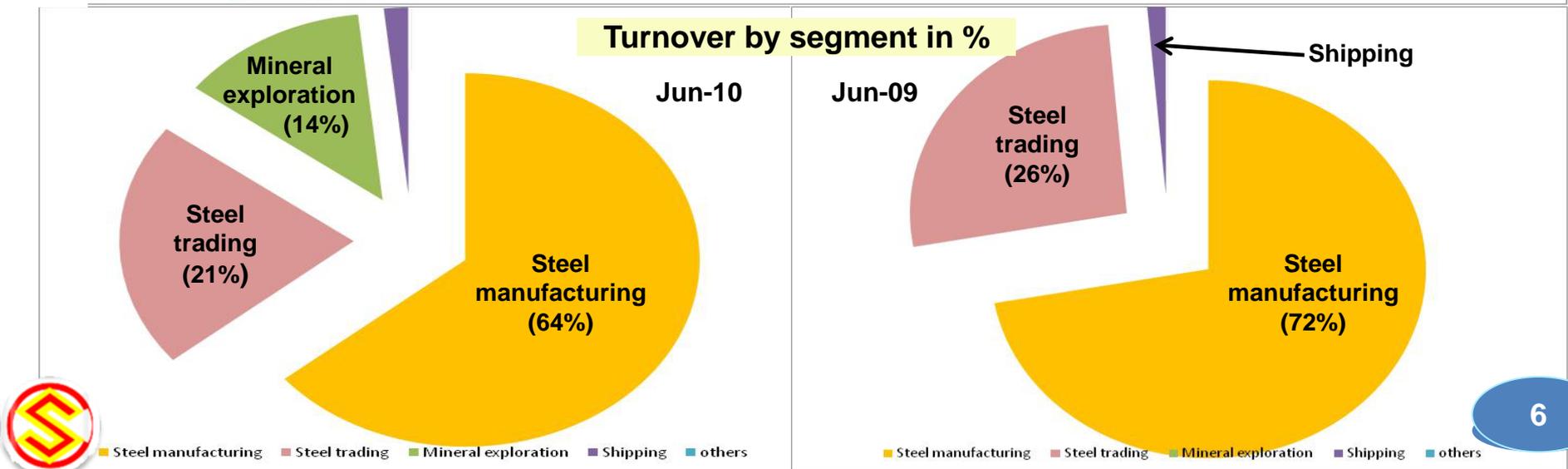
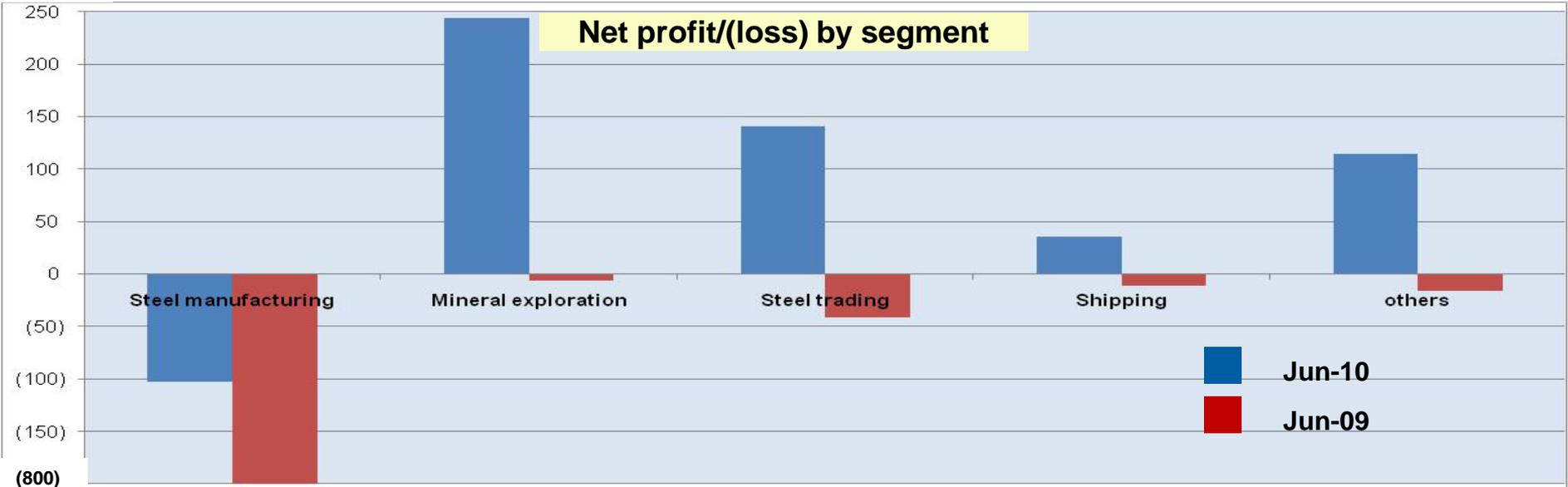
Financial highlights

HK\$'M	1H10	1H09	Change
Turnover	6,948	5,586	24%
Attributable Profit/(loss)	434	(873)	-150%
<i>Including: Mineral exploration segment</i>	244	(6)	
<i>Including: Steel mfg segment</i>	(103)	(800)	-87%
<i>Including: Mt. Gibson offtake gain</i>	147	-	
Total assets	27,619	23,686	17%
<i>Including: Associates</i>	6,285	719	774%
Basic EPS (HK cents)	5.3	(11.6)	

Improvements in earnings mainly from contribution of upstream investments

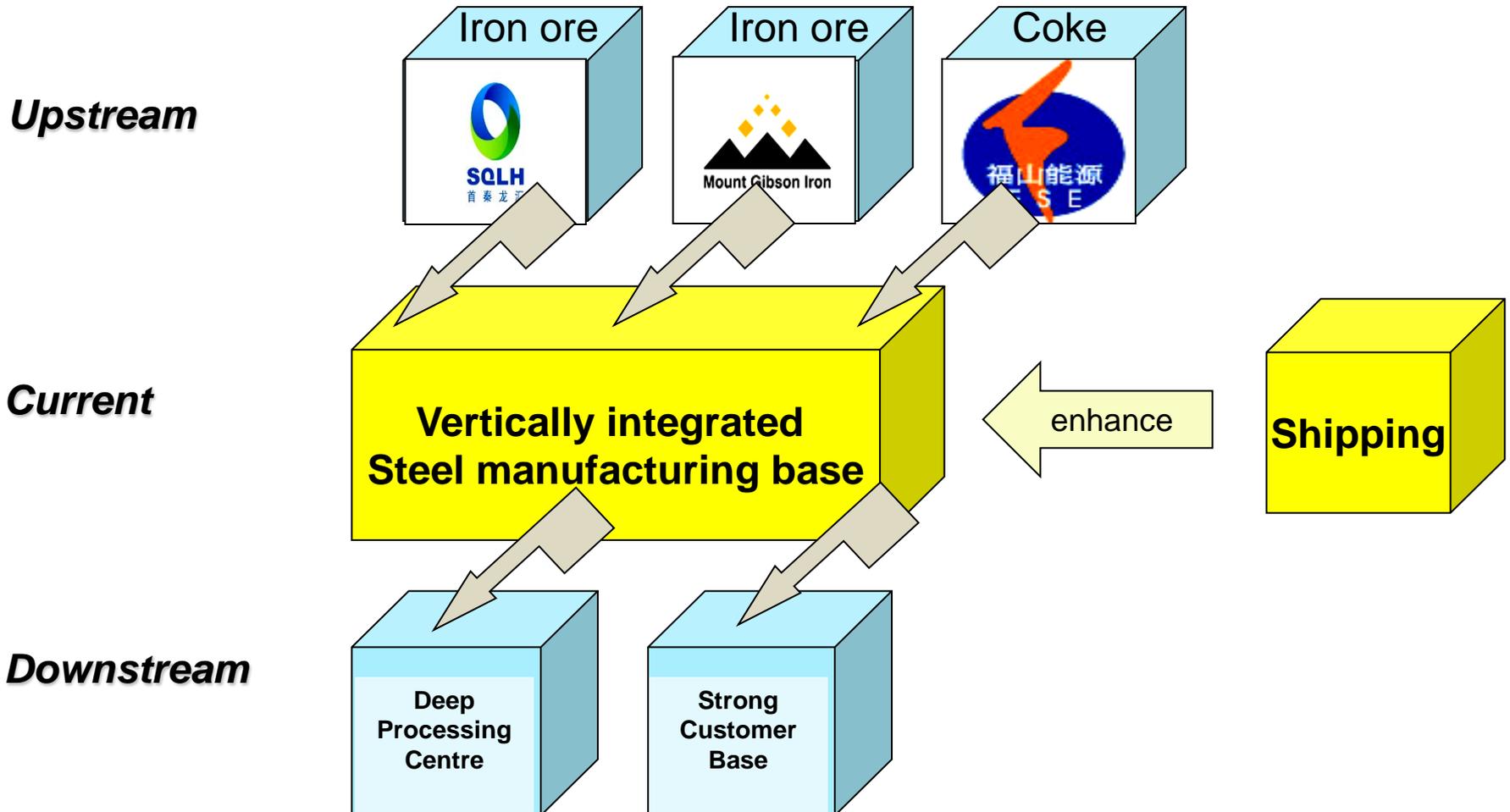
Segmental performance

HK\$'M

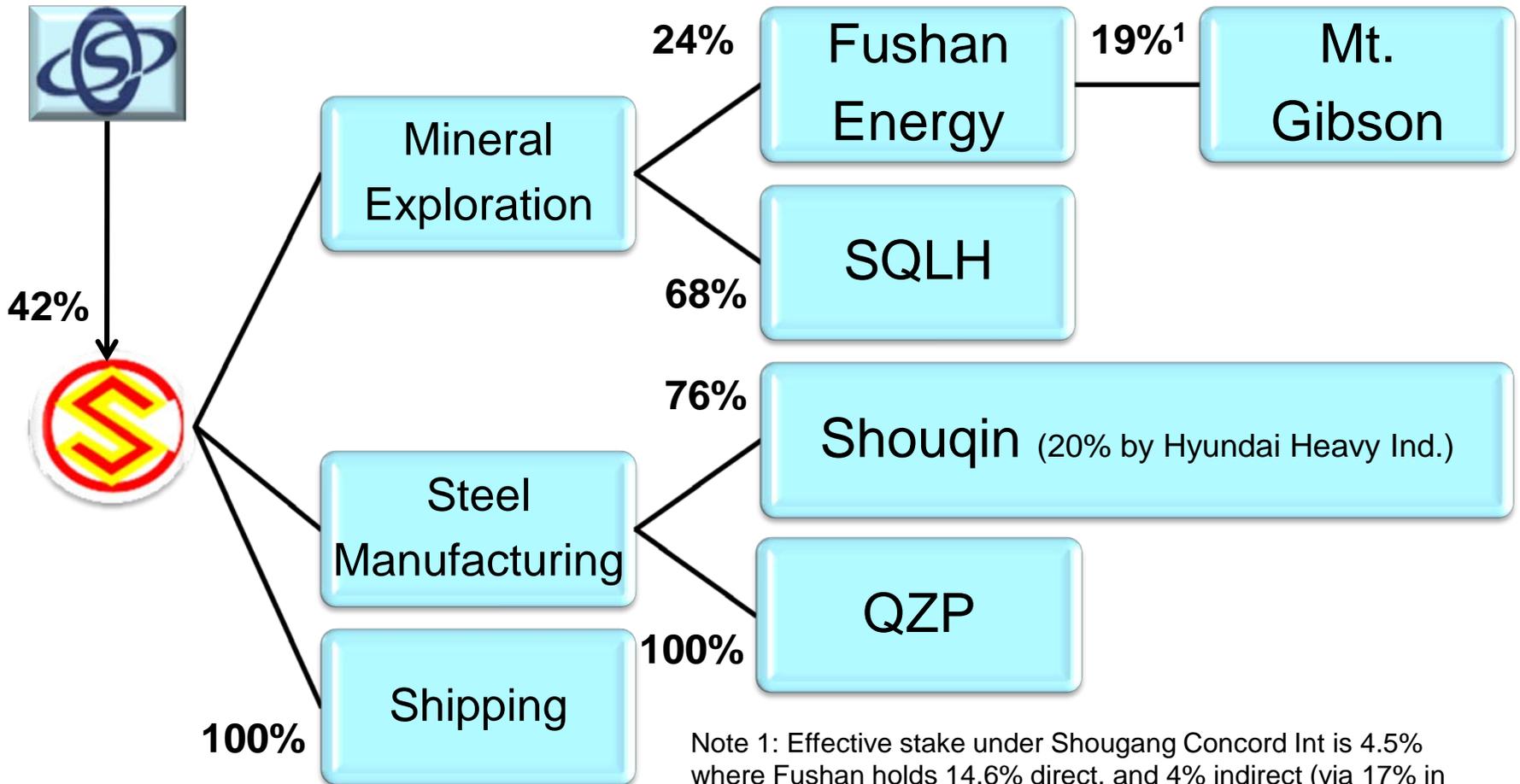


Vertical integration in place

Our Building Blocks



Corporate structure



Note 1: Effective stake under Shougang Concord Int is 4.5% where Fushan holds 14.6% direct, and 4% indirect (via 17% in APAC which holds 26%) interest in Mt. Gibson.

Environment friendly operations

- Energy saving and environment friendly in steel manufacturing
- An important requirement as China chases energy-efficient targets



- Our Energy Monitoring Centre aims closely monitor use of utilities; initial govt subsidies RmB9m.
- We've achieved zero sewage water emission, gas recovery and fully-enclosed raw material storage
- Operations are affected by energy saving imperatives in China



1

Overview - Summary

2

Market Overview

3

Business Review

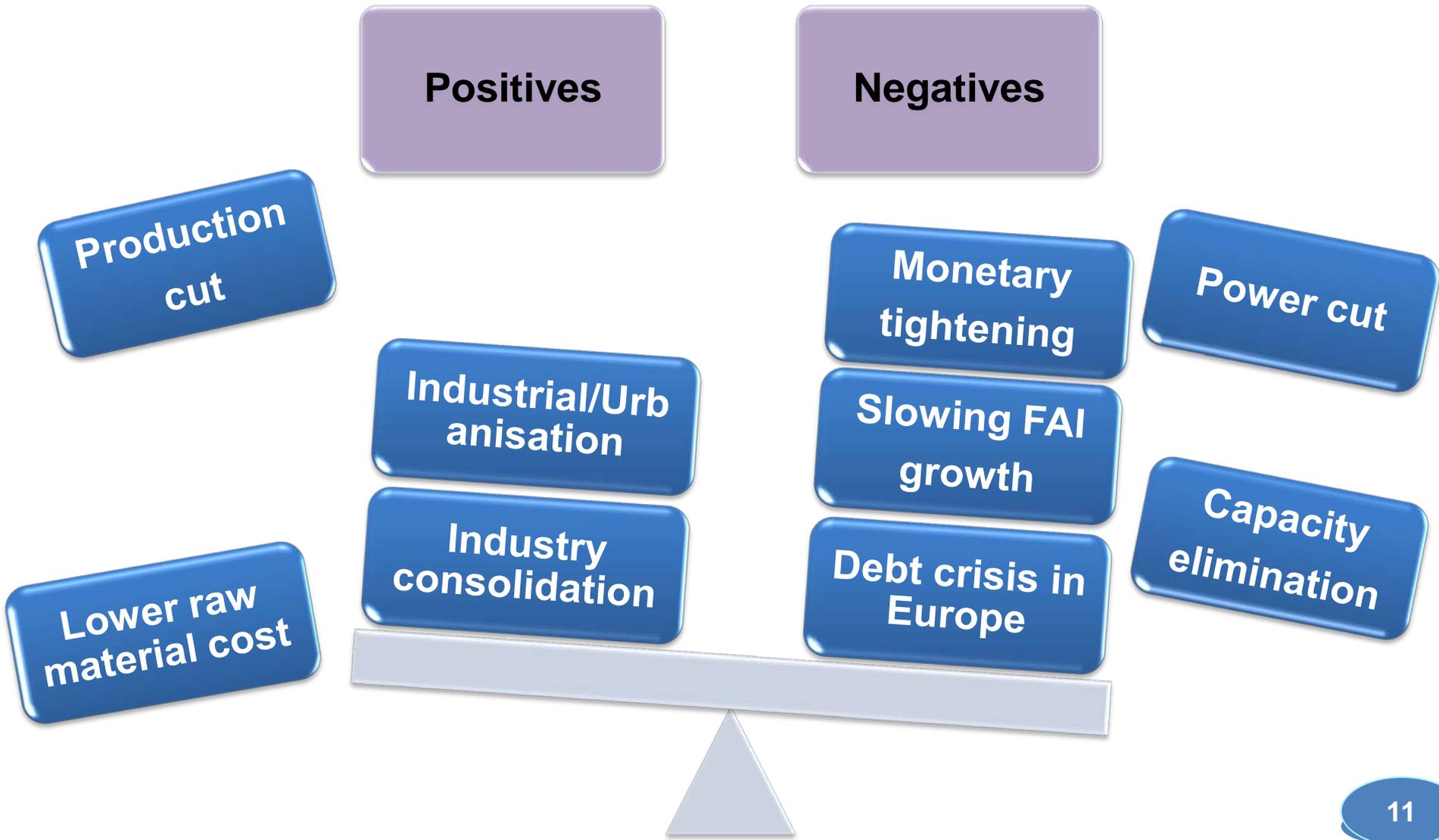
4

Conclusion

5

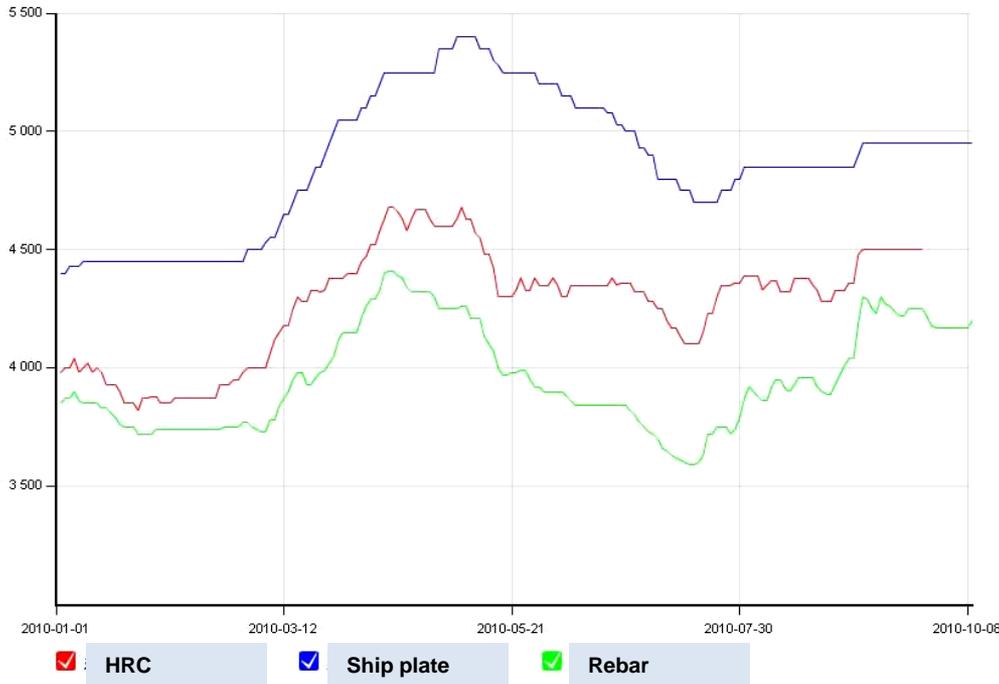
Appendix: 1H10 Results

Theme#1: It's all about macro

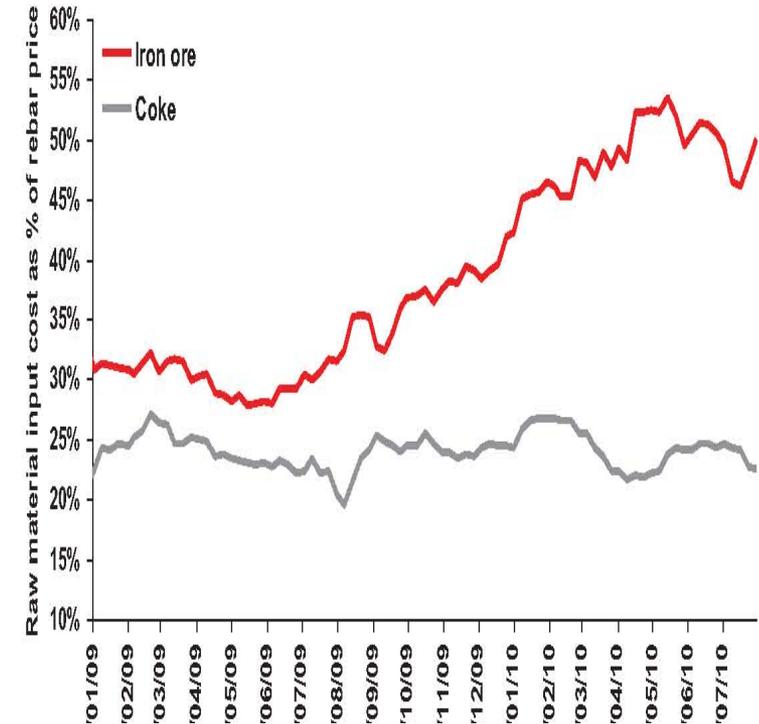


Theme#2: High price/cost

Shanghai Trade price (RmB/t)



Iron ore prices doubling (US\$/t)



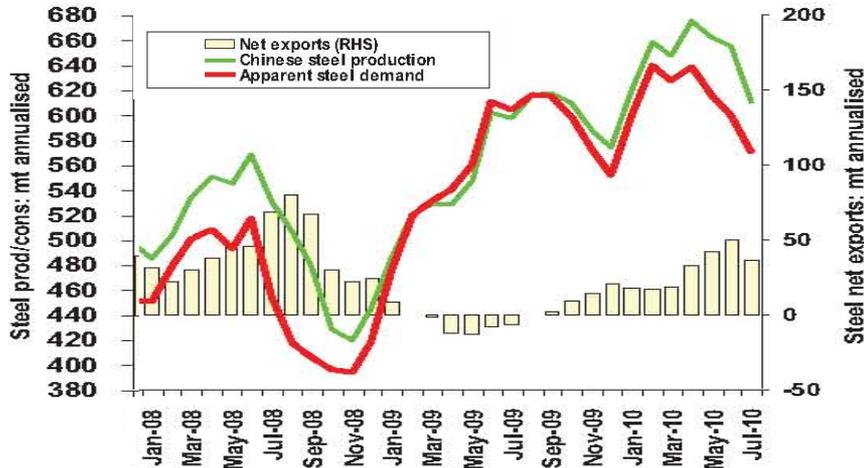
Source: mysteel, SBB

Steel prices are higher y-o-y but raw material cost has risen even faster, resulting in margin squeeze

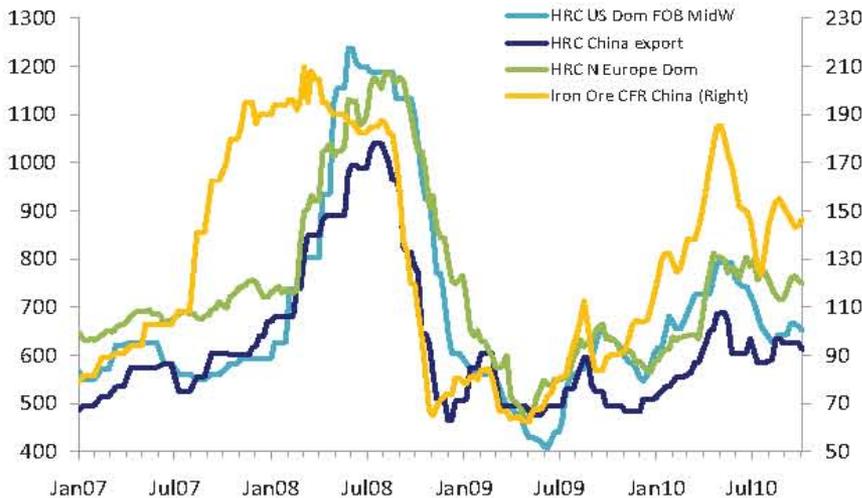


Theme#3: Raw materials in the driving seat

China steel production/demand



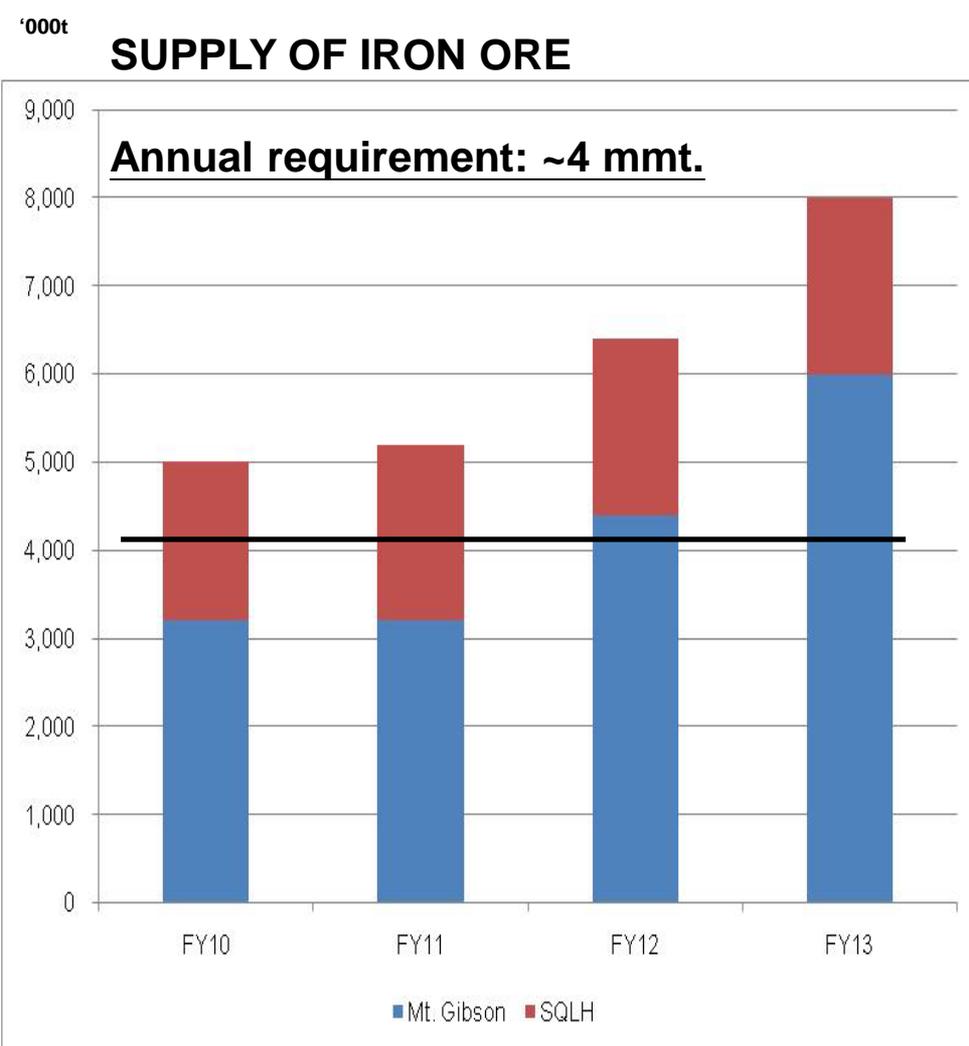
Iron ore vs. HRC price in China (US\$/t)



Source: CRU, SBB

- Higher steel production and aggressive expansions have pushed demand for raw materials higher
- Thus raw material prices are higher with domestic production unable to match demand
- Iron ore and coal prices track spot price changes limit margins for steel manufacturers

Self-sufficiency in iron ore



- Net long in iron ore supply from FY10E onwards – financially hedged
- Blending of different types of iron ore is required to maintain efficiency
- Most quantities are sold to spot market now and are recognized as trading profits



1

Overview - Summary

2

Market Overview

3

Business Review

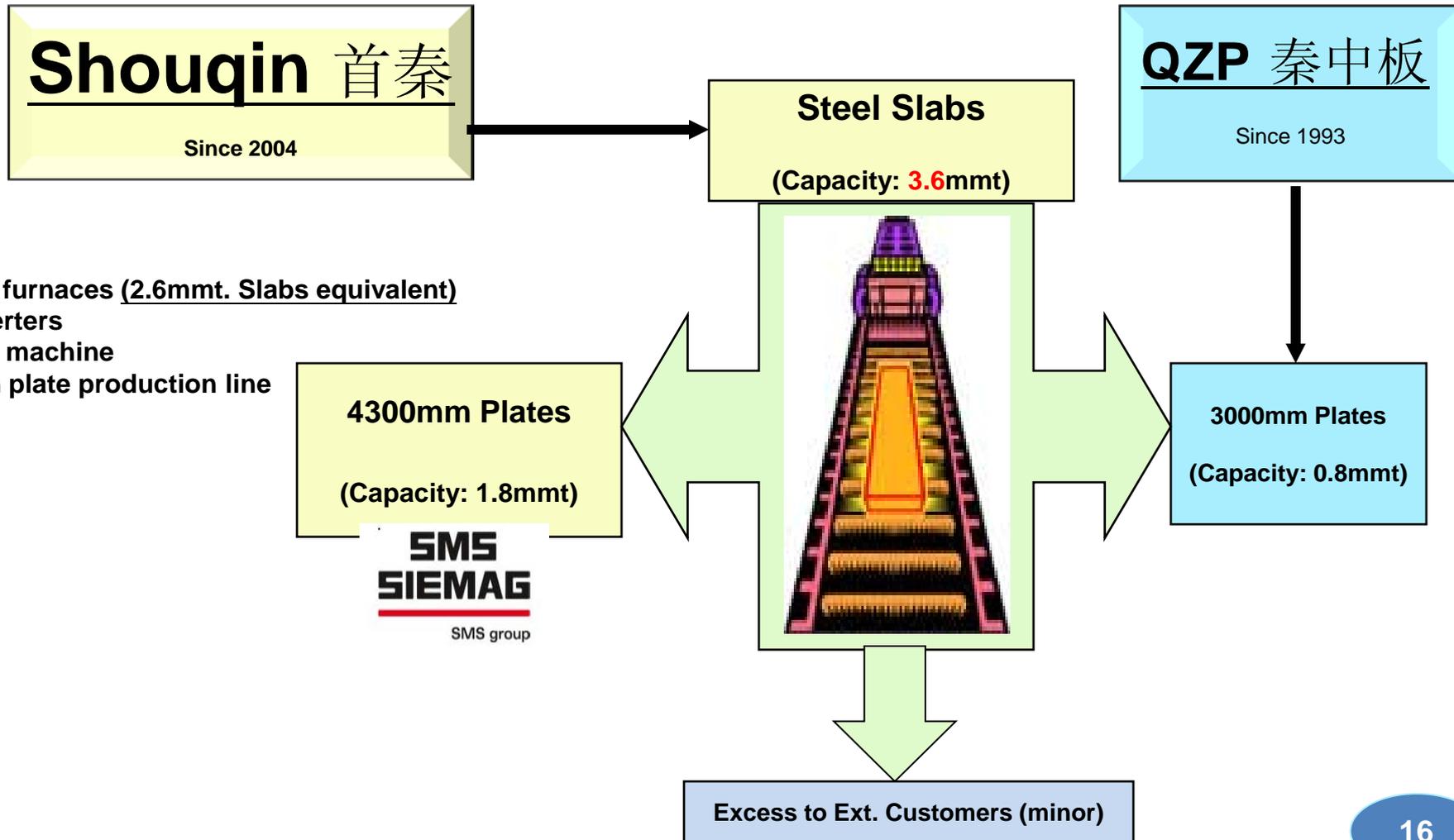
4

Conclusion

5

Appendix: 1H10 Results

Steel manufacturing segment



Planned heavy plate output



Industry Breakdown on Our Heavy Plate Output

	Shipbuilding	Infrastructure	Industrial machinery/Petrochemical	Others (Buildings and capital goods)
2009	35%	20%	35%	10%
2010E	30%	20%	40%	10%



Value-adding for our customers



Machinery components



Bridge components



Base for windpower equipment

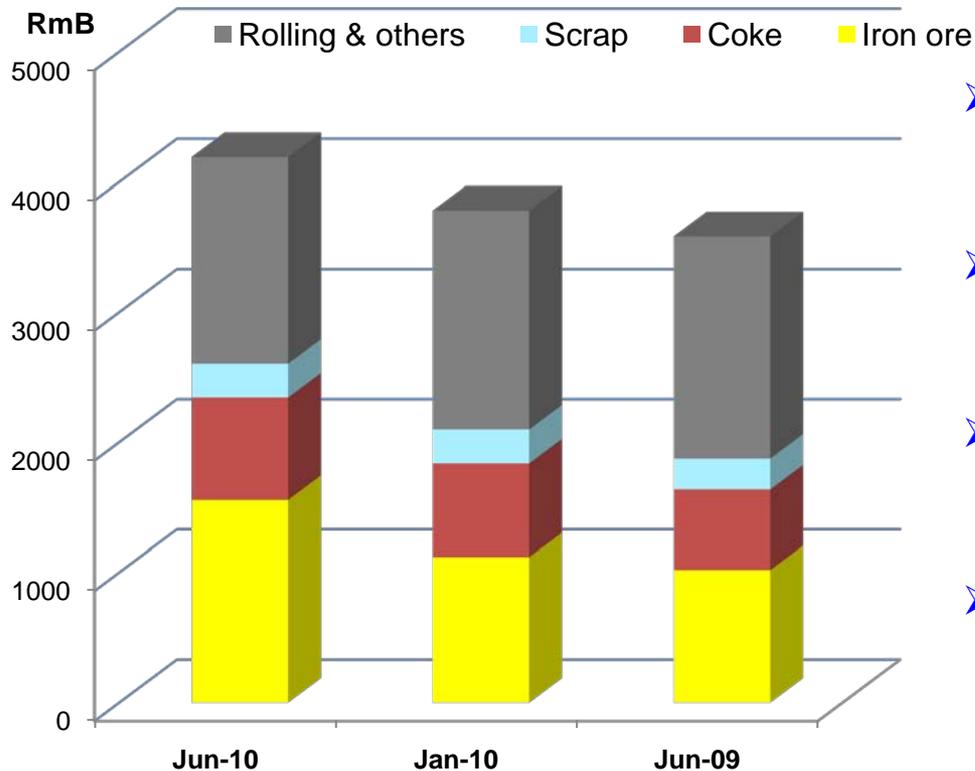


Ship components

Top customers



Input cost trend



- COS is higher than that of LY and is on an upward trend
- Steel prices up cannot yet outpace rise in COS
- Remains one of the key risks of the industry
- Partially offset by raw material interests

Item	Factor	RmB Unit cost per ton			Total Jun-10	Total Jan-10	Total Jun-09
		Jun-10	Jan-10	Jun-09			
Iron ore	1.6	972	698	636	1,555	1,117	1,018
Coke	0.4	1,970	1,800	1,548	788	720	619
Scrap	0.1	2,600	2,610	2,366	260	261	237
Rolling & others					1,587	1,682	1,710
Total					4,190	3,780	3,583



New facilities in Shouqin in FY10

Ultra thick slab caster 厚坯铸机



- Producing slabs with max. thickness of 400mm. (from 300mm.) and increase production capacity of slabs by 1 mmt. p.a.(to 3.6mmt.)

Roughing mill 粗轧机



- Added to the existing hot rolling line
- Increase production capacity of plates by 0.6mmt. p.a. (to 1.8mmt.)



Upstream: Australian iron ore



Lifelong Offtake at 10%
off Hamersley benchmark price



MOUNT GIBSON IRON LIMITED (MGX.AU)

- Production: 7 mmt. capacity (10 mmt. in FY11E); 80% of its *available production* is under lifelong offtake with us, i.e. about 3.2mmt. in FY10, expected to rise to 6mmt.
- Our cost: 10% off Hamersley benchmark price
- Our sales: FY10 sales are on FOB basis at cost + US\$1/t
- 1.4mmt. sold at profit of US\$13/t in HY10



Upstream: PRC iron ore



68% equity stake



SHOUQIN-LONGHUI MINERAL CO., LTD. 首秦龙汇矿业

- Production: Planned for 1mmt. in concentrate with 2mmt. pelletizing capacity; pellet plant started in Sep-09
- Strategic location - 25km away from our plant by road
- Production cost of concentrate: RmB700/t (expect to go down to RmB600/t in early FY11)
- 881kt pellets sold at RmB1,147 (ex-VAT) in HY-10



Iron ore mining and pelletizing



1. Mine site (Hongda)



2. Ore processing plant



3. Ore processing control



4. Separation process



5. Beneficiation process



6. Int. product-Concentrate



7. Pellet plant



8. Pellet plant control



9. Final product-Pellets



Upstream: China coking coal



24.4% stake

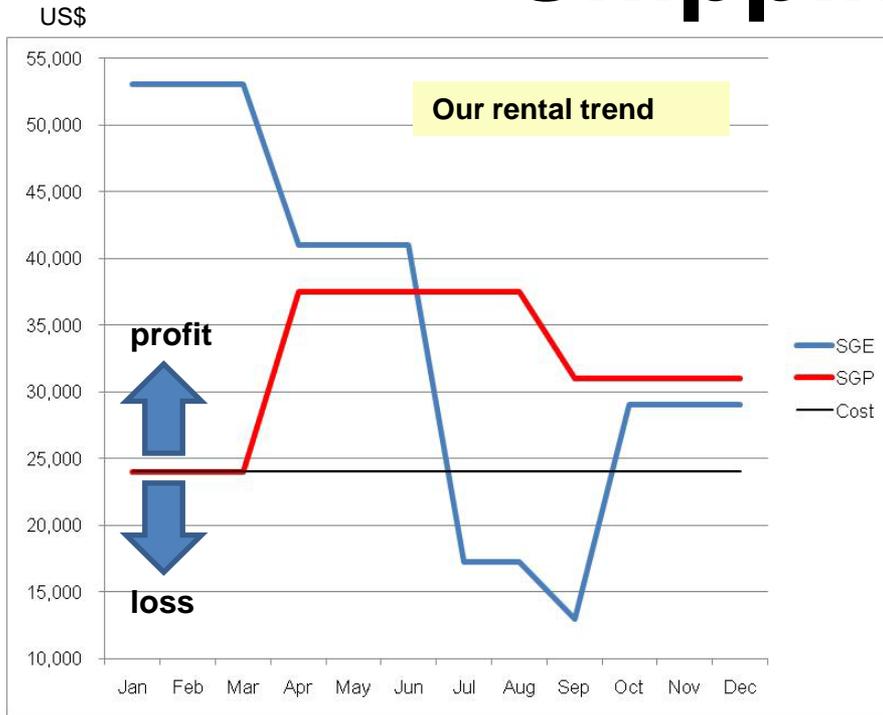


FUSHAN INT. ENERGY GROUP LTD. (639.hk)

- Production: 3mmt. of coking coal in HY10 (6.3 mmt. p.a.) in Shanxi, PRC
- Current GP @ 70%; good expansion plan in pipeline
- Financially hedged to our coke needs
- Committed to distribute $\geq 40\%$ of earnings as dividends



Shipping segment



- 2 capesize vessels on 15-year leases (sale-and-leaseback) since Sep-97, daily cost US\$24k
- Market remains volatile from 2009 to now with sharp peaks/troughs; outlook neutral
- Acts as a hedge to steel manufacturing for importing raw materials



Source: investmenttools.com

Associate: Shougang Century



35.7% stake



SHOUGANG CONCORD CENTURY (103.hk)

- Mainly engages in manufacture of steel cords for radial tires with plants in China
- Production capacity to triple in 2012 (to >180kt. p.a.) on booming demand for autos
- Principal shareholders also include NV Bekaert and Li Ka Shing Foundation Limited; our legacy investment



1

Overview - Summary

2

Market Overview

3

Business Review

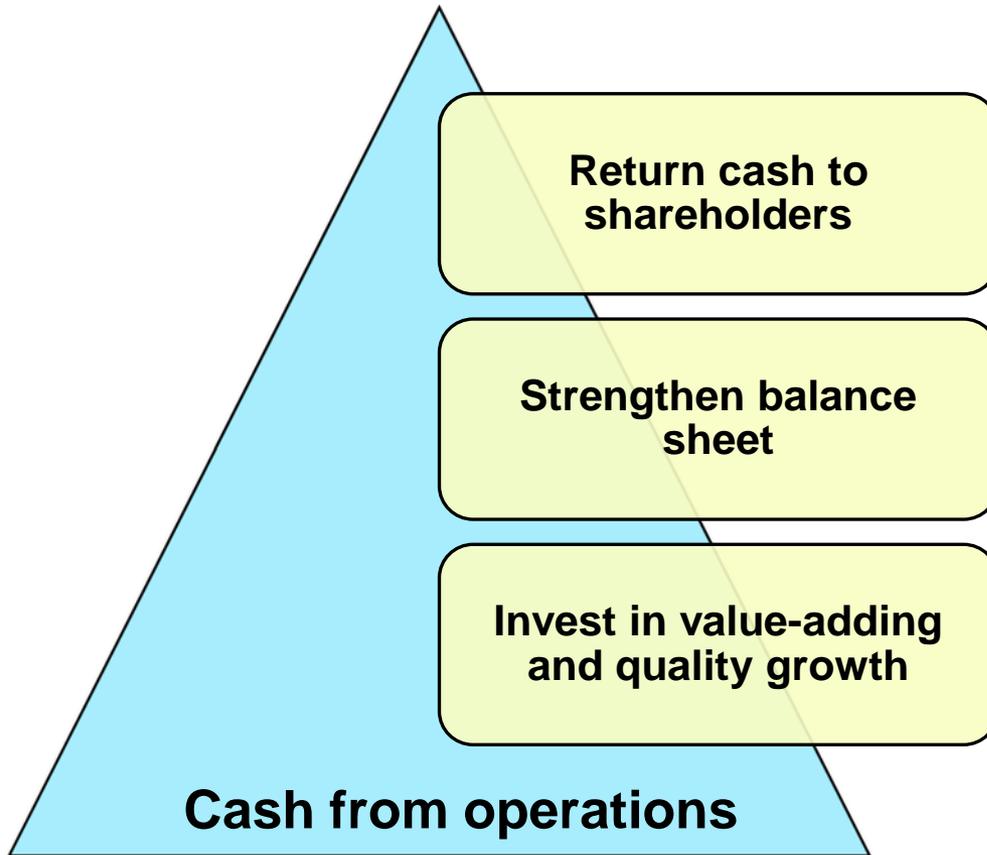
4

Conclusion

5

Appendix: 1H10 Results

Management targets



- Prioritize capital on value-adding and quality growth
- Capex reduced to RmB700m. p.a. in current operations
- Target leverage to normalize to 50%
- Commit to resume dividend payout at 30-40% of earnings



Growth by entity/segment

Coking coal	<p>Fushan (24% owned)</p>	<ul style="list-style-type: none"> Capacity >10mmt. in FY11E (Currently 6.3mmt.)
Iron ore	<p>Mt. Gibson (Lifelong offtake)</p>	<ul style="list-style-type: none"> Capacity >10mmt. in FY11E; available to us to grow from 3.2mmt. to 6mmt.(E)
Iron ore	<p>SQLH (68% owned)</p>	<ul style="list-style-type: none"> Pellet capacity at 1.7mmt. & 2.0 mmt. in FY10E & FY11E
	<p>Steel Manufacturing</p>	<ul style="list-style-type: none"> Output at 1.9-2.0 mmt. in FY10E (<u>revised down due to power cut</u>)



Business outlook



- Stimuli-related demand from economic recovery
- Steel consumption in China has consistently grown in line with GDP
- Old capacity and $\frac{3}{4}$ of steelmakers to be eliminated in China



- Global economic recovery loses steam
- Overcapacity in steel cannot be resolved
- High price high cost and low profitability in steel manufacturing

Earnings from upstream could shield us from cost pressure with upside on margin expansion in steel, we are well positioned into and beyond 2010



1

Overview - Summary

2

Market Overview

3

Business Review

4

Conclusion

5

Appendix: 1H10 Results

Extract of balance sheet

HK\$'M (As at 30 June)	2010	2009	Change
NON-CURRENT ASSETS	19,198	15,194	26%
<i>Including: Associates</i>	6,285	719	774%
<i>Including: Fixed assets, net</i>	11,228	9,337	20%
CURRENT ASSETS	8,420	8,492	-1%
<i>Including: Bank and cash</i>	2,005	4,193	-52%
LIABILITIES	17,415	13,668	27%
<i>Including: Bank borrowings</i>	10,750	9,327	15%
SHAREHOLDERS' EQUITY	9,022	8,741	3%
Including: Reserves	7,387	7,196	
Non controlling interest	<u>1,181</u>	<u>1,277</u>	-8%
<i>Net debt/Total capital</i>	46.8%	31.9%	

Steel manufacturing: Shouqin

HK\$'M	1H10	1H09	Change
Turnover (note)	4,676	4,229	11%
<i>Depreciation</i>	288	297	-3%
Gross profit/(loss)	211	(451)	
<i>GP%</i>	4.5%	-10.7%	
(Loss)	(65)	(724)	-91%
Attributable to the Group*	(33)	(576)	-94%



Note: Including sales of slabs to QZP ('10: HK\$1,798M, '09:\$1,272M) and turnover of downstream processing centre ('10: \$165M)

All figures are shown before elimination of intercompany, except *attributable to the group which is shown after elimination

Improvement in 1H10 but was challenging overall

Shouqin: Operational stat

In '000t.	1H10	1H09	Change
(i) Slabs			
Production	1,137	1,116	2%
Sales [^]	553	426	30%
(ii) Plates			
Production	504	626	-19%
Sales	505	620	-19%

	1H10	1H09
GP%		
Plates	8.1%	-9.3%
ASP* (RmB)		
Slabs	3,478	3,029
All Plates	4,243	3,740
Ship Plates	4,171	3,844

Sales in '000 t.	1H10	1H09	Change
Ship Plates	152	226	-33%
Pipeline Plates	76	42	82%
Others	277	352	-21%
	<hr/>	<hr/>	
	505	620	-19%

*Ex-VAT of 17%

[^] In HY10, 450kt (81%) of slabs sold were for QZP and were eliminated on consolidation

Steel manufacturing: QZP

HK\$'M	1H10	1H09	Change
Turnover	1,712	1,427	20%
Gross profit/(loss)	9	(161)	
<i>GP%</i>	0.5%	-11.3%	
LAT*	(69)	(225)	



In '000t	1H10	1H09	Change
Sales	304	312	-3%
Production	334	313	7%

*All figures are shown before elimination of intercompany sales except profit after tax * which is shown after elimination*

Improvement in 1H10 but was challenging overall

Mineral exploration segment

HK\$'M	1H10	1H09
Turnover SQLH	1,225	-
<i>Operation started Sep'09</i>		
Attributable to group SQLH	55	(6)
Share of Fushan results	189	0
<i>Equity accounting started Sep'09</i>		



Profitable operations from quality assets as one of the important earnings drivers for the Group

Steel trading segment

	1H10	1H09	Change
In '000t			
Mt. Gibson ore	1,421	2,098	-32%
Steel products	41	74	-45%
ASP (US\$)			
Mt. Gibson ore	113.6	65.5	73%
Steel products	578	722	-20%
Profit p/t (US\$)			
Mt. Gibson ore	13.4	(2.5)	
Steel products	6.6	4.7	40%
Turnover (HK\$m.)	1,465	1,480	-1%
Net profit (HK\$m.)	141	(41)	

➤ Mainly trades Mt. Gibson iron ore and other steel products

➤ For iron ore trading, we were doing blended FOB/CIF sales in FY09 (MT: \$56/t FOB in Jan-Jun '09), while HY10 was on FOB

Improvement from FY09, positions as an important earnings driver for the foreseeable future



Shipping segment

HK\$'M	1H10	1H09	Change
Turnover	115	76	51%
Gross profit/(loss)	38	(9)	
GP%	33.0%	-11.8%	
PAT/(loss)	36	(11)	



Turnaround vs. loss-making 1H09, part of core hedging strategy

TRANSFORMATION

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES CO., LTD.

6 MONTHS ENDED 30 JUNE 2010

Visit us at www.shougang-intl.com.hk for updates and disclosures

