



**SHOUGANG CONCORD
INTERNATIONAL
ENTERPRISES COMPANY LIMITED
首長國際企業有限公司**

**A Letter to the Shareholders of Shougang Concord International Enterprises Co.,
Ltd. by its Managing Director Li Shaofeng**

24 June 2011

Dear Shareholder,

I take this opportunity to write to you to provide a timely update on the activities of your Company, and in particular, to explain the way forward that it is intended to bring.

One of our latest developments that you may notice is the share swap scheme (the “scheme”) that was announced in May 2011, and the shareholders’ circular was published just a while ago. In summary, the scheme, once approved, involves us issuing new shares to Shougang Holding (Hong Kong) Limited (“Shougang Holding”) in exchange of additional shares in Shougang Fushan Resources Group Limited (“Shougang Fushan”, 639.hk). Currently, we own as to 24% equity stake in Shougang Fushan, the completion of the scheme will allow us to own 27% of this profitable coking coal company. In return, Shougang Holding will have increased the stake in us from 42% to 47%.

The rationale of the scheme is two-fold:

- (i) Shougang Holding is a wholly owned subsidiary of Shougang Corporation, a State Owned Enterprise which is also our ultimate holding company. Once Shougang Holding’s stake is increased, we are equipped with more ammunition for potential takeovers using shares as a tool; and,
- (ii) The fact is, Shougang Fushan registered 74% gross profit last year. Our principal steel manufacturing segment registered about 1% gross profit in the same year. Adding more stakes in Shougang Fushan means increased profit and dividend inflows.

I believe this scheme presents a solid and amicable plan to improve the overall profitability of your Company, at least in the short term. Coming to our principal business of steel manufacturing, you should note from our operating data that we are able to walk our talk to optimize product mix, thereby increasing ex-VAT ASP of heavy plate sales in Shouqin plant by 14% from RmB4,630/t to RmB5,280/t from December 2010 to May 2011, but profitability is still low. Looking ahead, we are cautiously optimistic about the mid-term perspectives of this segment. We acknowledge that the challenges facing the steel sector are not something that can be solved overnight, but we are heading towards the right direction.

Before highlighting the future strategy, I offer a few specific positive points of note to remember about your Company:

- We are an integral part of Shougang Corporation, owned by Beijing city government with more than 90 years of history. We are her flagship listed entity in Hong Kong. Her production capability and leadership are unquestionable;
- We are one of the very few steel producers with upstream interests in iron ore and coking coal, which are vital raw materials in steel-making;



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- Our Shouqin plant has an enviable reputation in the heavy plate industry, fully operational at its nameplate capacity, supplying a good quantity of products to many including one of its major shareholders, Hyundai Heavy Industries, Ltd. This plant is fully functional and is not expected to require any major capex outlay in the foreseeable future;
- Our upstream businesses, in particular iron ore trading, continue to perform well;
- Shougang Fushan is very profitable from the strong coking coal market.

I offer you a glimpse of future strategy of your Company following the completion of the scheme:

- Organic growth aside, future growth potentials can be realized via the acquisition of other strategic operating assets by cash or shares, or a combination of both;
- Since late 2008, we have acquired the highly profitable Mt. Gibson Iron Limited (disposed of to Shougang Fushan in 2009) and Shougang Fushan around the time of the last financial tsunami. We are diligently looking for acquisitive growth, mainly on upstream areas;
- We are working to strengthen our trading businesses by obtaining significant long term offtake agreements with favorable terms, particularly in iron ore.

Having said all this, the reality of the situation and the obvious measure of your Company's performance is the share price. The share price is at a grossly unacceptable level. It should be noted that the downward movement is coupled with fairly low trading volume. The reasons for this situation are varied. I solidly believe the adoption of the scheme and the resulting strengthening of the financial position of the Company, combined with a progressive recovery of the steel manufacturing segment, will reignite investor interests and support our future pursuits.

Looking ahead, the Board and I are working closely and are committed to achieving success with the operational and development pursuits of the Company. This should be reflected in the share price and hence, return value to shareholders. All appropriate steps to achieve this are being evaluated and other value adding opportunities should come into place.

What we need now is therefore your continued support and I owe you the gratitude which is long due.

Yours faithfully,

Li Shaofeng
Managing Director
Shougang Concord International Enterprises Co., Ltd.