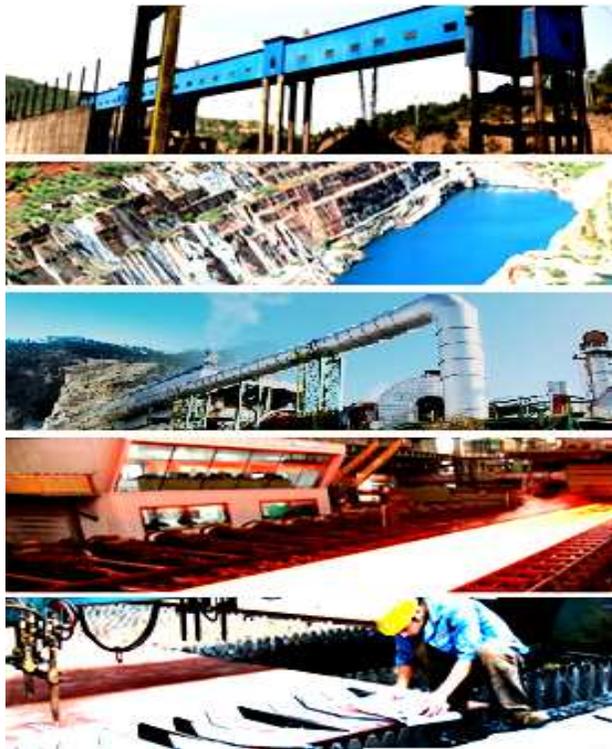




首長國際企業有限公司  
香港聯交所股份代號: 697



# Think Ahead

**SHOUGANG CONCORD  
INTERNATIONAL  
ENTERPRISES CO., LTD**

**Year ended 31 December 2010**



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# Annual results overview



## Financial

- Net profit up 6x at HK\$500M.
- Turnover up 40% at HK\$16B.
- DPS at HK\$0.01
- NAV per share at HK\$1.17, up 11%



## New Management

- MD Mr. Li Shaofeng (replacing Mr. Cao Zhong) from May '10

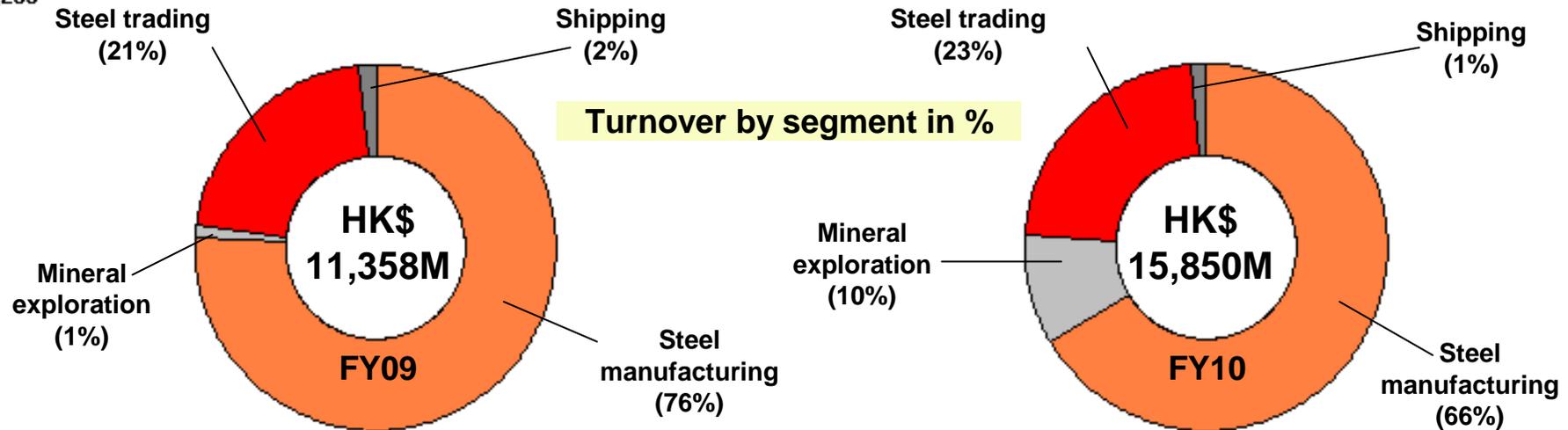
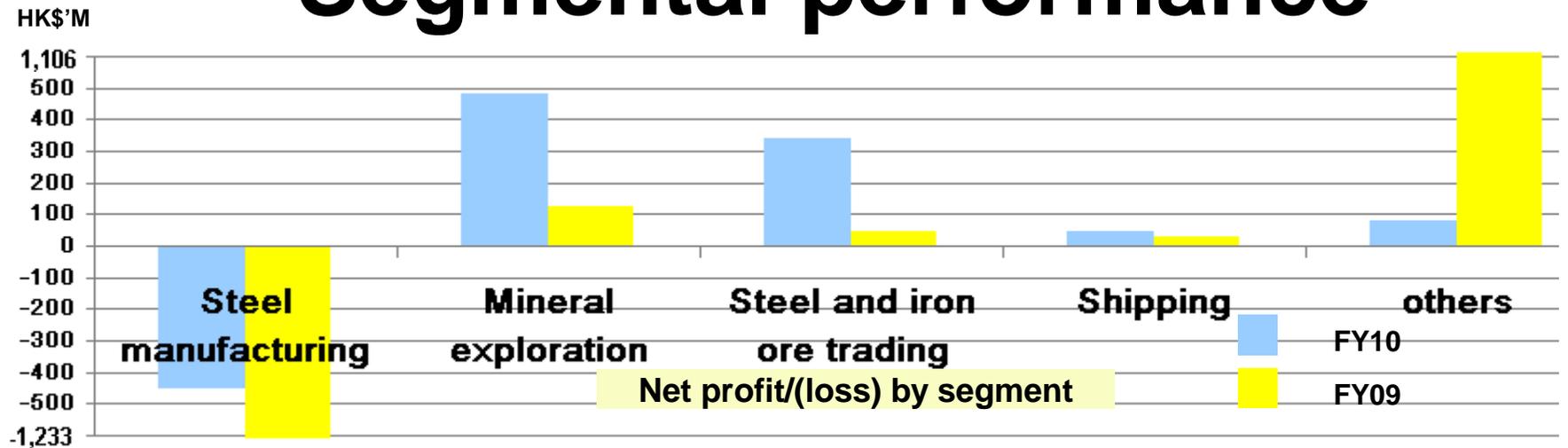


## Upstream trumps

- 2.9mmt. MGI iron ore sold at US\$14/t spread
- 24% profit of HCC producer Fushan
- Profitable iron ore JV in PRC
- Segmental profit up 4x



# Segmental performance

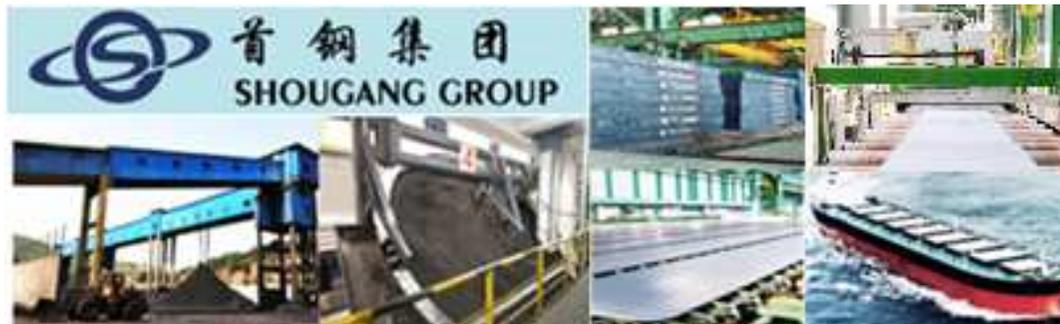


A well balanced earnings profile along the value chain

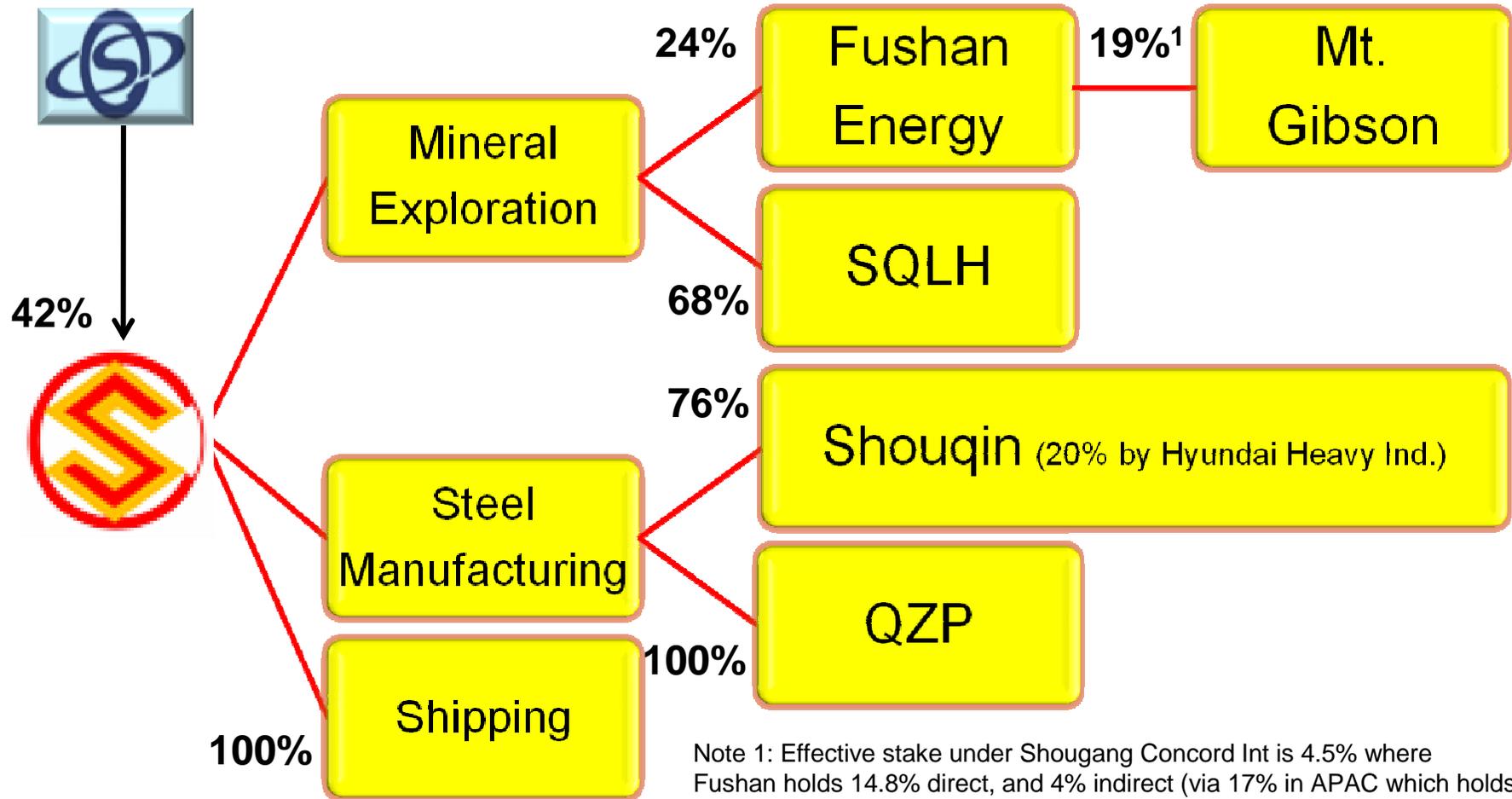


# Company overview

- ◆ Hong Kong based red-chip with heavy plate manufacturing and multiple interests in upstream assets
- ◆ Principal shareholder is Shougang Corporation, a Top 10 SOE with >35mmt. steel capacity currently
- ◆ All around earnings profiles including upstream interests (iron ore and coking coal) and downstream processing services



# Corporate structure

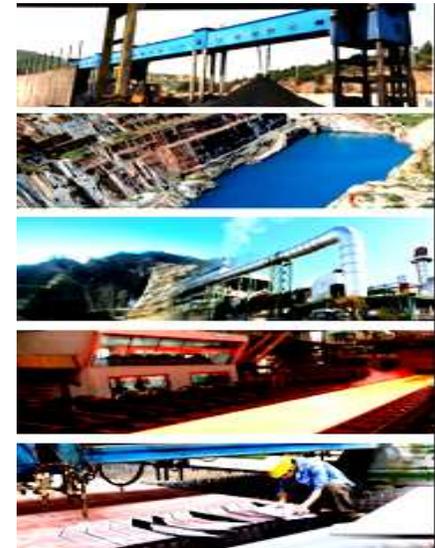
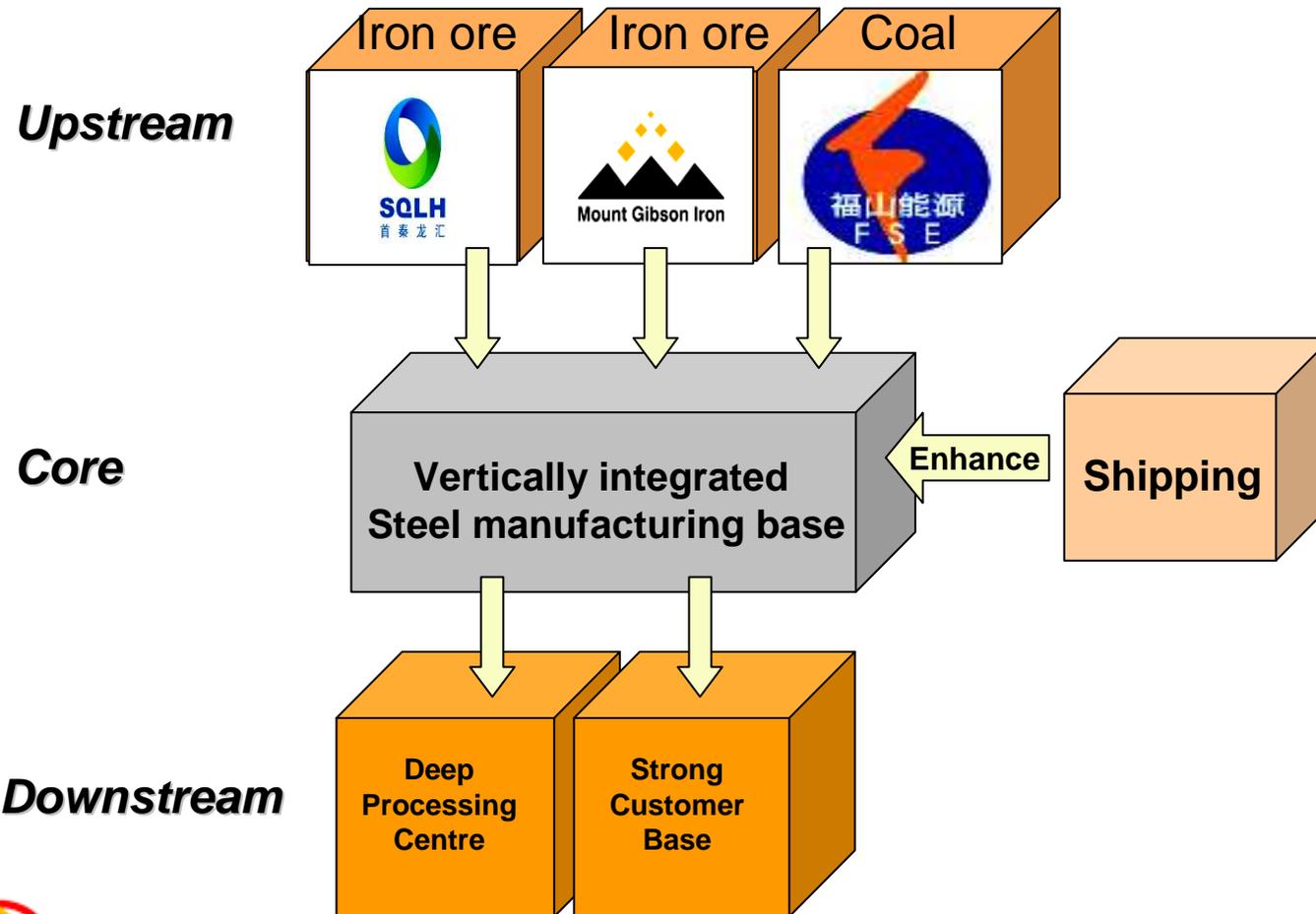


Note 1: Effective stake under Shougang Concord Int is 4.5% where Fushan holds 14.8% direct, and 4% indirect (via 17% in APAC which holds 26%) interest in Mt. Gibson.

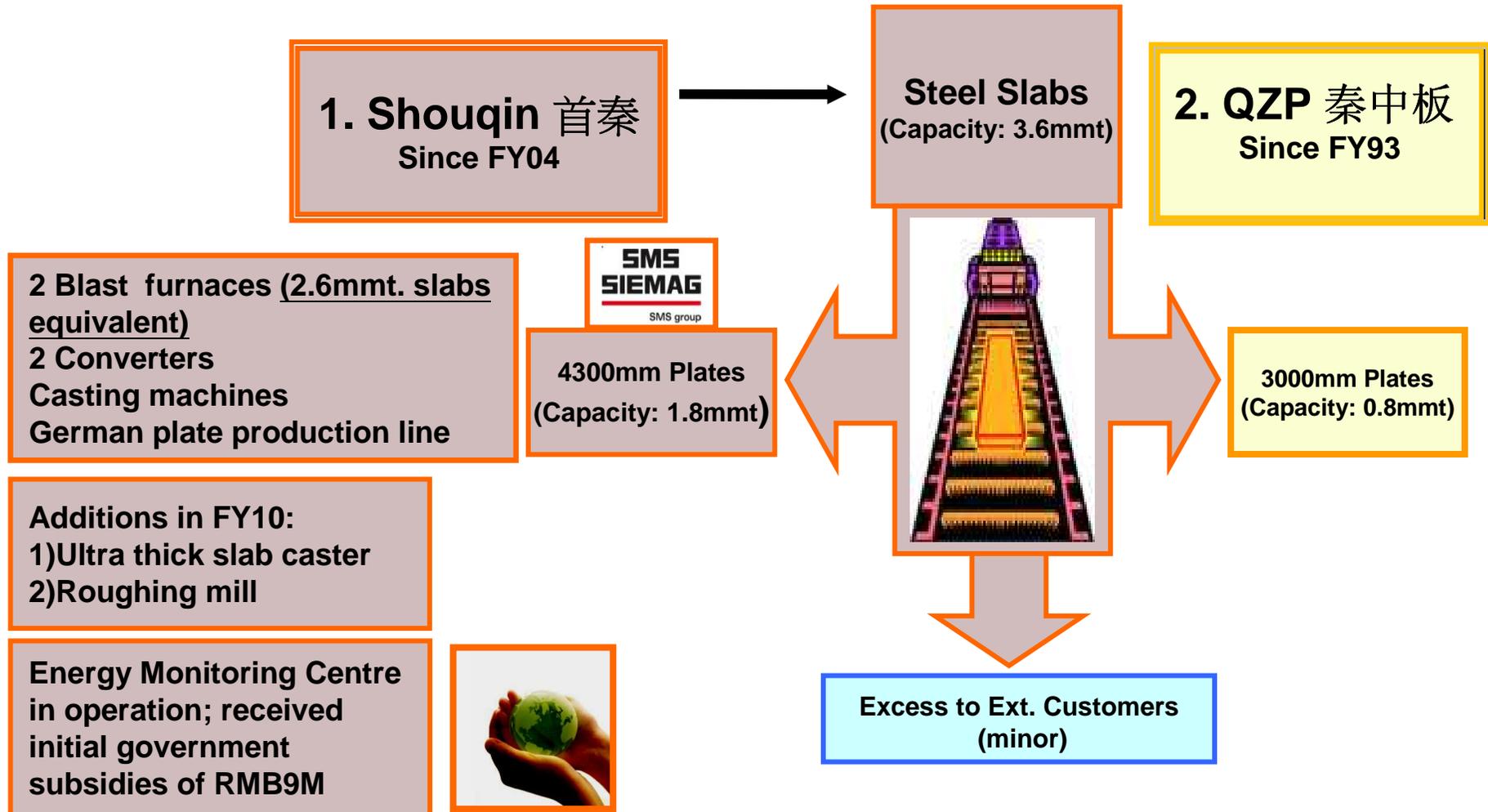


# Vertical integration in place

## Our Building Blocks



# Steel manufacturing segment



# Downstream and top customers

## 3. Downstream Processing



Base for  
Windpower Equip.



Ship  
Components



Bridge  
Components



Machinery  
Components

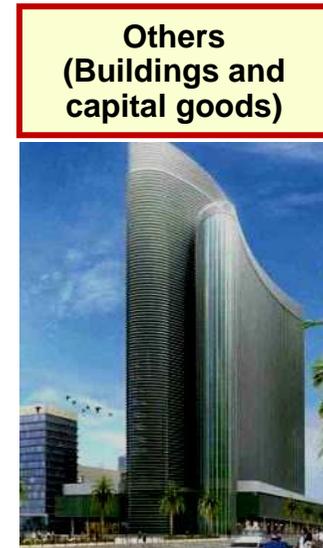
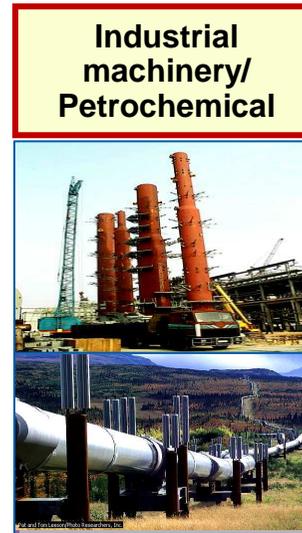
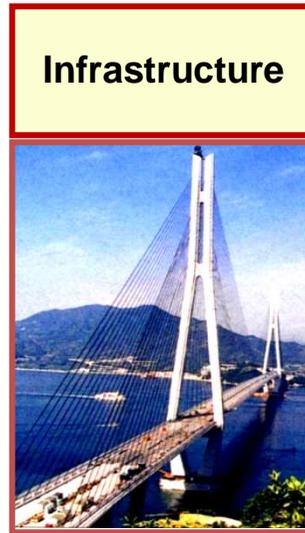
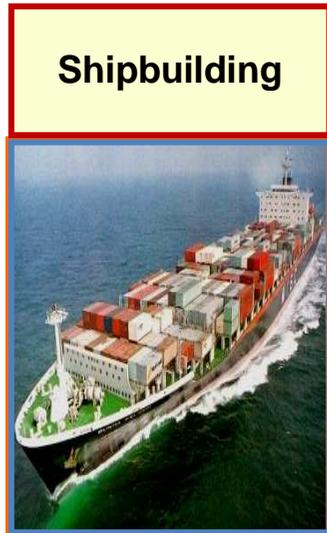
## Top Customers



中国铁建



# Planned Heavy Plate Output



## Industry Breakdown on Our Heavy Plate Output

<b>FY10</b>	<b>40%</b>	<b>20%</b>	<b>30%</b>	<b>10%</b>
<b>FY11E</b>	<b>30%</b>	<b>20%</b>	<b>40%</b>	<b>10%</b>



# 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
- ◆ 25km away from our plant by road
- ◆ 12% GP in FY10, can rise once self-produced concentrate volume goes up progressively
- ◆ 1.7mt pellets sold at RmB1,170 (ex-VAT) in FY10



# Upstream: Australian iron ore



Lifelong Offtake at below  
Platts 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 since Jul '09, about 3.2mmt. in FY11E
- ◆ Our cost: Commission and operating adjustment off Netback Platts price (from Nov '10; formerly 10% off HBP)
- ◆ Profit in FY10: About US\$14/t sold



\* Does not include Extension Hill as at 29 March 2011.

# Upstream: China coking coal



24% equity stake



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

- ◆ Production: 6.2mmt. of coking coal in FY10 in Shanxi, PRC
- ◆ Current GP @ 74%; good expansion plan in pipeline
- ◆ Financially hedged to our coke needs
- ◆ Committed to distribute  $\geq 40\%$  of earnings as dividends

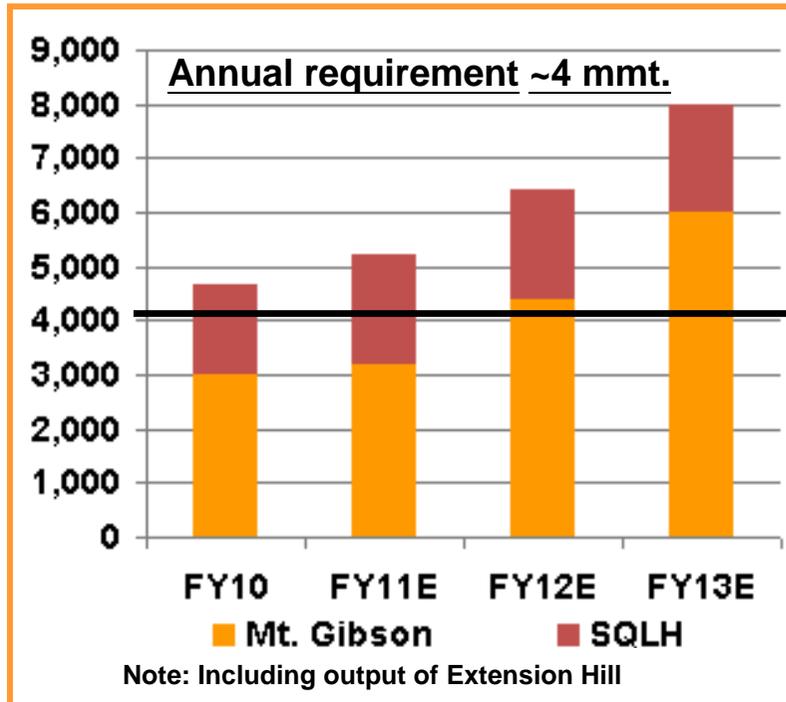


# Input cost trend and self-sufficiency in iron ore

Item	Factor	Unit cost			Total Dec-10	Total Jun-10	Total Jan-10
		RmB Dec-10	per ton Jun-10	per ton Jan-10			
Iron ore	1.6	1,160	972	698	1,856	1,555	1,117
Coke	0.4	2,080	1,970	1,800	832	788	720
Scrap	0.1	3,050	2,600	2,610	305	260	261
Rolling & others					1,665	1,587	1,682
<b>Total</b>					<b>4,658</b>	<b>4,190</b>	<b>3,780</b>

- ◆ COS is on an upward trend
- ◆ Net Long in iron ore supply since FY10- Financially hedged
- ◆ Most available quantities are sold to spot market and are recognized as trading profits

'000t.



# Shipping segment



Source: investmenttools.com



- ◆ 2 capesize vessels on 15-year leases (sale-and-leaseback) since Sep '97, daily cost US\$24k
- ◆ Market remains volatile from FY10 to now with sharp peaks/troughs; outlook neutral
- ◆ Acts as a hedge to steel manufacturing for importing raw materials



# Associate: Shougang Century

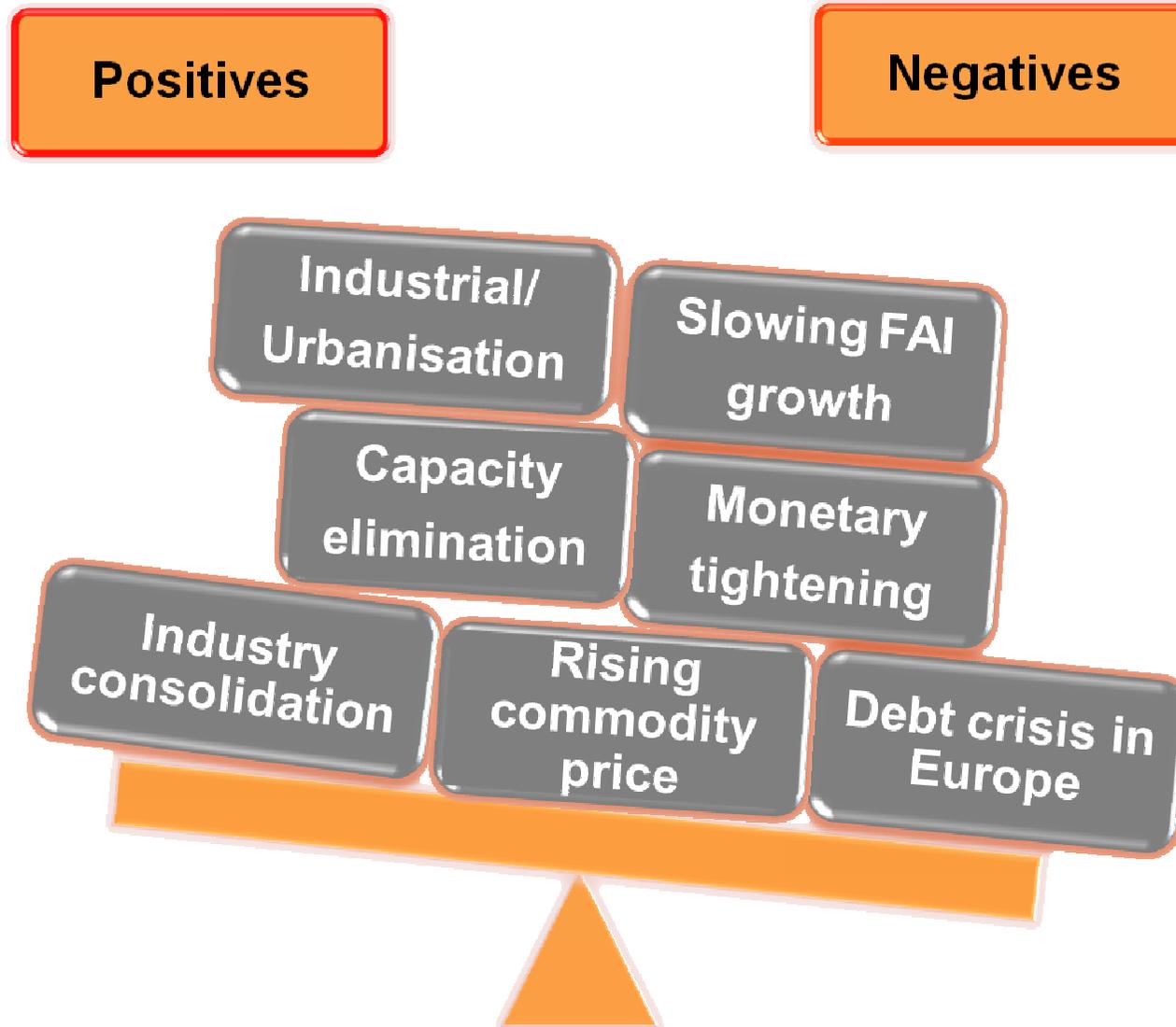


## SHOUGANG CONCORD CENTURY (103.hk)

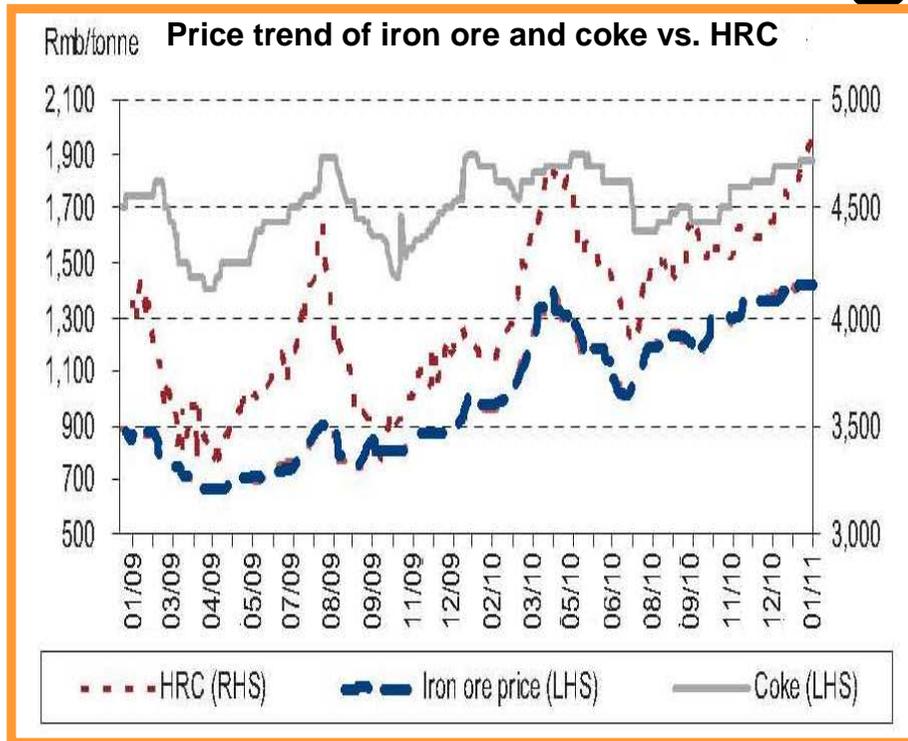
- ◆ Mainly engages in manufacture of steel cords for radial tires with plants in China
- ◆ Production capacity to triple in FY12 (to >180kt. p.a.) on booming demand for autos with healthy margins
- ◆ Principal shareholders also include NV Bekaert and Li Ka Shing Foundation Limited; our legacy investment



# Theme#1: It's all about macro



# Theme#2: High price and high cost

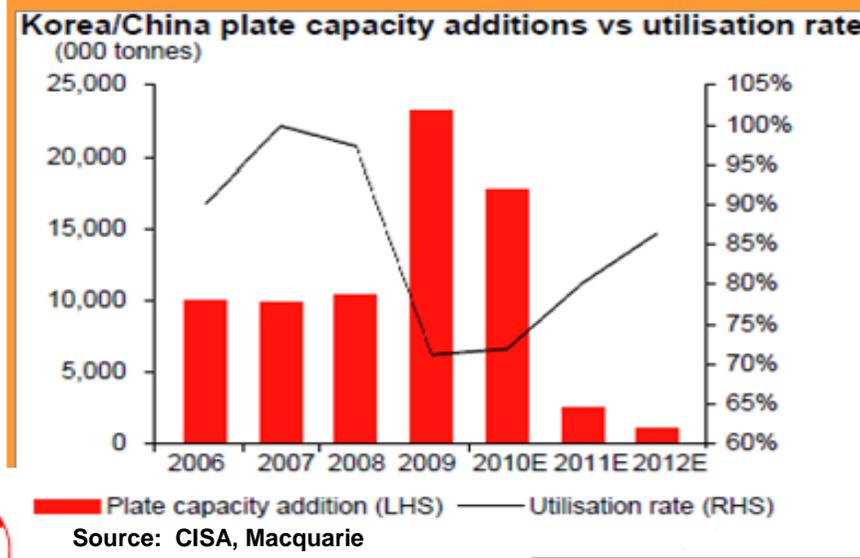
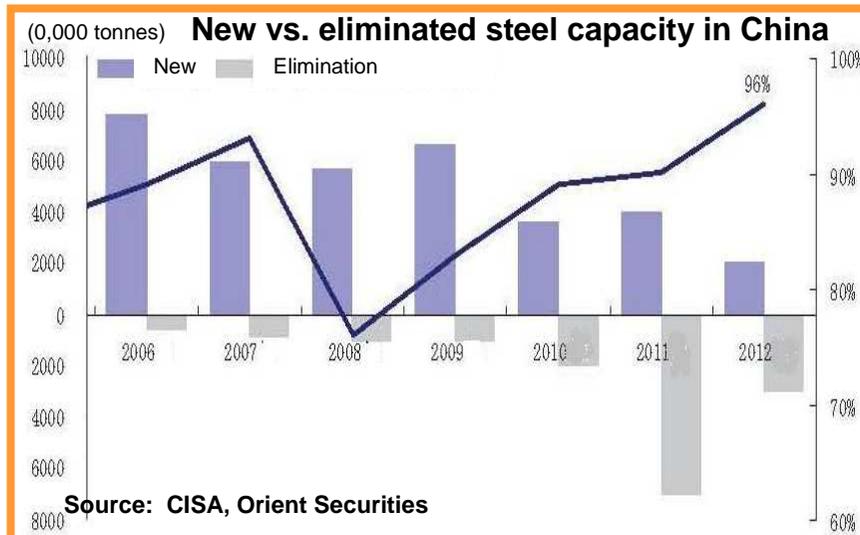


Source: custeel, BOCI, mysteel

Steel prices are higher y-o-y but raw material prices have risen even faster resulting in: 1) margin squeeze for steel manufacturing, and 2) higher return from our upstream interests.



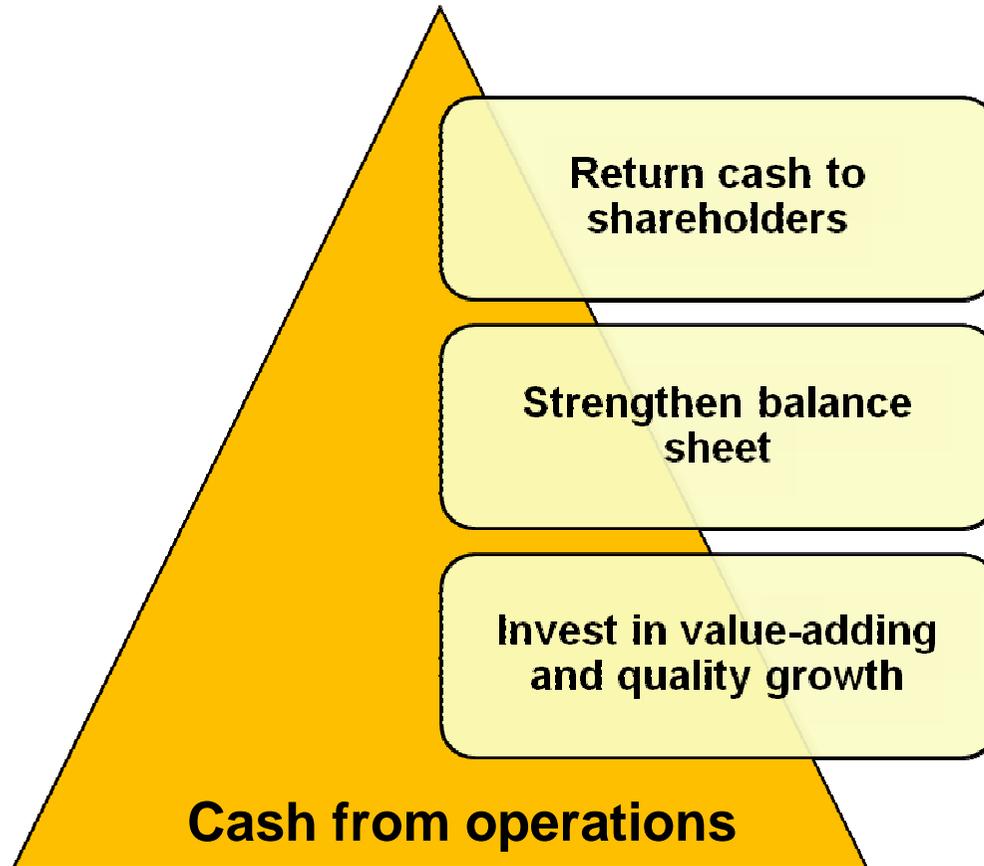
# Theme#3: Light at end of tunnel?



- ◆ Bold plans to eliminate steel capacity in China can drive utilization up if implemented
- ◆ Capacity eliminated could exceed addition from FY11
- ◆ It is even more apparent in heavy plate market
- ◆ Higher utilization usually means improved margins



# Management targets



- ◆ Prioritize capital on value-adding and quality growth
- ◆ Capex reduced to RmB600m. p.a. (approx. 65% are final payments of finished works)
- ◆ Target leverage to normalize to 50%
- ◆ Resume long term dividend payout at 30-40% of earnings



# Growth by entity/segment

Coking coal	<p><b>Fushan</b> (24% owned)</p> <ul style="list-style-type: none"> <li>Capacity &gt;10mmt. in FY11E (FY10: 6.3mmt.)</li> </ul>
Iron ore	<p><b>Mt. Gibson</b> (Lifelong offtake)</p> <ul style="list-style-type: none"> <li>Capacity &gt;10mmt. in FY11E; available to us 3.2 mmt. in FY11E (FY10:2.9mmt.)</li> </ul>
Iron ore	<p><b>SQLH</b> (68% owned)</p> <ul style="list-style-type: none"> <li>Pellet production at 2.0mmt. in FY11E (FY10:1.7mmt.)</li> </ul>
	<p><b>Steel Manufacturing</b></p> <ul style="list-style-type: none"> <li>Output at 2.4 mmt in FY11E (FY10:2.0mmt.)</li> </ul>



# Business outlook



- ◆ Stimuli-related demand from economic growth
- ◆ 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 shortly
- ◆ High price high cost and low profitability in steel manufacturing persists

Earnings from upstream could shield us from cost pressure with upside on margin expansion in steel, we are well positioned into and beyond 2011



# Extract of balance sheet

HK\$'M (As at 31 December)	2010	2009	Change
<b>NON-CURRENT ASSETS</b>	20,433	18,482	11%
<i>Including: Associates</i>	6,743	6,212	9%
<i>Including: Fixed assets, net</i>	12,096	10,252	18%
<b>CURRENT ASSETS</b>	9,195	5,765	59%
<i>Including: Bank and cash</i>	1,984	1,653	20%
<b>LIABILITIES</b>	18,931	14,506	31%
<i>Including: Bank borrowings</i>	10,734	9,909	8%
<b>SHAREHOLDERS' EQUITY</b>	9,567	8,581	11%
<b>Including: Reserves</b>	7,932	6,946	
Non controlling interest	<u>1,130</u>	<u>1,160</u>	-3%
<i>Net debt/Total capital</i>	45.7%	46.9%	



# Steel manufacturing: Shouqin

HK\$'M	2010	2009	Change
Turnover (note)	10,425	8,770	19%
Depreciation	582	593	-2%
Gross profit/(loss)	130	(612)	-121%
GP%	1.2%	-7.0%	
<b>Net Loss</b>	<b>(436)</b>	<b>(1,151)</b>	<b>-62%</b>
<b>Attributable to the Group*</b>	<b>(323)</b>	<b>(931)</b>	<b>-65%</b>



Note: Including sales of slabs to QZP (FY10: HK\$2,956M, FY09:\$2,709M) and turnover of downstream processing centre (FY10: \$493M, FY09: \$132M)

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

Improvement in 2010 but was challenging overall



# Shouqin: Operational stat

In '000t.	2010	2009	Change
<b>(i) Slabs</b>			
Production	2,394	2,379	1%
Sales <sup>^</sup>	927	936	-1%
<b>(ii) Plates</b>			
Production	1,313	1,290	2%
Sales	1,283	1,277	0%

	2010	2009
<b>GP%</b>		
Plates	1.8%	-4.7%
<b>ASP* (RmB)</b>		
Slabs	3,497	2,957
All Plates	4,380	3,727
Ship Plates	4,365	3,806

Sales in '000 t.	2010	2009	Change
<b>Ship Plates</b>	516	470	10%
<b>Pipeline Plates</b>	196	104	88%
<b>Others</b>	571	703	-19%
	<u>1,283</u>	<u>1,277</u>	0%



\*Ex-VAT of 17%

<sup>^</sup> In FY10, 730kt (79%) of slabs sold were for QZP and were eliminated on consolidation

# Steel manufacturing: QZP

HK\$'M	2010	2009	Change
Turnover	3,370	2,997	12%
Gross Profit/ (Loss)	9	(164)	
GP%	0.3%	-5.4%	
Net Loss*	(126)	(278)	



In '000t	2010	2009	Change
Sales	576	651	-12%
Production	639	701	-9%

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

Improvement in 2010 but was challenging overall



# Mineral exploration segment

HK\$'M	2010	2009
Turnover (note)		
SQLH	2,357	325
		<i>Operation started Sep'09</i>
Attributable profit/ (loss) to group *		
SQLH	71	(48)
Share of Fushan results	414	40

*Equity accounting  
started Sep'09*



Note: Including sales of Iron Ore to Shouqin (FY10: HK\$823M, FY09: HK\$189M) which was eliminated on consolidation.

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

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



# Iron ore and steel trading

	2010	2009	Change
<b>In '000t</b>			
<b>Mt. Gibson ore</b>	2,978	3,429	-13%
<b>Steel products</b>	63	101	-38%
<b>ASP (US\$)</b>			
<b>Mt. Gibson ore</b>	127.7	72.8	75%
<b>Steel products</b>	632	674	-6%
<b>Profit p/t(US\$)</b>			
<b>Mt. Gibson ore</b>	14.1	1.7	729%
<b>Steel products</b>	7.9	4.1	93%
<b>Turnover (HK\$m.)</b>	3,593	2,419	49%
<b>Net profit (HK\$m.)</b>	340	44	673%

◆ 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 FY10 was mainly on FOB



A relatively low risk, earnings and growth driver for foreseeable future



# Shipping segment

HK\$'M	2010	2009	Change
<b>Turnover</b>	207	197	5%
<b>Gross profit</b>	53	35	
<i>GP%</i>	25.6%	17.8%	
<b>Net Profit</b>	48	31	



Improved earning as compared to 2009, part of core hedging strategy





首長國際企業有限公司

香港聯交所股份代號: 697

HKEx Stock Code: 697

# Think Ahead

## SHOUGANG CONCORD INTERNATIONAL ENTERPRISES CO., LTD

Year ended 31 December 2010

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for updates and disclosures

