

# SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED



**For the year ended 31 December 2013**  
**Annual Results Presentation**

Stock : 697

# Content

- **Company Overview**
- **Industry Overview**
- **Financial Highlights**
- **Operation Review**



# Company overview

- **Listed in Hong Kong since 1992 through acquisition of Tung Wing Steel (Holdings) Ltd.**
- **Controlling shareholder is Shougang Corporation, which is under the supervision of the Beijing State-Owned Assets Supervision and Administration Commission**
- **Strategic shareholder also includes Cheung Kong (Holdings) Ltd.**
- **Specialized on steel manufacturing and production of heavy plates in PRC**
- **A vertically integrated operation from raw material base (iron ore and coking coal) to manufacturing (iron, steel, slab to plate)**



# Milestones

## 1992

Oct 1992

A consortium comprising Shougang Corporation, Cheung Kong (Holdings) Ltd and CEF Holdings Ltd acquired a controlling stake in Tung Wing Steel Holdings (Tung Wing)

## 1993

Jul 1993

Tung Wing was renamed as Shougang Concord International Enterprises Company Limited

## 1994

Jul 1994

Acquired a 51% interest in Qinhuangdao Shougang Plate Mill Company Limited (QZP)

## 2003

Oct 2003

QZP acquired a 24% stake in Qinhuangdao Shouqin Metal Materials Company Limited (Shouqin)

## 2004

Aug 2004

Increased equity stake in Shouqin to 51%

Dec 2004

Increased equity stake in QZP to 100%

## 2005

Nov 2005

Increased equity stake in Shouqin to 96%



# Milestones

## 2007

Feb 2007

Transferred a 20% equity interest in Shouqin to Hyundai Heavy Industries Co. Ltd., reducing the Group's stake to 76%

## 2008

Nov 2008

Entered into off-take agreements with Mt. Gibson Iron Limited (Mount Gibson) for iron-ore supply to the Group

## 2009

Jan 2009

Acquired 14.3% stake in Mount Gibson

Feb 2009

First acquired Shougang Fushan Resources Group Limited (Shougang Resources) (equivalent to about 12.1% stake)

Sep 2009

Acquired additional ~213.9M shares in Shougang Resources by disposing 154M shares in Mt. Gibson to Shougang Resources. Equity stake in Shougang Resources increased to about 23.3%

## 2011

Jul 2011

The equity stake in Shougang Resources was further increased to 27.2% after acquisition of additional shares in Shougang Resources.



# Operation base



**Shanxi, Liulin County**  
- **Hard coking coal**  
- **via Shougang Resources**



**Hebei, Qinhuangdao**  
- **Steel plate**



**Shandong & Zhejiang**  
- **Steel Cord**  
- **via Shougang Century**

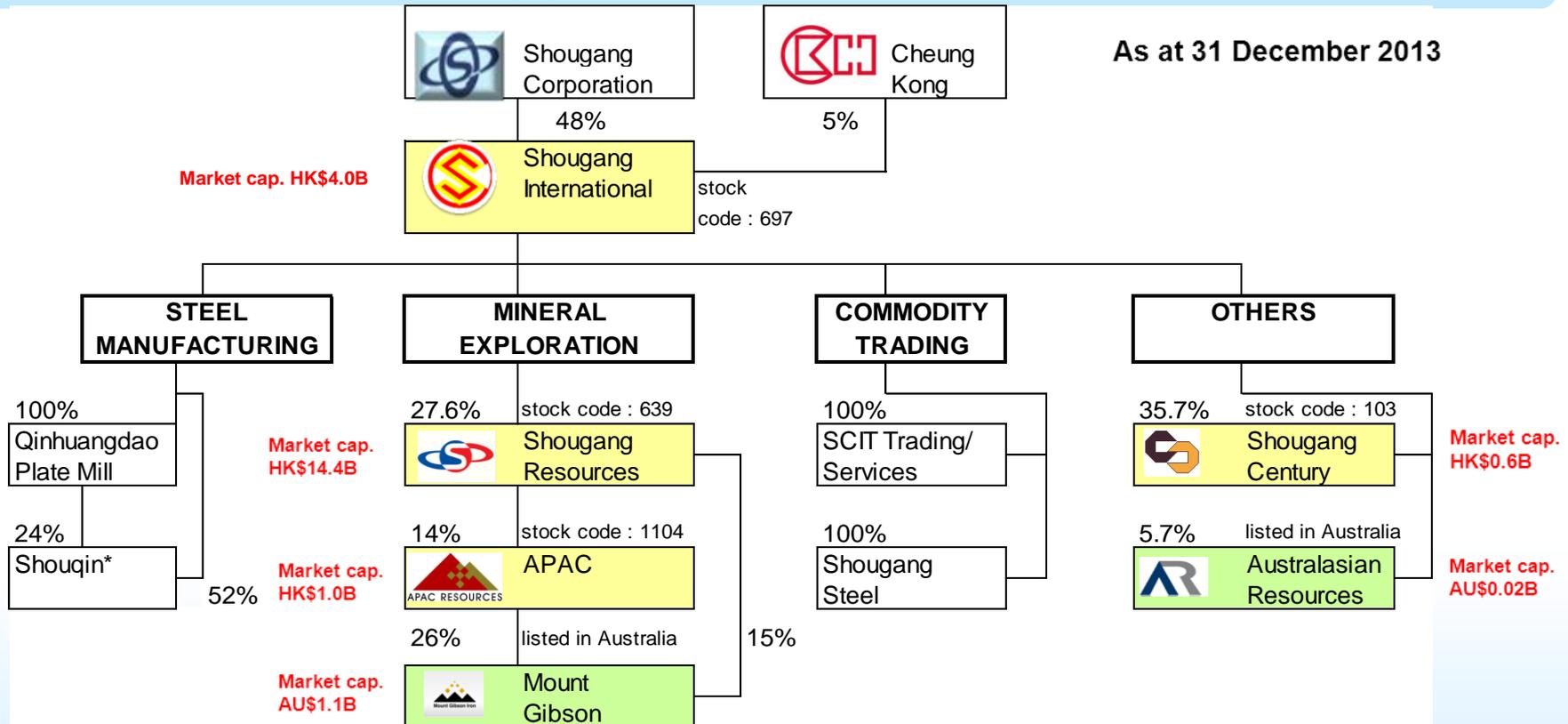


**Hong Kong**  
- **Trading of iron ore**  
- **Registered Office**



# Corporate structure

As at 31 December 2013



Shouqin is a JV between Shougang Corp. (4%), Shougang Concord Int'l (76%) and Hyundai Heavy Ind. (20%)





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No. 1

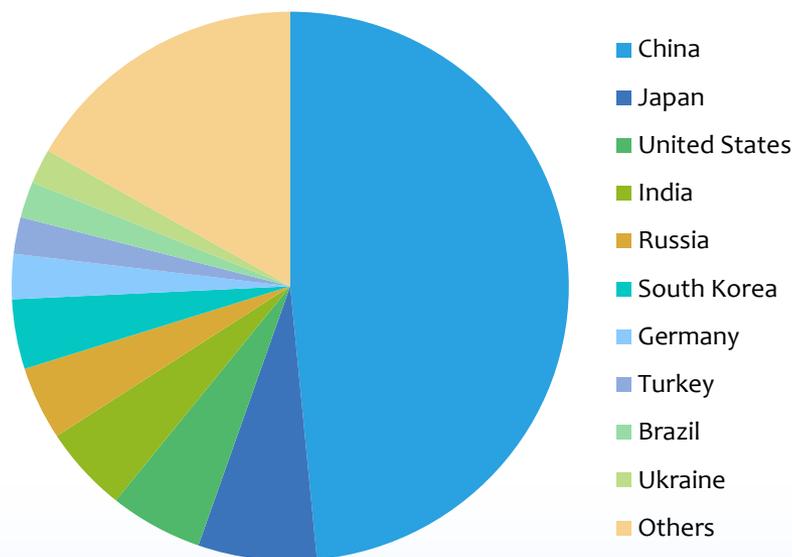
# Global steel production

## World top 10 producers



Crude steel production (million tonnes)

	2013	%	2012	%
<b>China</b>	<b>779</b>	<b>48.5%</b>	<b>725</b>	<b>46.7%</b>
Japan	111	6.9%	107	6.9%
United States	87	5.4%	89	5.7%
India	81	5.1%	77	5.0%
Russia	69	4.3%	70	4.5%
South Korea	66	4.1%	69	4.4%
Germany	43	2.7%	43	2.7%
Turkey	35	2.2%	36	2.3%
Brazil	34	2.1%	35	2.2%
Ukraine	33	2.0%	33	2.1%
Others	269	16.7%	269	17.3%
	<b>1,607</b>	<b>100.0%</b>	<b>1,553</b>	<b>100.0%</b>

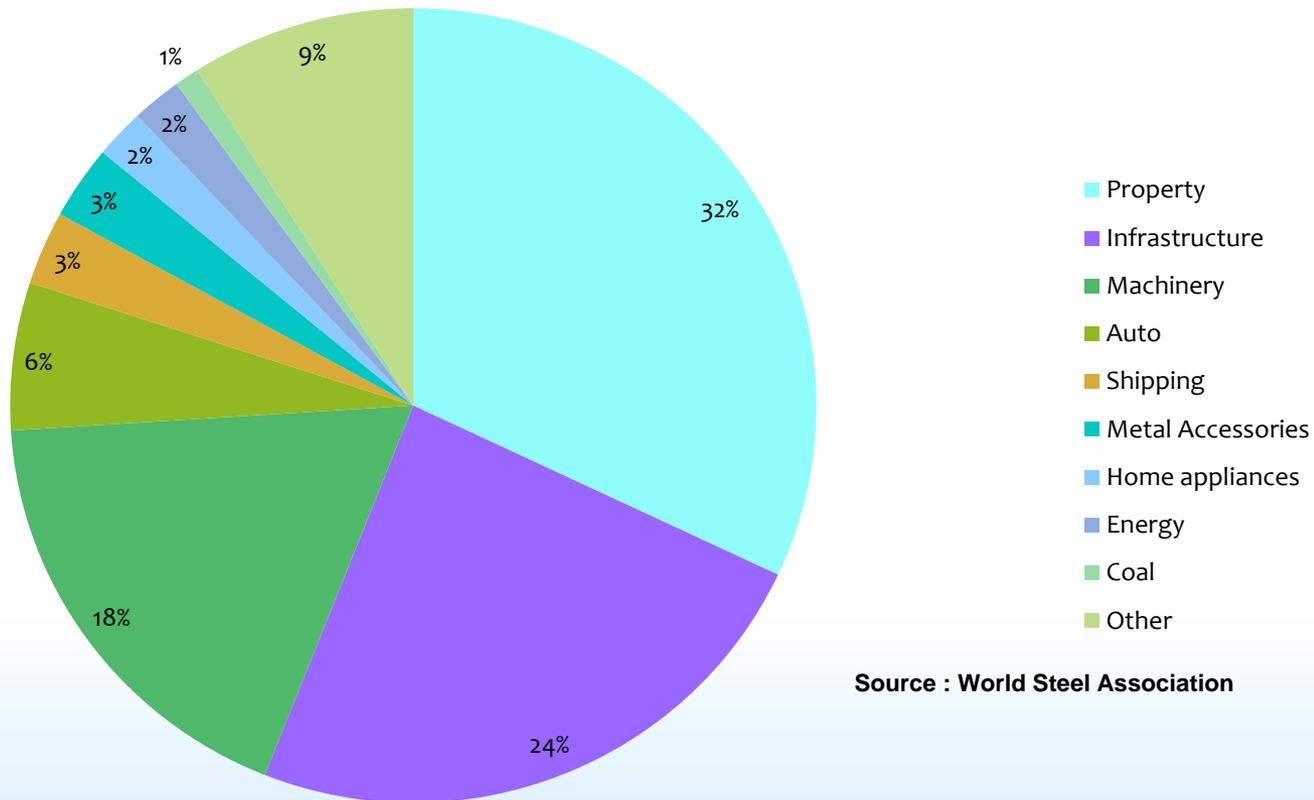


The crude steel production of China increased from 129 million tonnes in 2000 to 779 million tonnes in 2013, represented a CAGR of 14.8%. China steel production growth slowed in late 2013 and posted the first yoy monthly decline since August 2012 in January 2014. The average global capacity utilisation in 2013 was 78.1% compared to 76.2% in 2012.



Source : World Steel Association

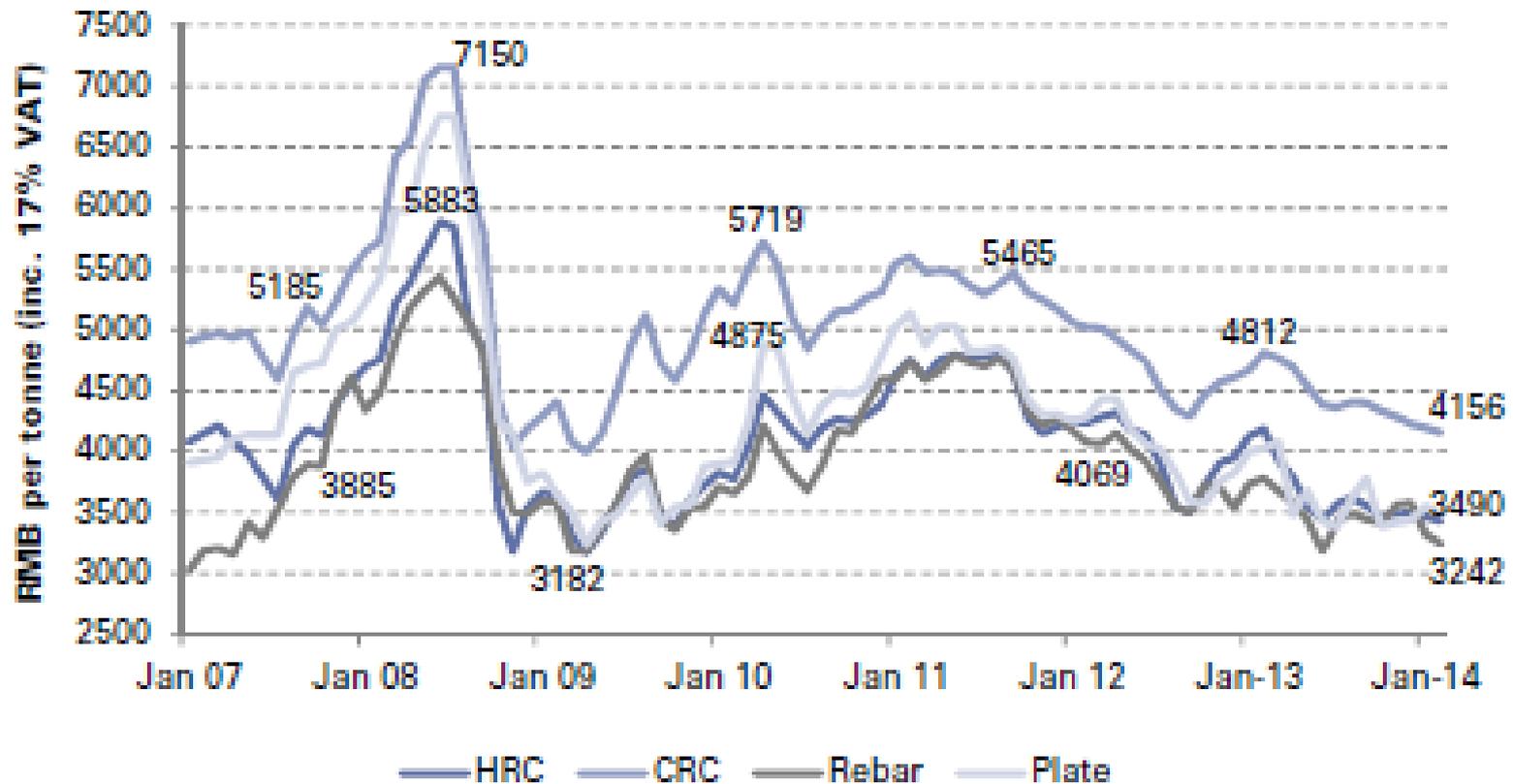
# China steel consumption



Source : World Steel Association

# Steel price

China HRC, Rebar, CR sheet and wire rod weekly price trends, RMB/t



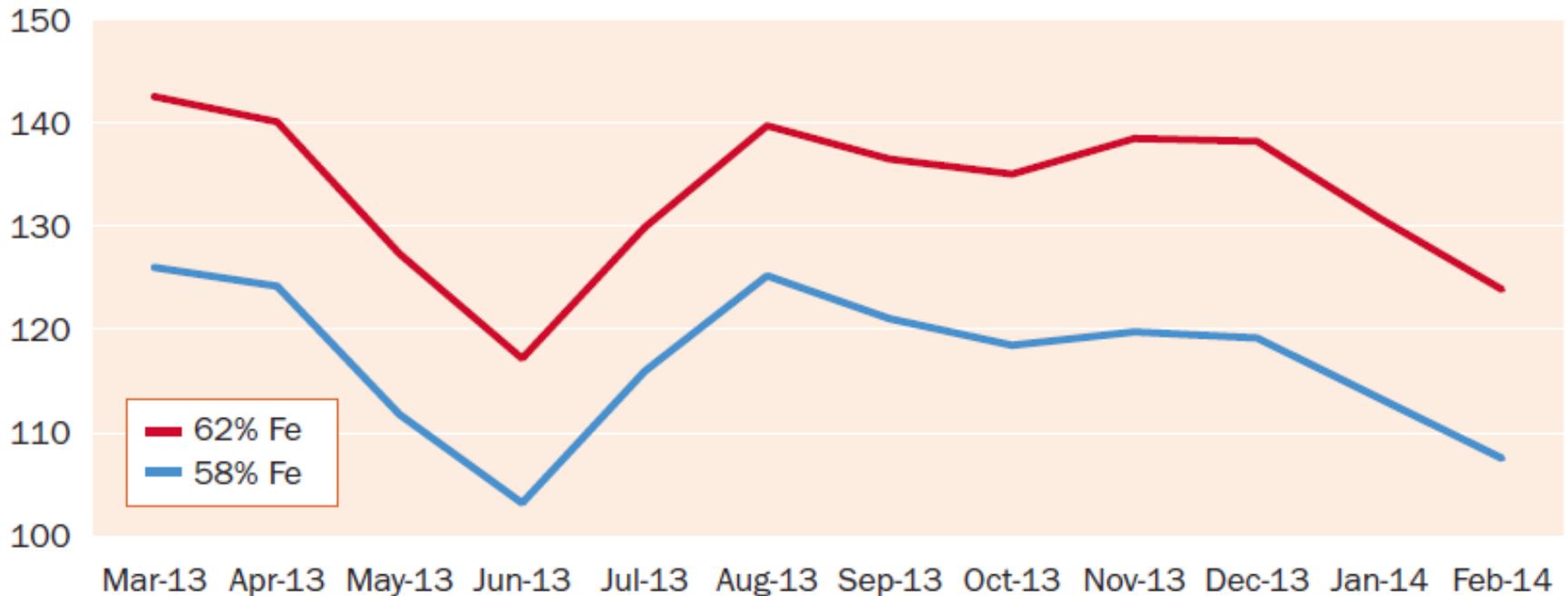
Source: SBB



Steel price today is just like the price of 7 years ago.

# Iron ore price

Platts 62% & 58% Fe iron ore monthly averages CFR China (\$/dmt)



Source: Platts

**Iron ore is the most important raw material in producing slab, one ton of slab production requires 1.6 tonnes of iron ore input. Iron ore price dropped from USD135 at the end of 2013 to the latest low USD105 level, down by 22%.**



# Coke price

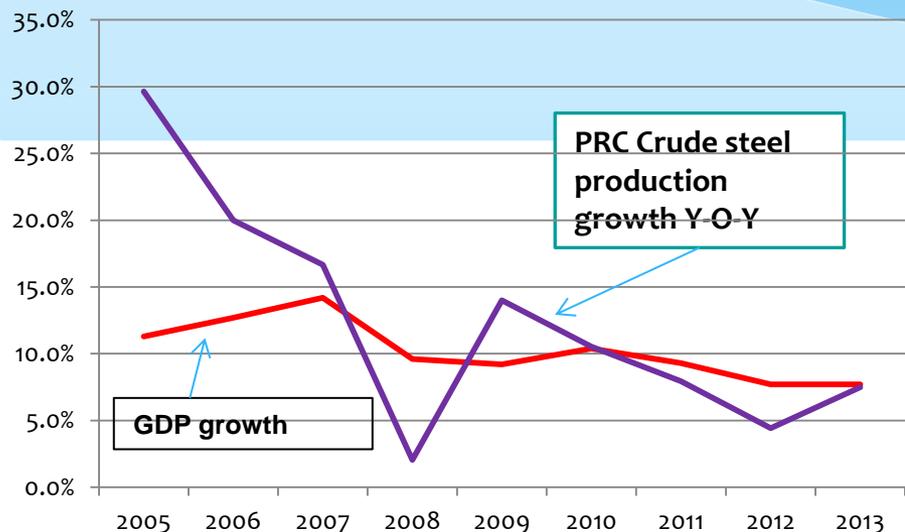


**Coke is the second important element in producing slab. One ton of slab production requires 0.4 ton of coke input.**

Source : Steel home



# China and world economy



	2011	2012	Projections	
			2013	2014
<b>World Output</b>	3.9	3.2	2.9	3.6
<b>Advanced Economies</b>	1.7	1.5	1.2	2.0
United States	1.8	2.8	1.6	2.6
Euro Area	1.5	-0.6	-0.4	1.0
Germany	3.4	0.9	0.5	1.4
France	2.0	0.0	0.2	1.0
Italy	0.4	-2.4	-1.8	0.7
Spain	0.1	-1.6	-1.3	0.2
Japan	-0.6	2.0	2.0	1.2
United Kingdom	1.1	0.2	1.4	1.9
Canada	2.5	1.7	1.6	2.2
Other Advanced Economies	3.2	1.9	2.3	3.1
<b>Emerging and Developing Economies</b>	6.2	4.9	4.5	5.1
Central and Eastern Europe	5.4	1.4	2.3	2.7
Commonwealth of Independent States	4.8	3.4	2.1	3.4
Russia	4.3	3.4	1.5	3.0
Excluding Russia	6.1	3.3	3.6	4.2
<b>Developing Asia</b>	7.8	6.4	6.3	6.5
<b>China</b>	9.3	7.7	7.6	7.3
India	6.3	3.2	3.8	5.1
ASEAN-5 <sup>1</sup>	4.5	6.2	5.0	5.4
Latin America and the Caribbean	4.6	2.9	2.7	3.1
Brazil	2.7	0.9	2.5	2.5
Mexico	4.0	3.6	1.2	3.0
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.6	2.3	3.6
Sub-Saharan Africa	5.5	4.9	5.0	6.0
South Africa	3.5	2.5	2.0	2.9

Source: IMF, *World Economic Outlook*, October 2013.  
<sup>1</sup>Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

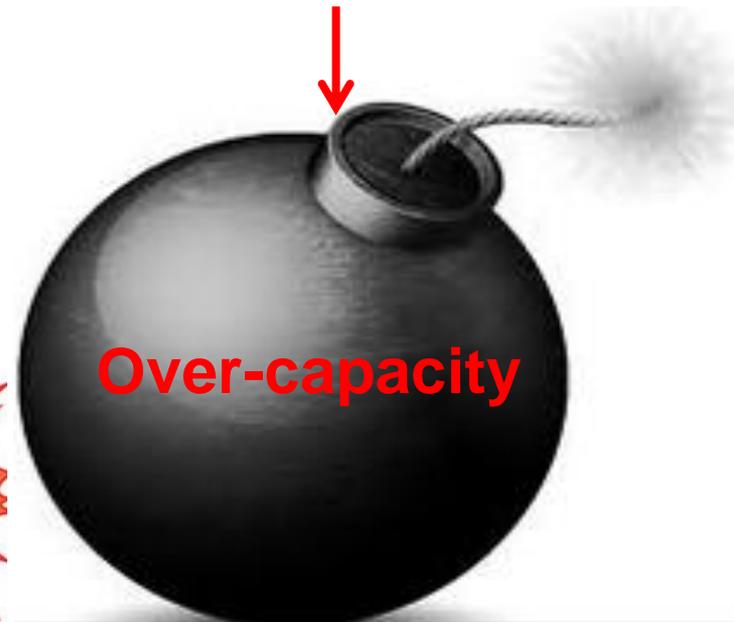


# Industry outlook



← **Positive**

**Negative**



**Over-capacity**





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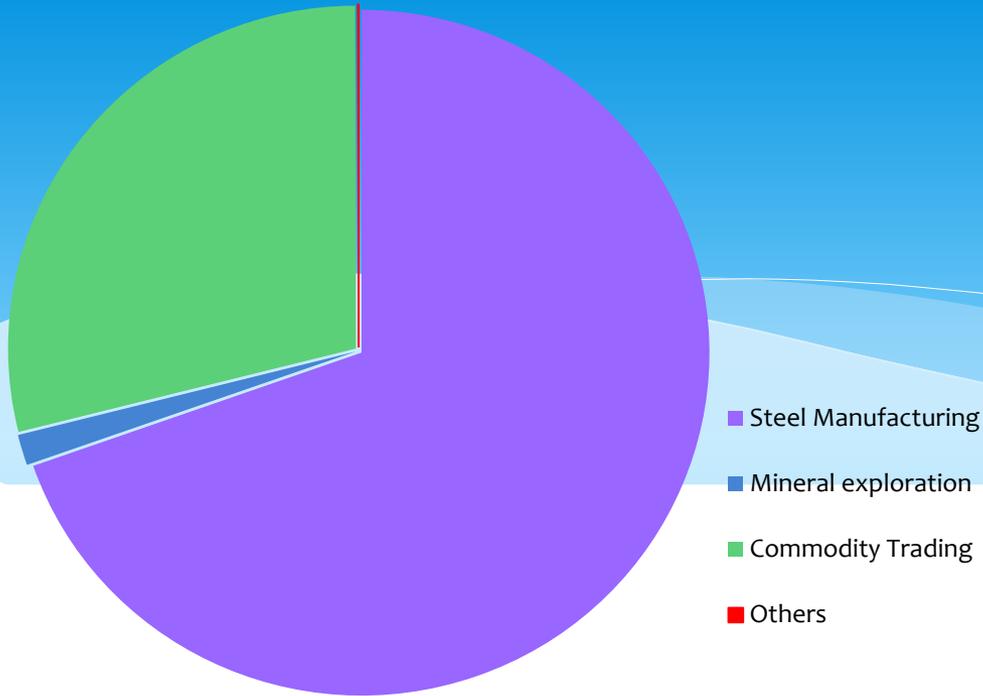


# Financial highlights

HK\$'M	2013	2012	Change
Turnover	15,266	16,216	-6%
Attributable loss to shareholders	(1,396)	(1,947)	-28%
<b>Including loss from principal business : Steel manufacturing segment</b>	<b>(1,502)</b>	<b>(1,648)</b>	<b>-9%</b>
Basic Loss per share (HK cents)	(15.58)	(21.75)	-28%
Net asset per share (HK\$)	0.76	0.90	-16%
Net debt to total capital	45.4%	45.9%	-0.5%



# Turnover



HK\$' M	Turnover				
	2013		2012	Change	
Steel Manufacturing	10,614	70%	11,245	69%	-6%
Mineral exploration	222	1%	625	4%	-64%
Commodity Trading	4,427	29%	4,337	27%	2%
Others	3	0%	9	0%	-67%
	<b>15,266</b>	<b>100%</b>	<b>16,216</b>	<b>100%</b>	<b>-6%</b>



# Core operating loss

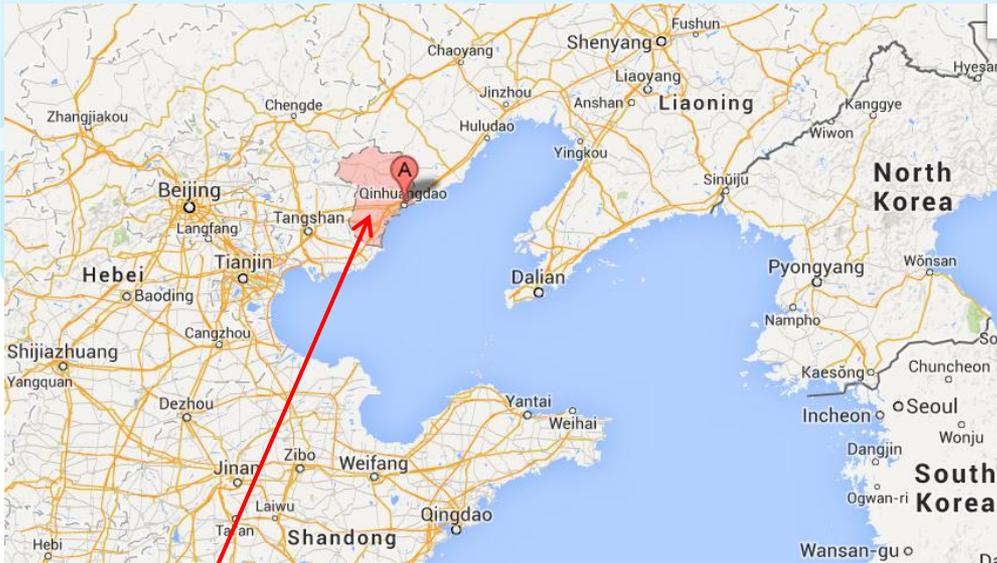
HK\$' M	2013	2012	Change
Loss before share of results in associates	(2,227)	(2,916)	24%
Share of results in associates	282	370	-24%
	(1,945)	(2,546)	
Non-recurring items/Impairment provision	293	432	32%
	(1,652)	(2,114)	
Minority interests of recurring items	507	522	3%
<b>Group core operating loss attributable to shareholders</b>	<b>(1,145)</b>	<b>(1,592)</b>	<b>28%</b>
Non-recurring items/Impairment provision	(293)	(432)	32%
Minority interests of non-recurring items/impairment provision	42	77	45%
<b>Loss attributable to shareholders</b>	<b>(1,396)</b>	<b>(1,947)</b>	<b>28%</b>

## By Business:

	2013	2012	Change
Steel Manufacturing	(1,502)	(1,648)	9%
Mineral exploration	13	174	-93%
Commodity Trading	326	(41)	N/M
Fair value change on Mt. Gibson Offtake contract	(160)	(60)	-167%
Goodwill impairment	-	(146)	N/M
Others	(73)	(197)	63%
	(1,396)	(1,918)	27%
Discontinued operation - Shipping	-	(29)	N/M
	(1,396)	(1,947)	28%



# Profit/(loss) by region



**Qinghuangdao area**  
**Non-Qinghuangdao area**  
**Fair value changes of offtake contract with Mt. Gibson**

	2013 HK\$'M	2012 HK\$'M
	(1,772)	(2,105)
	536	218
	(160)	(60)
	(1,396)	(1,947)

**Shouqin & Processing Centre**  
**Shouqin Longhui**  
**Qinghuadao Plate Mill**  
**Impairment on goodwill**

	2013 HK\$'M	2012 HK\$'M
	(1,367)	(1,489)
	(270)	(312)
	(135)	(158)
	-	(146)
	(1,772)	(2,105)

**Commodity trading**  
**Share of profit/(loss) from:**  
**Shougang Resources**  
**Shougang Century**  
**Others**

	2013 HK\$'M	2012 HK\$'M
	326	(41)
	283	486
	(6)	(107)
	(67)	(120)
	536	218



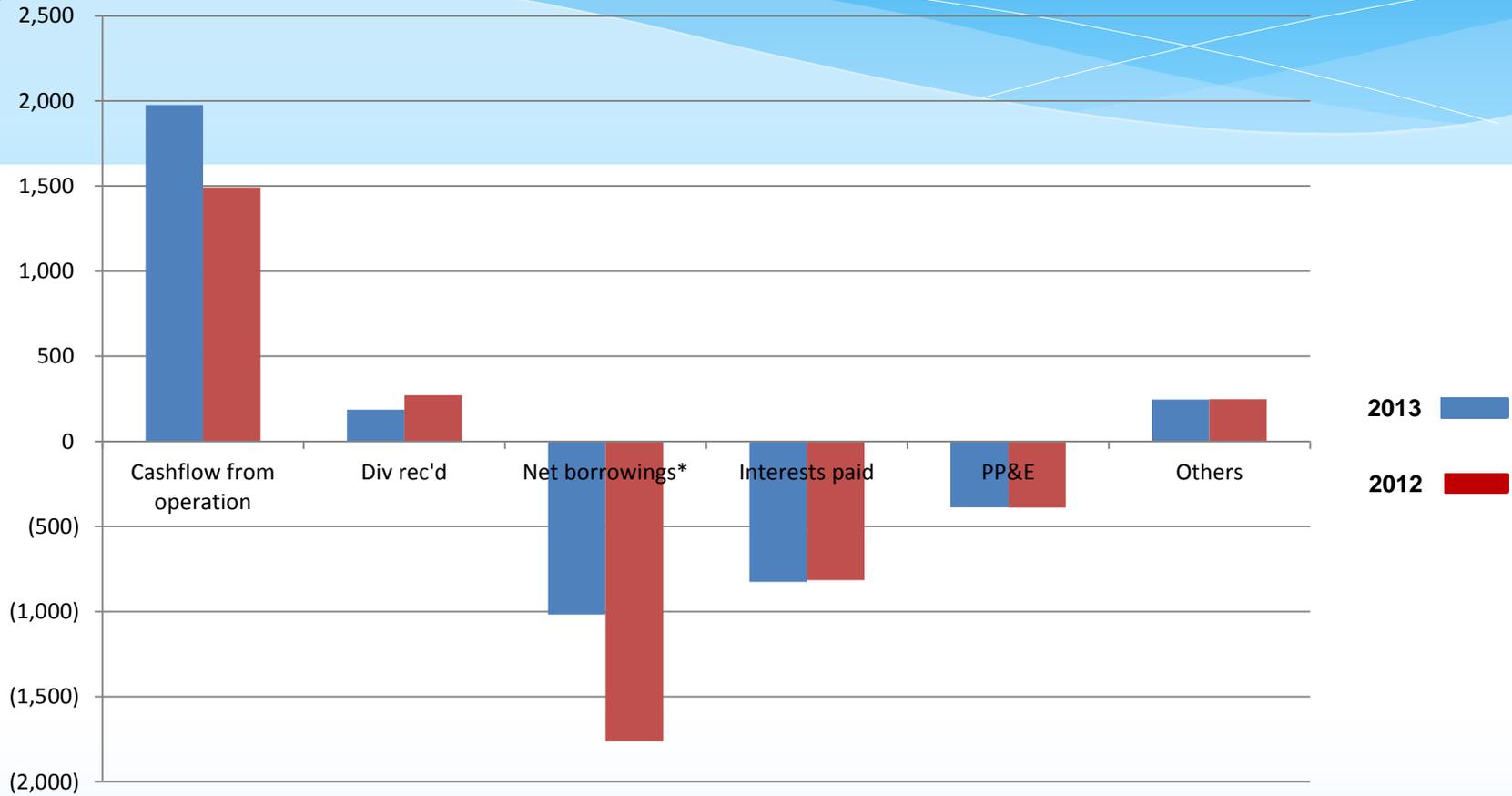
# Statement of financial position

HK\$'M	31 Dec 2013	31 Dec 2012	Change
<b>NON-CURRENT ASSETS</b>	<b>20,404</b>	<b>20,716</b>	<b>-2%</b>
Including: Associates	7,777	7,585	3%
Including: Fixed assets, net	11,440	11,651	-2%
<b>CURRENT ASSETS</b>	<b>8,165</b>	<b>8,670</b>	<b>-6%</b>
Including : Bank balances and cash	2,527	2,342	8%
<b>LIABILITIES</b>	<b>21,950</b>	<b>20,923</b>	<b>5%</b>
Including: Bank borrowings	9,596	10,743	-11%
<b>SHAREHOLDERS' EQUITY</b>	<b>6,802</b>	<b>8,093</b>	<b>-16%</b>
Non-controlling interest	(183)	370	N/M



# Cash flow profile

HK\$'M



# Net debt and leverage profile

HK\$'M	31-Dec-13	31-Dec-12
Debt from banks*	9,550	10,490
Debt from parent co.	893	869
<b>Total</b>	<b>10,443</b>	<b>11,359</b>
Cash and bank balance	2,612	2,435
<b>Net debt</b>	<b>7,831</b>	<b>8,924</b>
<b>Net debt to total capital</b>	<b>45%</b>	<b>46%</b>
<b>Net debt to total assets</b>	<b>27%</b>	<b>30%</b>



\* Excluding financing from discounted bills

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# 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.)



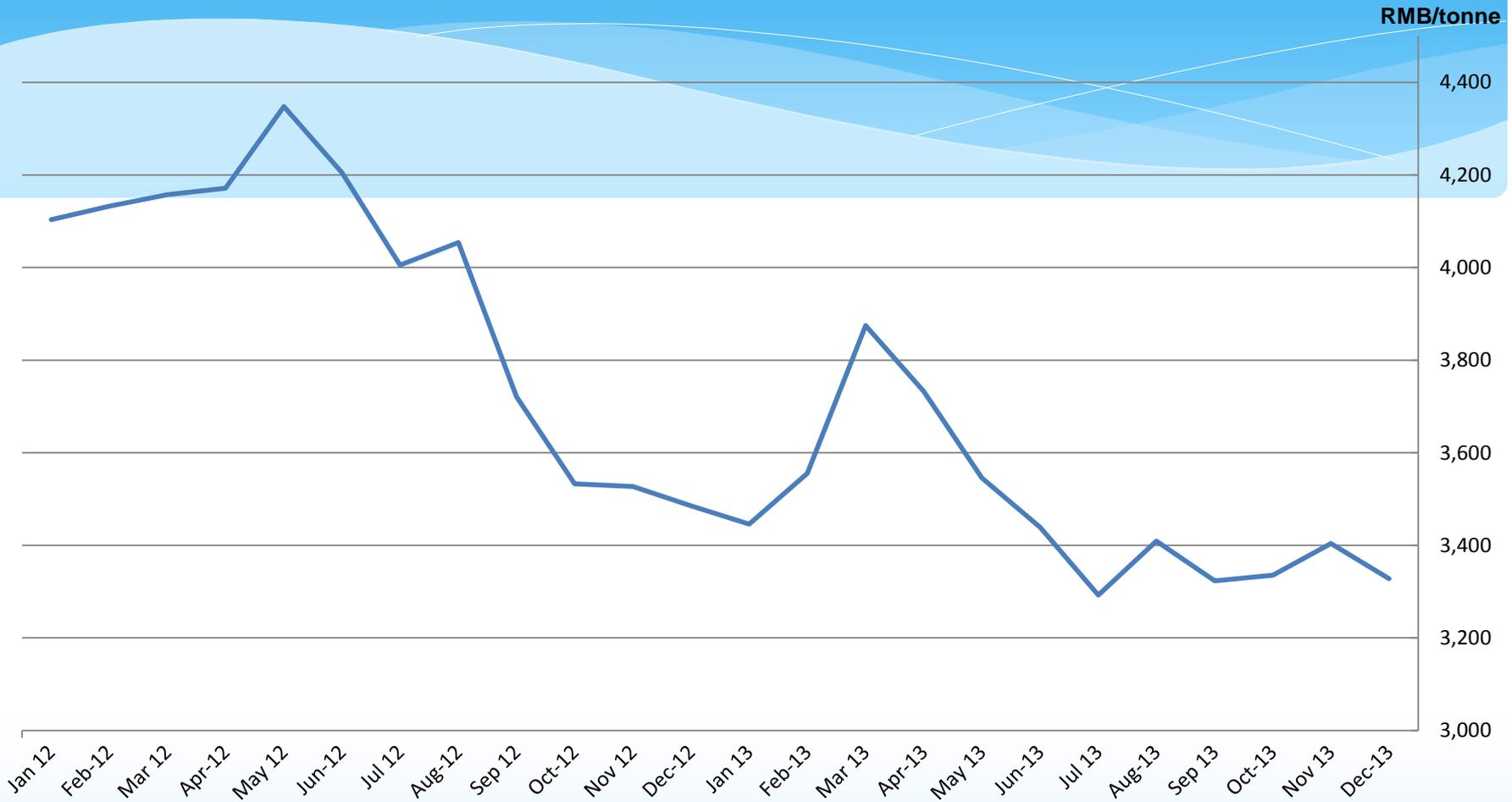
# Sales and production data

For the year ended 31 December	Slabs		Heavy Plates	
	2013	2012	2013	2012
<b>(i) Production (in '000 mt.)</b>				
Shouqin	2,367	2,473	1,663	1,623
Qinhuangdao Plate Mill	-	-	620	585
<b>Total</b>	<b>2,367</b>	<b>2,473</b>	<b>2,283</b>	<b>2,208</b>
<b>Change</b>	<b>-4%</b>		<b>+3%</b>	
<b>(ii) Sales (in '000 mt.)</b>				
Shouqin <sup>#</sup>	575	701	1,663	1,619
Qinhuangdao Plate Mill	-	-	614	547
<b>Total</b>	<b>575</b>	<b>701</b>	<b>2,277</b>	<b>2,166</b>
<b>Change</b>	<b>-18%</b>		<b>+5%</b>	
<b>(iii) Average ASP per ton (RMB)</b>				
Shouqin	2,755	2,985	3,572	4,078
Qinhuangdao Plate Mill	-	-	3,227	3,575
<b>Overall</b>	<b>2,755</b>	<b>2,985</b>	<b>3,479</b>	<b>3,951</b>
<b>Change</b>	<b>-8%</b>		<b>-12%</b>	



*#Difference between production and sales of slabs is mainly represented by those consumed by Shouqin internally to produce heavy plates; slabs sales mainly made towards Qinhuangdao Plate Mill and are eliminated on consolidation*

# Steel plate selling price by month



Source: Shouqin & QHD

# Cost structure

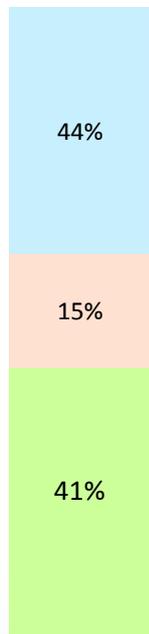
## 2013 Cost Structure

Rolling cost & others

Coke

Iron Ore

**Overall steel manufacturing cost will change as a result of increase/(decrease) in iron ore and coke price**



Coke	Iron Ore									
	-50%	-40%	-30%	-20%	-10%	0%	+10%	+20%	+30%	+40%
-40%	-27%	-22%	-18%	-14%	-10%	-6%	-2%	2%	6%	10%
-30%	-25%	-21%	-17%	-13%	-9%	-5%	0%	4%	8%	12%
-20%	-24%	-19%	-15%	-11%	-7%	-3%	1%	5%	9%	13%
-10%	-22%	-18%	-14%	-10%	-6%	-2%	3%	7%	11%	15%
0%	-21%	-16%	-12%	-8%	-4%	0%	4%	8%	12%	16%
+10%	-19%	-15%	-11%	-7%	-3%	2%	6%	10%	14%	18%
+20%	-18%	-13%	-9%	-5%	-1%	3%	7%	11%	15%	19%
+30%	-16%	-12%	-8%	-4%	0%	5%	9%	13%	17%	21%
+40%	-15%	-10%	-6%	-2%	2%	6%	10%	14%	18%	22%



# Steel manufacturing

## - segment results

### Shouqin & Processing Centre

HK\$'M	2013	2012	Change
Turnover (Note)	9,766	10,890	-10%
Gross loss	(916)	(1,003)	9%
GP%	-9.4%	-9.2%	
Net loss*	(1,799)	(1,961)	8%
Attributable to the Group	(1,367)	(1,490)	8%
Depreciation & Amortization	825	734	12%
Finance cost	591	579	2%

### QZP

HK\$'M			
Turnover	2,911	2,898	0%
Gross profit	44	7	529%
GP%	1.5%	0.2%	
Net loss	(135)	(158)	15%
Attributable to the Group	(135)	(158)	15%
Depreciation & Amortization	32	33	-3%
Financial cost	43	55	-22%

Total attributable loss - Shouqin + QZP	(1,502)	(1,648)	9%
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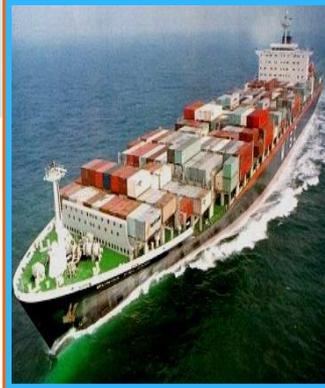


Note : All figures are shown before elimination of intercompany, except \*attributable loss which is shown after elimination



# Heavy plate output

**Shipbuilding**



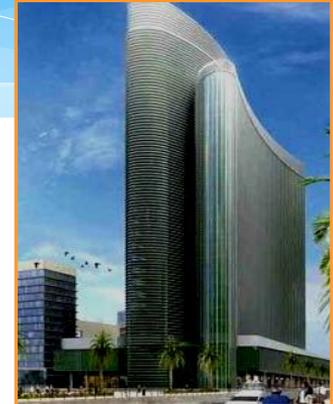
**Petrochemical**



**Industrial machinery/  
Infrastructure**



**Others (Buildings  
and capital  
goods)**



## Industry Breakdown on Our Heavy Plate Output

**2013**

**16%**

**9%**

**67%**

**8%**

**2012**

**25%**

**15%**

**50%**

**10%**



# Customers portfolio



# Mineral exploration: Shougang Resources



27.6% equity stake



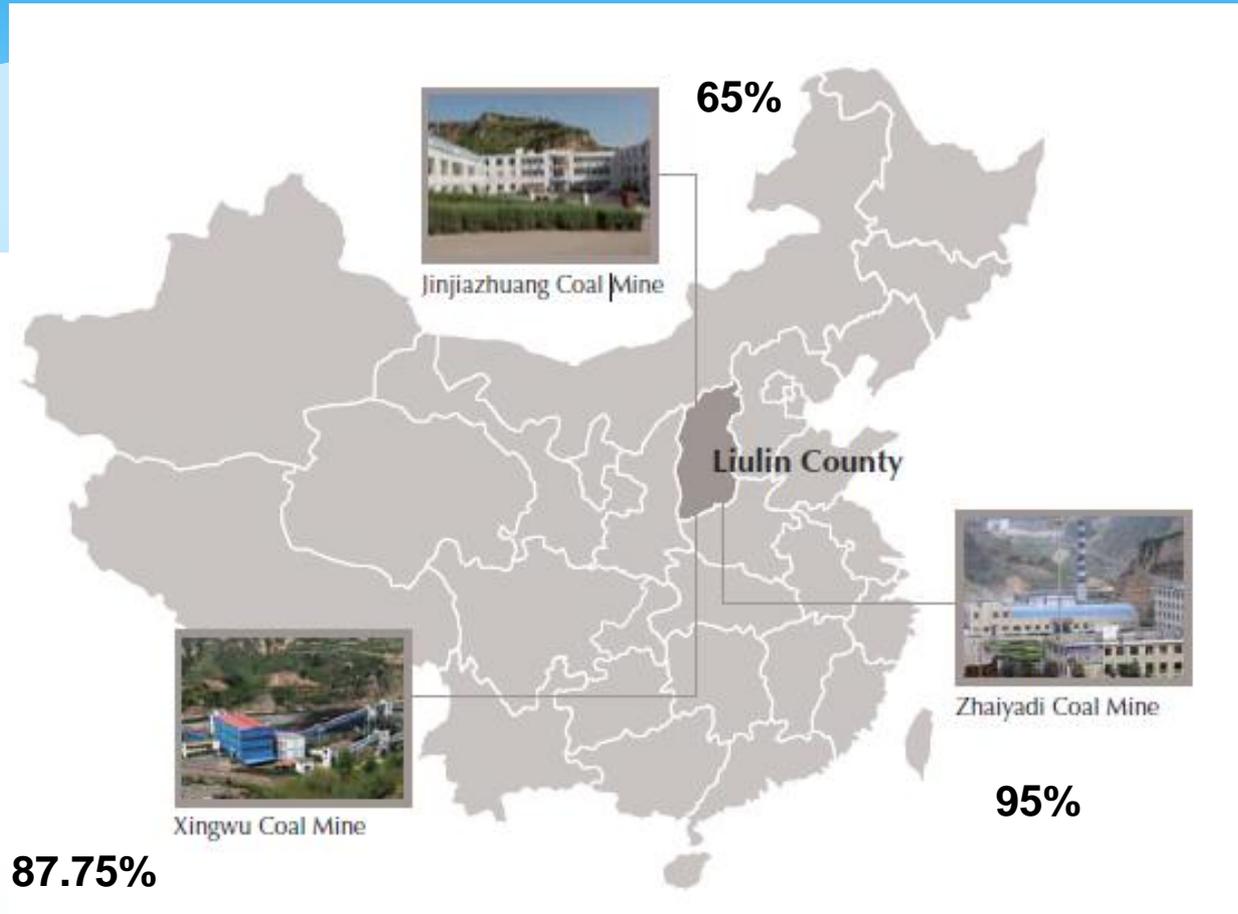
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## SHOUGANG FUSHAN RESOURCES GROUP LTD.

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



# Coking coal mines operated by Shougang Resources



Annual production of around 2.1 million tonnes for each mine



# Key data of Shougang Resources

	2013 HK\$'M	2012 HK\$'M		2013 HK\$'M	2012 HK\$'M		
<b>Turnover</b>	<b>4,268</b>	<b>5,651</b>	<b>-24.5%</b>	<b>Cash &amp; Bank balance</b>	<b>5,793</b>	<b>4,846</b>	<b>19.5%</b>
Raw Coking Coal (tonnes)	1,959,000	2,328,000	-15.9%	<b>Loan balance</b>	<b>580</b>	<b>1,075</b>	<b>-46.0%</b>
Price RMB/t	540	716	-24.6%	<b>Gross Assets</b>	<b>26,871</b>	<b>26,821</b>	<b>0.2%</b>
Clean Coking Coal (tonnes)	2,534,000	2,407,000	5.3%	<b>Net assets</b>	<b>19,927</b>	<b>19,224</b>	<b>3.7%</b>
Price RMB/t	920	1,216	-24.3%	<b>Gearing*</b>	<b>2.7%</b>	<b>5.2%</b>	
<b>GP %</b>	<b>50.9%</b>	<b>63.5%</b>	<b>-12.6%</b>				
<b>Net Profit</b>	<b>1,115</b>	<b>1,800</b>	<b>-38.1%</b>				
<b>Dividend per share (HK cents)</b>	<b>10.5</b>	<b>15.0</b>	<b>-30.0%</b>				
Interim	2.7	5.0	-46.0%				
Final	7.8	10.0	-22.0%				

\* Gearing ratio is defined as total borrowings divided by total equity.



# Major shareholders of Shougang Resources

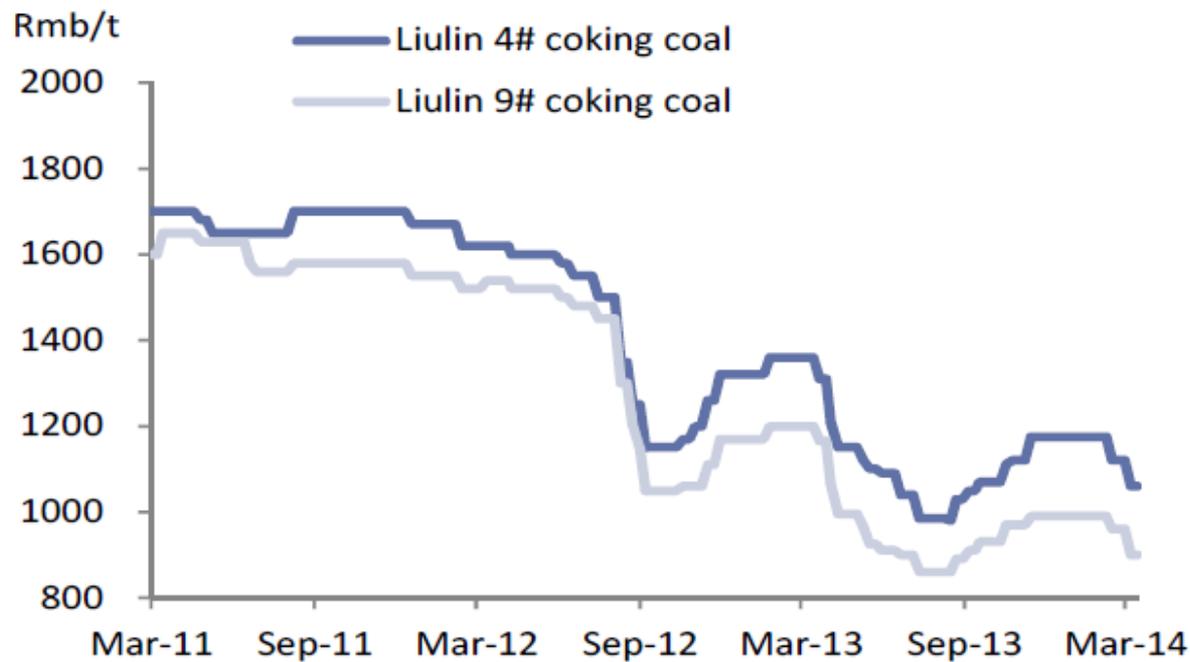
	As at 31 Dec 2013	As at 31 Dec 2012	Changes
Shougang Concord International Enterprises Co. Ltd	27.61%	27.61%	
Other Shougang companies	2.24%	2.24%	
Shougang Holding (Hong Kong) Limited	29.85%	29.85%	
Sino Life Insurance Co.,Ltd.	25.04%	5.19%	19.85%
Xing Libin	4.95%	11.19%	-6.24%
Other Shareholders	40.16%	53.77%	-13.61%
	<u>100.00%</u>	<u>100.00%</u>	

Sino Life Insurance acquired additional 19.85% interests in Shougang Resources during the year and became the 2<sup>nd</sup> largest shareholder. The previous 2<sup>nd</sup> largest shareholder , Xing Libin disposed 6.24% interests in 2013 and now is the 3<sup>rd</sup> largest shareholder in Shougang Resources.



# Coking coal price

## Coking coal prices in Shanxi's Liulin region



Source: SXCcoal.

# Mineral exploration

## - segment results

HK\$'M	2013	2012	Change
<b>Turnover</b>			
SQLH (Note)	642	1,543	-58%
<b>Represented by:</b>			
Sales vol. ('000t)	432	1,100	-61%
ASP (HK\$)	1,286	1,325	-3%



<b>Attributable (loss)/profit</b>			
to group			
SQLH	(270)	(312)	13%
Share of Fushan results	283	469	-40%
Deemed gain on share of add'l Fushan's net assets as a result of shares repurchases by Fushan	-	17	N/M
	<u>13</u>	<u>174</u>	<u>-93%</u>

Note: All figures are shown before elimination of intercompany



# Commodity trading: Mt Gibson Iron ore



Lifelong Offtake at below  
Platts price



## MOUNT GIBSON IRON LIMITED (MGX.AU)

- ◆ Supplier for trading business
- ◆ Production: lifelong offtake contract with us since Jul '09 for production in 2 mines namely, Talling Peak and Koolan Island
- ◆ After negotiation between Management and Mt. Gibson, from 2013 onwards, the offtake pricing method was changed to base on the daily average price of the Platts iron ore price index in the month of sales delivery instead of one month prior to sales delivery
- ◆ Greatly reducing the impact of bimonthly price fluctuations that may bring a loss



# Commodity trading

## – segment results

	2013	2012	Change
<b>Turnover (HK\$M)</b>			
Mt. Gibson iron ore	3,835	3,269	17%
Others	592	1,068	-45%
	<u>4,427</u>	<u>4,337</u>	2%
<b>Net profit/(loss) (HK\$M)</b>	326	(41)	N/M

<b>Mt. Gibson iron ore</b>			
Volume ('000)	3,695	3,359	10%
ASP (US\$/t)	133	123	8%
profit/(loss) (US\$/t)	11.5	(1.4)	N/M

- ◆ Mainly trades Mt. Gibson iron ore, coal and steel products



# Forward looking statements

This presentation contains “Forward-looking statements” that are not historical in nature. These forward-looking statements, which include, without limitation, statements regarding Shougang Concord International Enterprises Co., Ltd.’s future results of operations, financial condition or business prospects, are based on the current beliefs, assumptions, estimates and projections of the directors and management of the Company about the business, the industry and the markets in which the Company operates in. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Actual results could differ materially from those expressed, implied or forecasted in these forward-looking statements for a variety of factors.





**SHOUGANG CONCORD  
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