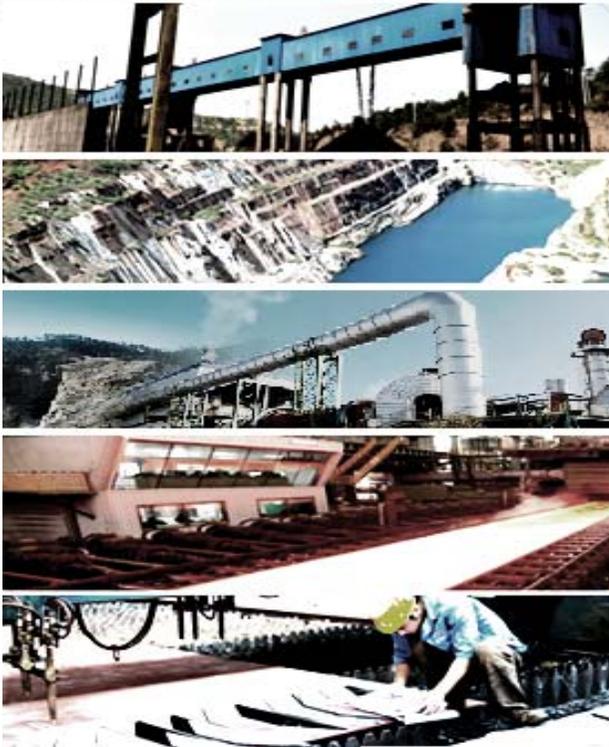




首長國際企業有限公司  
香港聯交所股份代號: 697



# SHOUGANG CONCORD INTERNATIONAL ENTERPRISES CO., LTD.

Year ended 31 December 2011

## Annual Results Presentation

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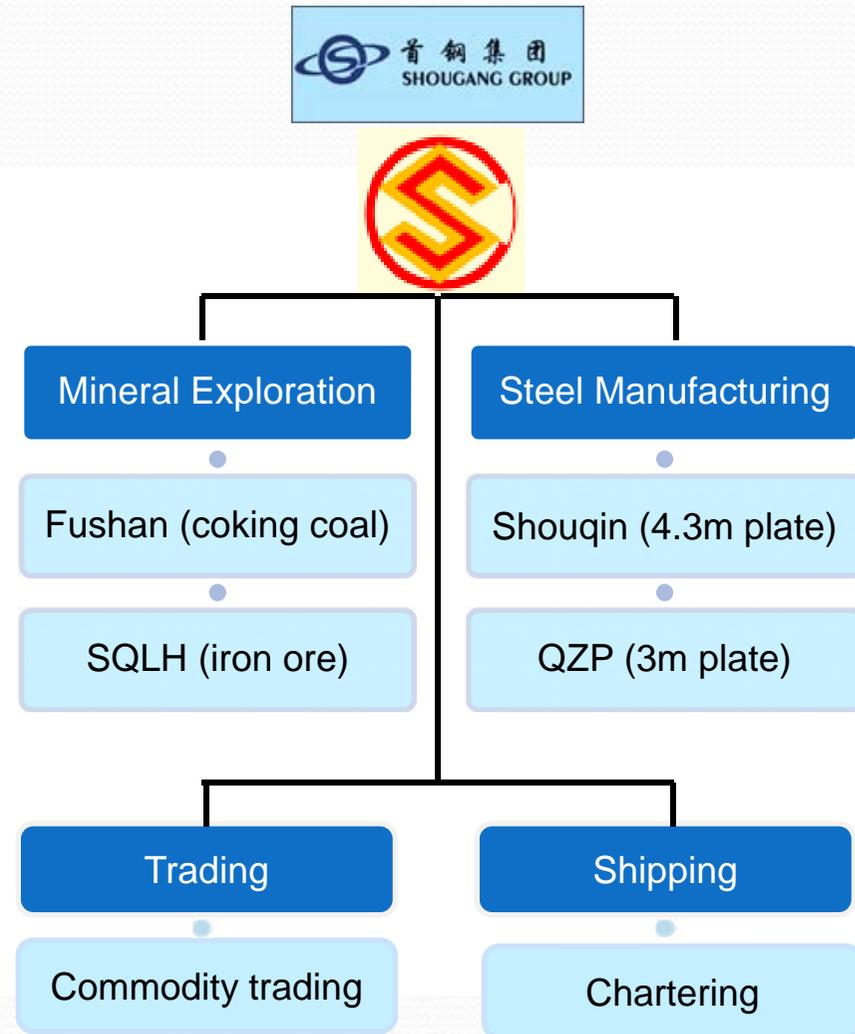
**4**

**Appendix-Financials**



# Group Overview

- ◆ Hong Kong based red-chip in heavy plate manufacturing with interests in upstream assets
- ◆ An integral part of Shougang Corporation (48% holding\*), SOE with >35mmt. steel capacity (No. 5 in China, FY10)
- ◆ All around earnings profiles including upstream interests (iron ore and coking coal), steel manufacturing and trading businesses along the entire value chain



\*42% as of 30 Jun 2011. 48% from July 2011.

# Financial Highlights

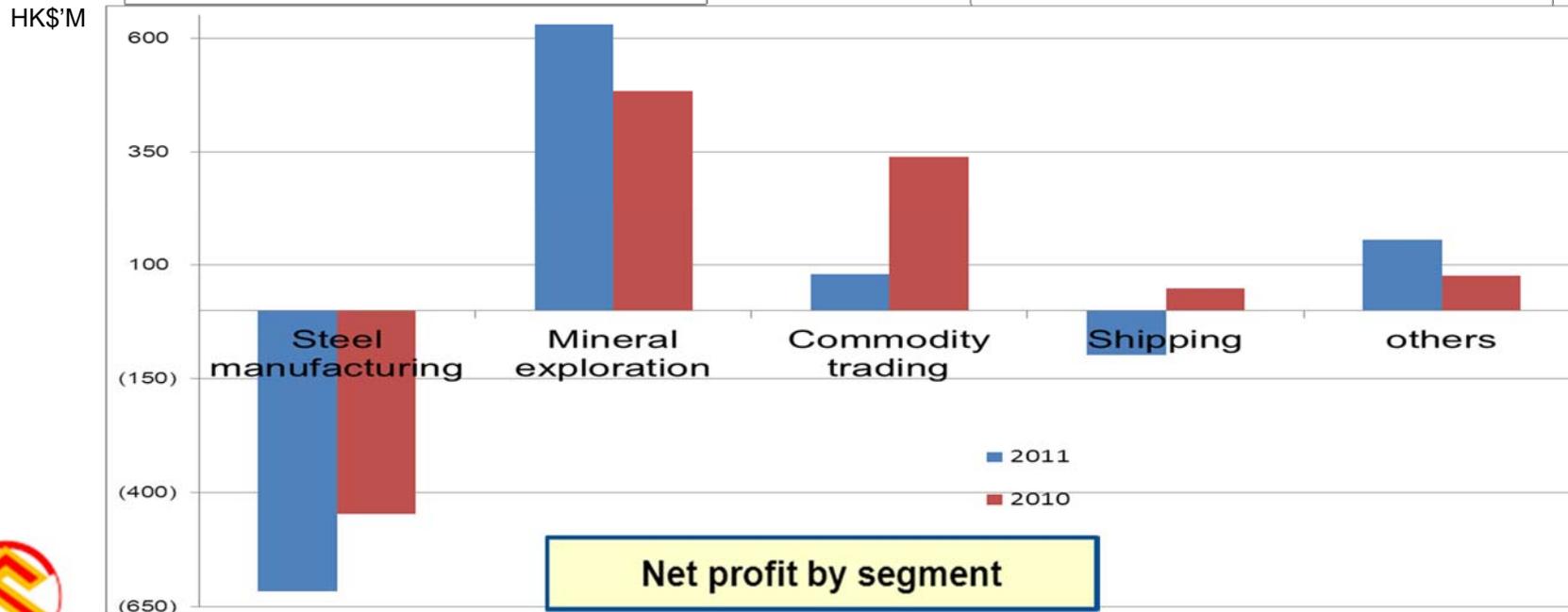
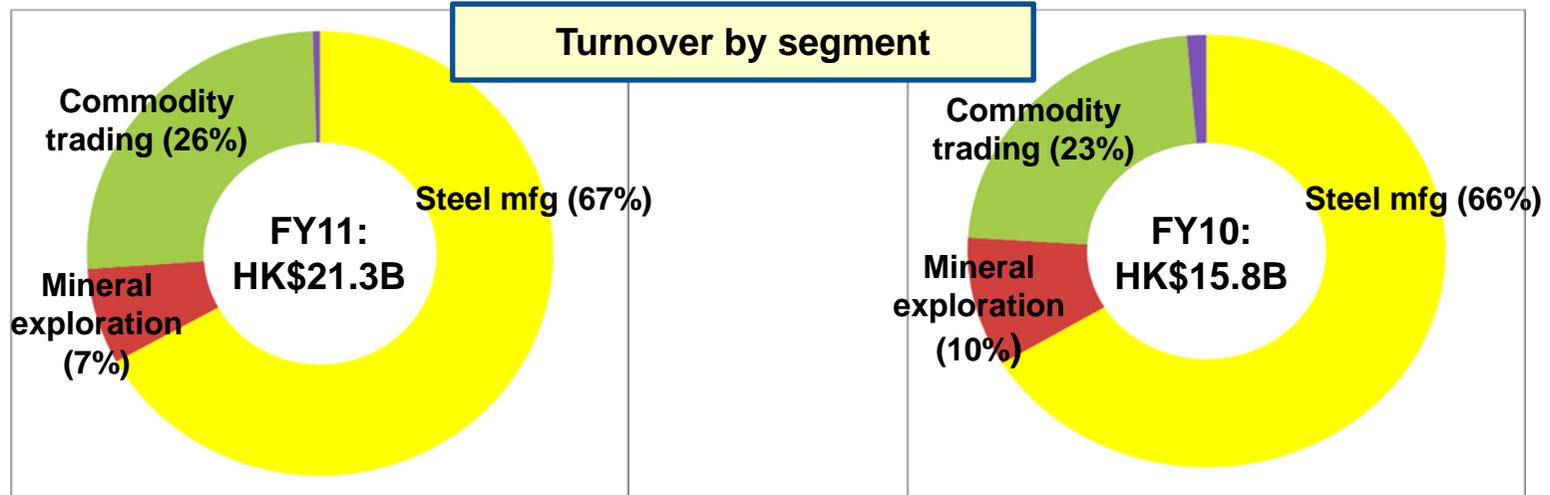
HK\$'M	2011	2010	Change
<b>Turnover</b>	21,343	15,850	35%
<b>Attributable Profit</b>	152	500	-70%
<i>Including: Mineral exploration segment</i>	630	483	30%
<i>Steel mfg segment</i>	(617)	(448)	38%
<i>Commodity trading segment</i>	80	340	-76%
<i>Mt. Gibson offtake gain, net</i>	324	147	120%
<b>EBITDA</b>	1,599	1,597	0%
Free Cash flow <sup>*</sup>	1,540	1,597	-4%
Net debt to total capital	43.9%	45.7%	-4%
Basic EPS (HK cents)	1.78	6.11	-71%
Net asset per share (HK\$)	1.13	1.17	-3%

- ◆ Group results were impacted by weaker steel market and trading results, boosted by upstream
- ◆ Capital discipline seen from FCF and leverage ratio



\*FCF= Cash from operating activities-capex

# Financial Highlights



# Theme #1: Uncertainties abound

Positives

Negatives

Production cut

Demand from 5YPlan

Industry consolidation

Monetary tightening

Slowing FAI growth

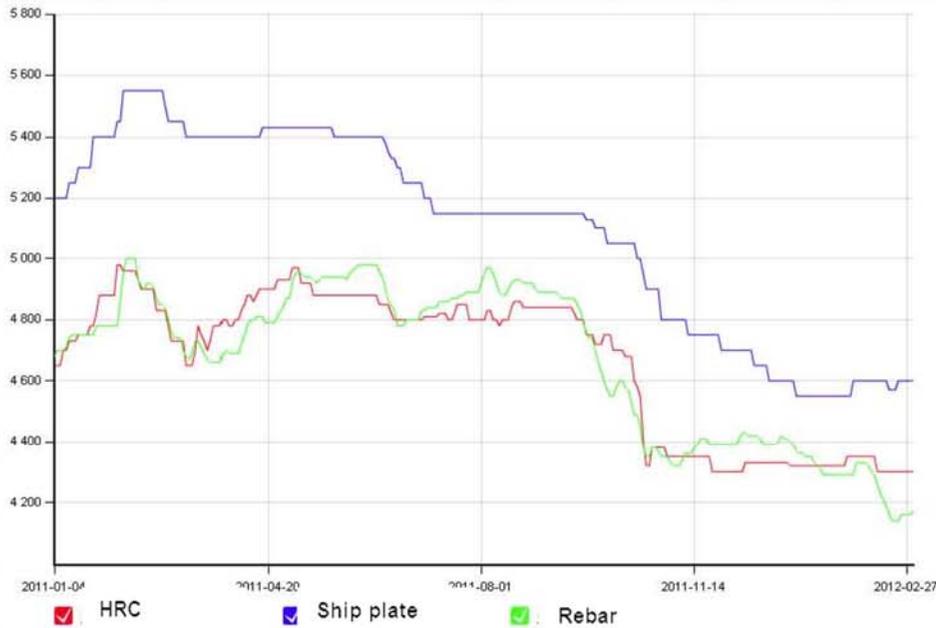
Slowing world economy

raw material cost



# Theme #2: High price/cost

Shanghai Trade price (RmB/t)



Iron ore prices rising fast



Source: mysteel, Deutsche Bank, Platts

- ◆ Steel prices have dropped but iron ore cost has remained high, resulting in margin squeeze
- ◆ This trend has continued into early 2012



# Steel Manufacturing



## Shouqin 首秦

Vertically integrated steel mill; Capacity: 3.6mtpa in slabs\* and 1.8mtpa in plates (4.3m width max.)



## QZP 秦板

Re-roller  
0.8mtpa in plates  
(3m width max.)

## Pipeline steel plates (X65, X70, X80 and above)



- No. 2 in China (in production)
- 12% p.a. demand growth in oil/gas pipes (12<sup>th</sup> 5Y Plan)

## Wind power base plates

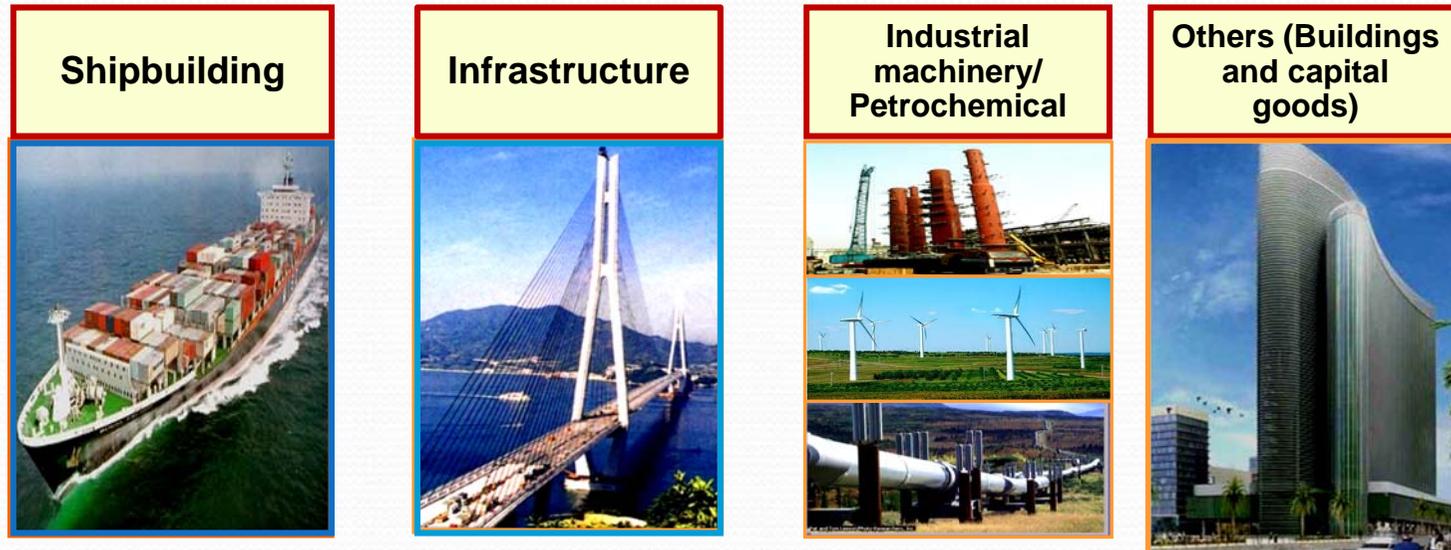


- Replacement of European Special thick plates (220mm), for export



\*Shouqin owns 3 slab casters with total capacity of 3.6mmt., while the raw steel capacity (limited by size of blast furnace) is only 2.6mmt. Therefore, fully utilized casters means approx. 2.6mmt. in slabs currently.

# Planned Heavy Plate Output



## Industry Breakdown on Our Heavy Plate Output

	Shipbuilding	Infrastructure	Industrial machinery/Petrochemical	Others (Buildings and capital goods)
<b>FY11</b>	30%	25%	35%	10%
<b>FY12E</b>	25%	20%	45%	10%



# Mineral Exploration: Fushan



27%\* equity stake



HK:639

## SHOUGANG FUSHAN RESOURCES GROUP LTD.

- ◆ Production: Premium HCC >6mmt. p.a. in Shanxi, PRC
- ◆ Current GP >70%
- ◆ Financially hedged to our raw material coal needs
- ◆ Committed to distribute  $\geq 40\%$  of earnings as dividends

\*24.4% as of 30 June 2011. 27.2% from July 2011.



# Commodity Trading: Mt Gibson ore



Lifelong Offtake at below  
Platts price



## MOUNT GIBSON IRON LIMITED (MGX.AU)

- ◆ Production: 7 mmt. capacity (10 mmt. in FY12E); under lifelong offtake with us since Jul '09, about 4 mmt. in FY12, covering 70% of Talling Peak and 100% of Koolan Is.
- ◆ 2.9 mmt. sold at spread of about HK\$33/t (US\$4.2) in FY11

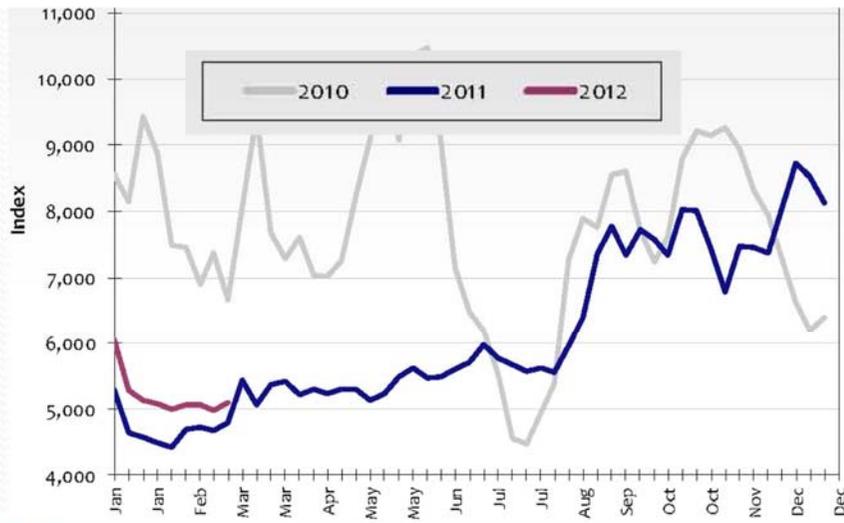


# Shipping



- ◆ 2 capesize vessels on 15-year leases (sale-and-leaseback) until Q3,'12, daily cost HK\$187k(US\$24k)
- ◆ Market remains sluggish in the near future
- ◆ Acts as a hedge to steel manufacturing for importing of raw materials

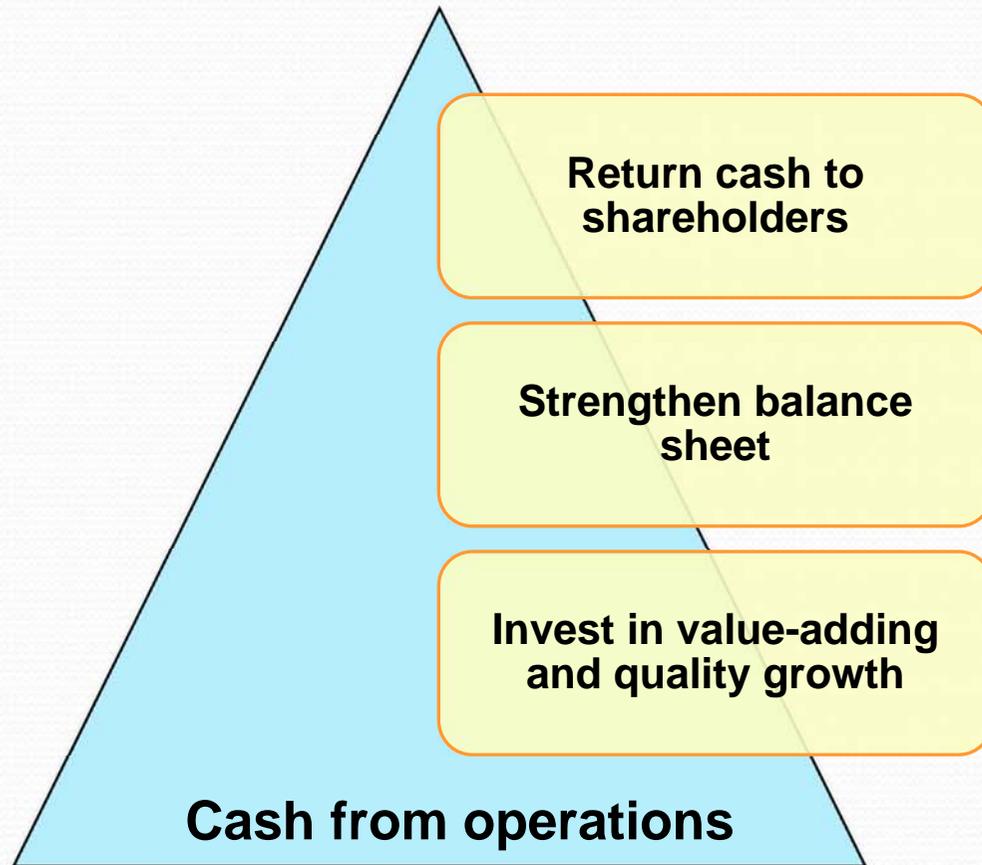
Pacific Capesize index (2010-2012)



Source: SSY Consultancy



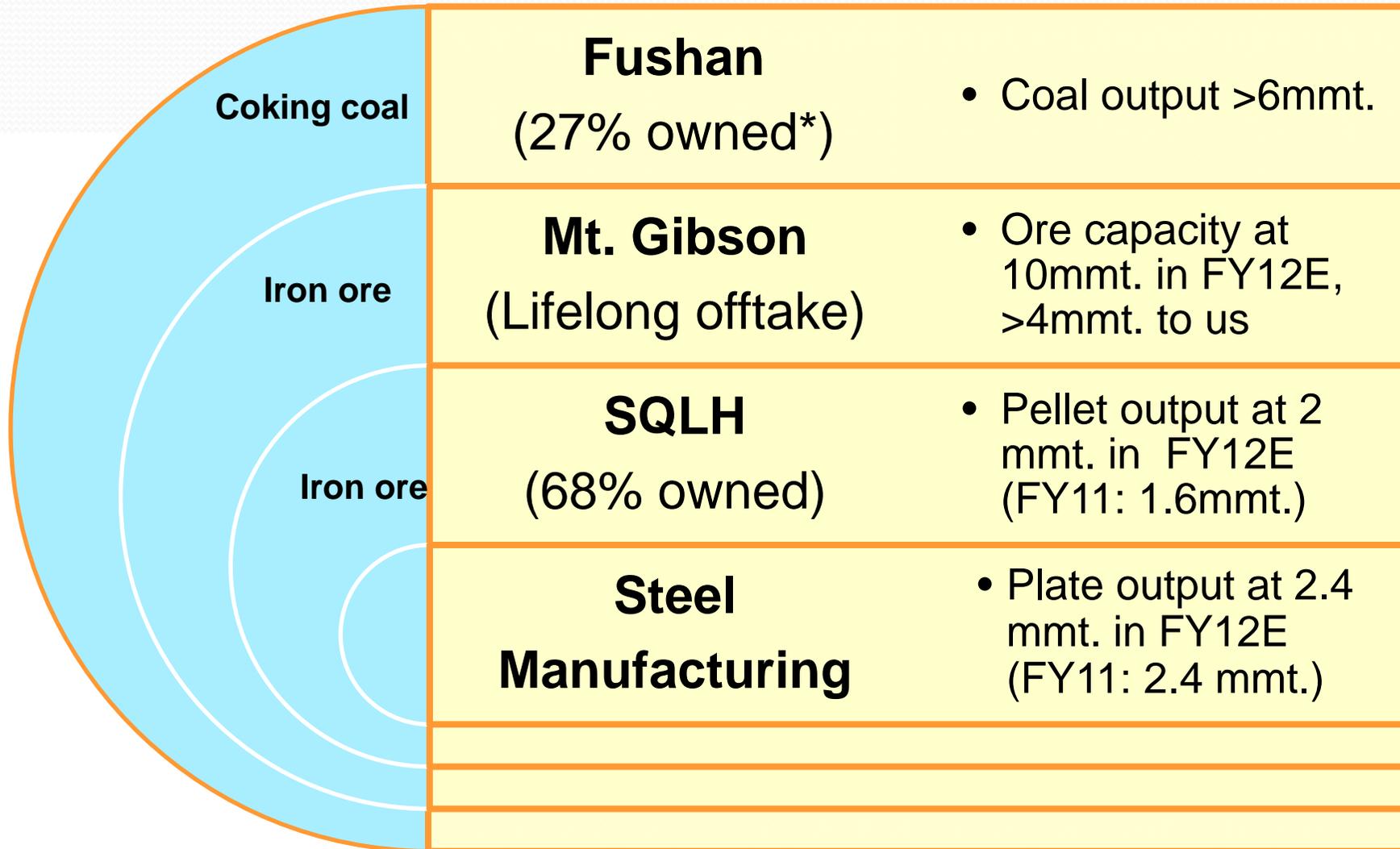
# Management Targets



- ◆ Prioritize capital on value-adding and quality growth
- ◆ Capex reduced to below HK\$250m. (RmB200m.) p.a. (approx. 70% are final payments of finished works)
- ◆ Target leverage to normalize to 50%
- ◆ Resume long term dividend payout at 30-40% of earnings



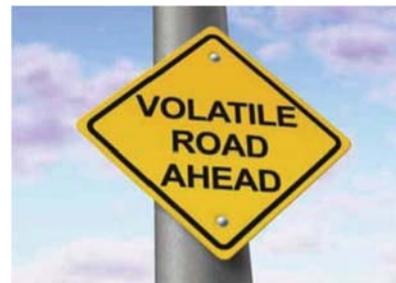
# Growth by Entity/Segment



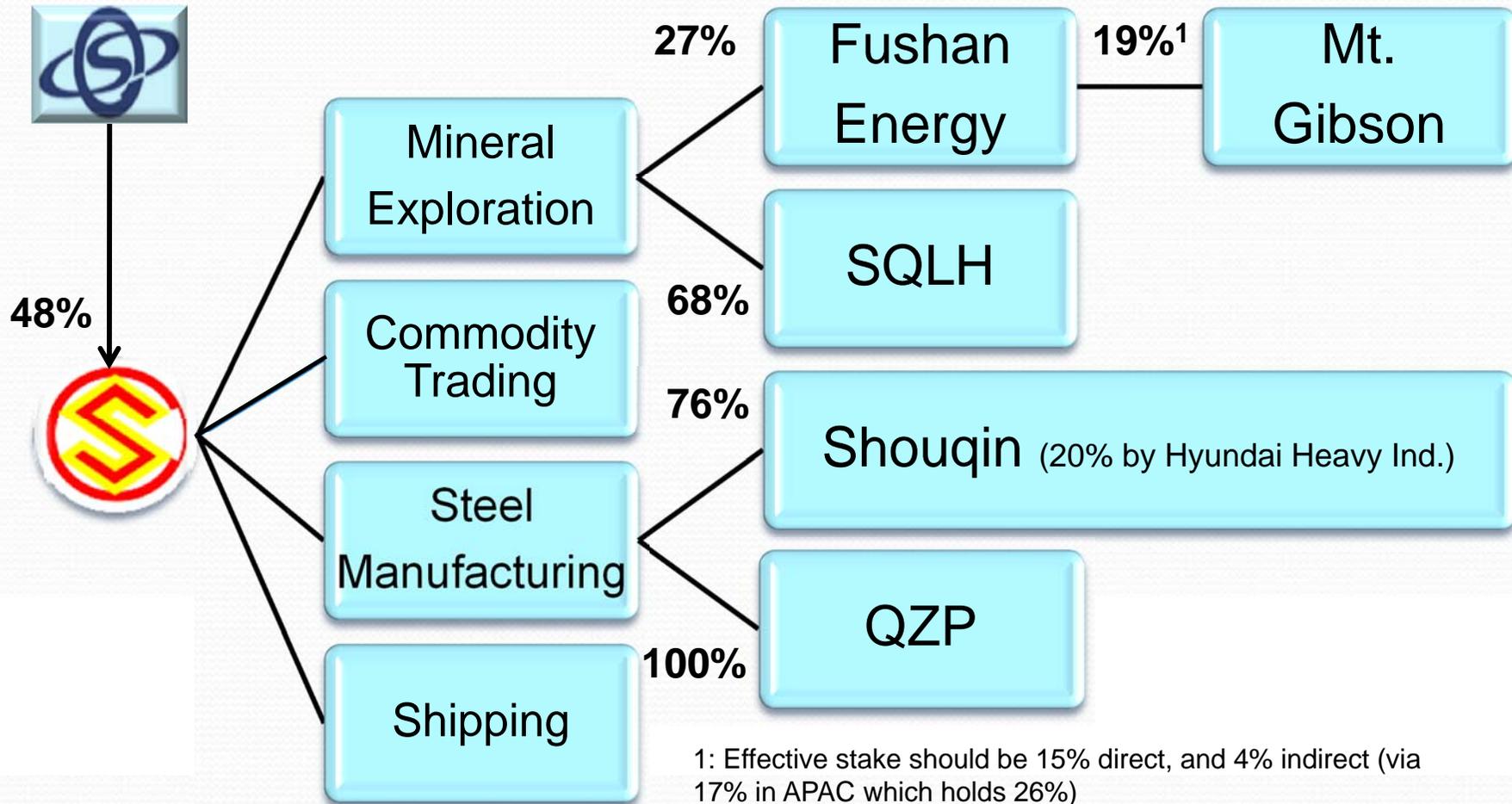
\* From end of July 2011

# Conclusion

- ◆ Steel prices are stabilizing in China but most large mills are barely profit-making
- ◆ High raw material cost lingers, especially for iron ore where significant supply growth is unlikely in the medium term
- ◆ Overcapacity and excessive production are still key issues, demand growth also slows currently
- ◆ Upstream contribution continues to help the difficult steel manufacturing segment
- ◆ Consider opportunities to expand upstream and downstream although we predict volatile road ahead



# Corporate Structure



1: Effective stake should be 15% direct, and 4% indirect (via 17% in APAC which holds 26%)



# Profit Reconciliation

HK\$'M.	2011	2010
<b>Profit attributable to shareholders</b>	152	500
Significant non-cash (gain)/loss		
FV gain on iron ore offtake contract	(324)	(147)
FV gain on acquisition of add. int. in Fushan	(108)	-
Impairment of equity inv in ARH	53	-
Provision for onerous contract-Shipping	47	-
Goodwill impairment-Shouqin	22	-
Employee share option expenses	19	35
<b>Adjusted (loss)/ profit</b>	<b>(139)</b>	<b>388</b>

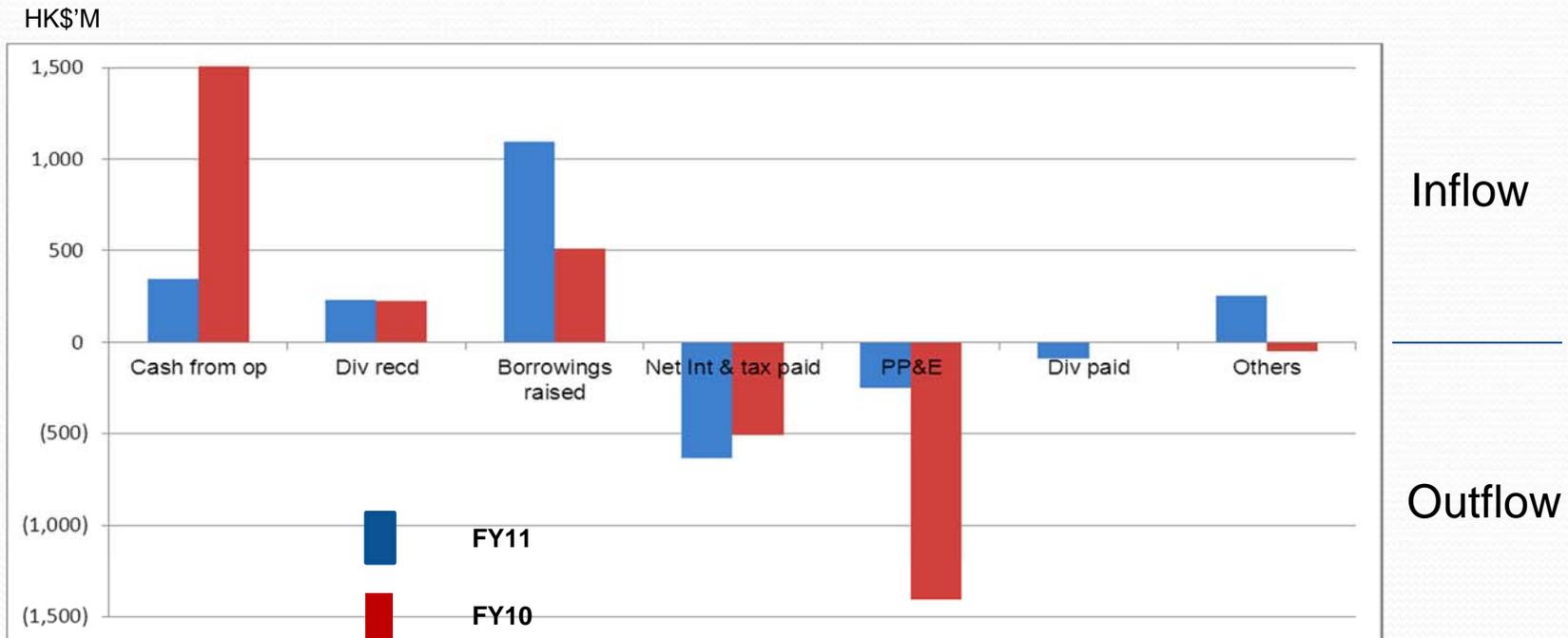


# Consolidated Balance Sheet

HK\$'M	2011	2010	Change
<b>NON-CURRENT ASSETS</b>	21,857	20,433	7%
<i>Including: Associates</i>	7,574	6,743	12%
<i>Including: Fixed assets, net</i>	12,851	12,488	3%
<b>CURRENT ASSETS</b>	11,029	9,195	20%
<i>Including: Bank and cash</i>	2,473	1,984	25%
<b>LIABILITIES</b>	21,770	18,932	15%
<i>Including: Bank borrowings</i>	12,188	10,734	14%
<b>SHAREHOLDERS' EQUITY</b>	10,148	9,567	11%
Including: Reserves	8,358	7,932	14%
Non controlling interest	967	1,130	-3%
	<u>          </u>	<u>          </u>	
<i>Net debt/Total capital</i>	43.9%	45.7%	



# Cash Flow Profile



- ◆ Higher borrowings with cash increase of HK\$957 million for repayment in Hong Kong in Feb-2012
- ◆ Lower cash from op was coupled with sharp drop in PP&E, showing capital discipline.



# Mineral Exploration

HK\$'M	2011	2010	Change
Turnover *			
SQLH	2,550	2,357	8%
Represented by:			
Sales vol. ('000t.)	1,586	1,652	-4%
ASP (HK\$)	1,578	1,409	12%
Attributable (loss)/profit to group *			
SQLH	(32)	71	N/A
Share of Fushan results	554	413	34%
FV gain on acquisition	108	-	
	630	483	30%



Note: Including sales of pellets to Shouqin at HK\$1062M (FY10: HK\$823M)

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



SHOUGANG FUSHAN



# Steel Manufacturing

SHOUQIN HK\$'M	2011	2010	Change
<b>Turnover (note)</b>	13,375	10,425	28%
<i>Dep. &amp; Amortization</i>	732	589	24%
<i>Financial cost</i>	418	344	22%
<i>Stock impairment</i>	48	8	500%
<b>Gross (loss)/profit</b>	(18)	130	N/A
<i>GP%</i>	-0.1%	1.2%	
<b>Net Loss*</b>	(785)	(437)	80%
EBITDA	389	473	-18%
Attributable to the Group	(560)	(323)	73%
<b>QZP</b>			
<b>Turnover</b>	3,792	3,370	13%
<i>Dep &amp; Amortization</i>	47	44	7%
<i>Financial cost</i>	47	25	88%
<i>Stock impairment</i>	3	-	N/A
<b>Gross Profit</b>	100	9	1011%
<i>GP%</i>	2.6%	0.3%	
<b>Net Loss</b>	(57)	(126)	-55%
EBITDA	73	(62)	-218%



Note: Including sales of slabs to QZP HK\$2,705M (FY10: HK\$3,005M) and turnover of downstream processing centre at \$688M (FY10: \$493M)

All figures are shown before elimination of intercompany, except \*attributable loss which is shown after elimination (Shouqin: 76% owned; QZP: 100% owned)



# Steel Manufacturing

In '000 mt.	Slabs		Heavy Plates	
	2011	2010	2011	2010
<b>(i) Production</b>				
Shouqin	2,553	2,394	1,759	1,313
QZP	---	---	609	639
<b>Total</b>	<b>2,553</b>	<b>2,394</b>	<b>2,368</b>	<b>1,952</b>
<b>Change</b>		<b>7%</b>		<b>21%</b>
<b>(ii) Sales</b>				
Shouqin#	571	927	1,753	1,283
QZP	---	--	566	576
<b>Total</b>	<b>571</b>	<b>927</b>	<b>2,319</b>	<b>1,859</b>
<b>Change</b>		<b>-38%</b>		<b>25%</b>



# 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 QZP, and are eliminated on consolidation.



# Commodity Trading

	2011	2010	Change
Mt. Gibson ore			
Ext sales vol. ('000t.)	2,933	2,978	-2%
ASP (US\$)	163	128	27%
Net profit* p/t- US\$	4.2	14.1	-70%
HK\$	33	110	
Turnover (HK\$'M.)			
Mt Gibson ore	3,715	2,948	26%
Coal trades	864	178	385%
Steel and others	884	466	90%
	<u>5,463</u>	<u>3,592</u>	52%
NP before prov. (HK\$'M)	103	340	-70%
less: Provision	(23)	-	
Net profit (HK\$'M)	<u>79</u>	<u>340</u>	-77%



- ◆ Mainly trades Mt. Gibson iron ore, coal products and steel
- ◆ Lower output from Mt. Gibson due to flooding. Some lump trades also negatively impacted margin, plus sharp drop in iron ore price in Oct '11.
- ◆ Mt Gibson vol. to go up



\* Before provision for subsequent sales

# Shipping

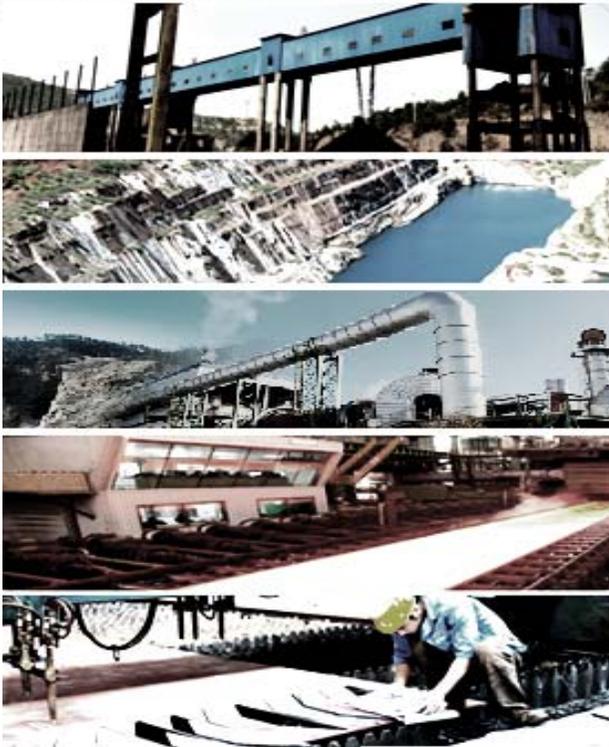
HK\$'M	2011	2010	Change
<b>Turnover</b>	141	207	-32%
less: Onerous contract provision	(46)	-	
<b>Gross (loss)/profit</b>	(88)	53	N/A
<i>GP%</i>	-62.4%	25.6%	
Net (loss)/profit	(97)	48	N/A

- ◆ Charter contract will expire by end of 2012
- ◆ Affected by lower rates market and a provision for onerous contract (conservative provision for expected losses upto contract expiry)





首長國際企業有限公司  
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# SHOUGANG CONCORD INTERNATIONAL ENTERPRISES CO., LTD.

Year ended 31 December 2011

## Annual Results Presentation

Visit us at <http://www.shougang-intl.com.hk> for updates