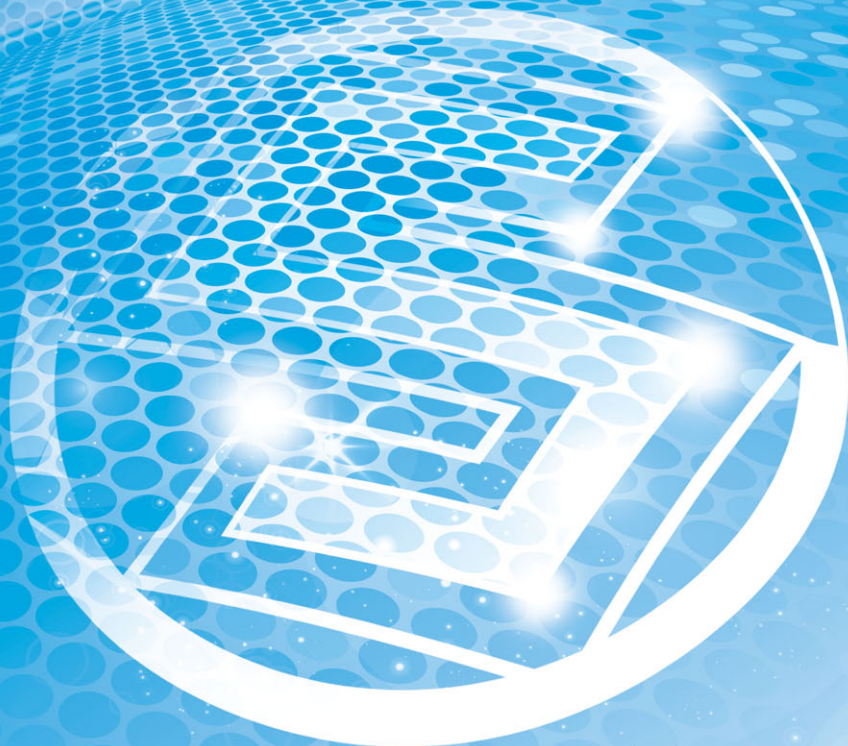




**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697



**INTERIM REPORT 2013**

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## CORPORATE INFORMATION

### Board of Directors

Xu Ning (*Chairman*)  
Li Shaofeng (*Managing Director*)  
Zhang Wenhui (*Deputy Managing Director*)  
Chen Zhouping (*Non-executive Director*)  
Ip Tak Chuen, Edmond (*Non-executive Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Kan Lai Kuen, Alice (*Independent Non-executive Director*)  
Wong Kun Kim (*Independent Non-executive Director*)  
Leung Kai Cheung (*Independent Non-executive Director*)

### Executive Committee

Li Shaofeng (*Chairman*)  
Zhang Wenhui

### Audit Committee

Kan Lai Kuen, Alice (*Chairman*)  
Wong Kun Kim  
Leung Kai Cheung

### Nomination Committee

Xu Ning (*Chairman*)  
Leung Shun Sang, Tony  
Kan Lai Kuen, Alice  
Wong Kun Kim  
Leung Kai Cheung

### Remuneration Committee

Wong Kun Kim (*Chairman*)  
Li Shaofeng  
Leung Shun Sang, Tony  
Kan Lai Kuen, Alice  
Leung Kai Cheung

### Company Secretary

Cheng Man Ching

## **CORPORATE INFORMATION (continued)**

<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Share Registrars</b>	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Registered Office and Principal Place of Business</b>	7th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Stock Code</b>	697
<b>Website</b>	<a href="http://www.shougang-intl.com.hk">www.shougang-intl.com.hk</a>

## INTERIM RESULTS

The board of directors (the "Board") of Shougang Concord International Enterprises Company Limited (the "Company") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>			
Revenue	3	7,509,206	8,470,373
Cost of sales		(7,961,335)	(8,971,679)
Gross loss		(452,129)	(501,306)
Other income		36,950	29,900
Other gains and losses		17,452	30,793
Change in fair value of derivative financial instruments		(5,241)	68,547
Distribution and selling expenses		(41,101)	(46,575)
Administrative expenses		(308,901)	(276,519)
Finance costs		(365,608)	(354,881)
Share of results of associates		139,447	233,742
Loss before taxation		(979,131)	(816,299)
Income tax (expense) credit	4	(11,714)	1,238
Loss for the period from continuing operations	7	(990,845)	(815,061)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	6	–	(21,693)
Loss for the period		(990,845)	(836,754)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited) (restated)
<b>Other comprehensive (expense) income</b>		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation to presentation currency	10,301	(33,328)
Fair value losses on investments in equity instruments designated as at fair value through other comprehensive income	(117,351)	(17,770)
Share of exchange differences of an associate arising on translation to presentation currency	13,405	(4,412)
Share of fair value losses on investment in equity instruments designated as at fair value through other comprehensive income of an associate	(172,192)	(102,907)
Item that may be subsequently reclassified to profit or loss:		
Share of exchange differences of an associate arising on translation of foreign operations	49,623	(22,285)
Other comprehensive expense for the period	(216,214)	(180,702)
<b>Total comprehensive expense for the period</b>	<b>(1,207,059)</b>	<b>(1,017,456)</b>

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited) (restated)
Loss for the period attributable to the owners of the Company			
– from continuing operations		<b>(728,478)</b>	(597,801)
– from discontinued operations		–	(21,693)
Loss for the period attributable to the owners of the Company		<b>(728,478)</b>	(619,494)
Loss for the period attributable to non-controlling interests			
– from continuing operations		<b>(262,367)</b>	(217,260)
		<b>(990,845)</b>	(836,754)
Total comprehensive expense attributable to:			
Owners of the Company		<b>(920,343)</b>	(792,353)
Non-controlling interests		<b>(286,716)</b>	(225,103)
		<b>(1,207,059)</b>	(1,017,456)
Loss per share	9		
From continuing and discontinued operations			
– Basic		<b>(8.13) HK cents</b>	(6.92) HK cents
– Diluted		<b>(8.13) HK cents</b>	(6.92) HK cents
From continuing operations			
– Basic		<b>(8.13) HK cents</b>	(6.68) HK cents
– Diluted		<b>(8.13) HK cents</b>	(6.68) HK cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	NOTES	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	10	39,222	38,687
Property, plant and equipment	10	11,574,941	11,651,210
Prepaid lease rentals		361,491	361,815
Mining assets		131,058	129,004
Interests in associates		7,469,065	7,584,652
Equity investments	11	77,711	192,253
Deferred tax assets		40,927	46,482
Other financial assets		581,366	594,603
Deposits for acquisition of property, plant and equipment		17,634	25,071
Pledged bank deposits	21(a)	159,000	92,403
		<b>20,452,415</b>	20,716,180
<b>CURRENT ASSETS</b>			
Inventories		2,924,964	3,258,761
Trade and bills receivables	12	1,570,633	1,982,962
Trade receivables from related companies	13	150,958	163,854
Prepayments, deposits and other receivables	23(b)	732,827	637,760
Prepaid lease rentals		9,029	8,833
Tax recoverable		490	202
Amounts due from related companies	13	49,086	23,878
Amount due from an associate		–	2,911
Amount due from a non-controlling shareholder of a subsidiary		3,700	3,700
Amount due from ultimate holding company of a shareholder	14	6,545	5,220
Other financial assets		157,828	239,513
Restricted bank deposits	21(a)	962,666	617,329
Pledged bank deposits	21(a)	40,825	161,672
Bank balances and cash		1,275,009	1,563,345
		<b>7,884,560</b>	8,669,940



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2013

	NOTES	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	3,851,783	3,540,071
Trade payables to related companies	13	268,995	354,459
Trade payables to ultimate holding company of a shareholder	14	4,068,363	3,282,689
Other payables, provision and accrued liabilities		1,113,715	1,133,790
Tax payable		181,423	206,152
Amounts due to related companies	13	329,288	363,801
Amount due to an associate		6,064	–
Amount due to ultimate holding company of a shareholder	14	481,881	396,870
Bank borrowings – due within one year	16	7,905,174	10,287,475
Other financial liabilities		2,755	3,936
Loans from ultimate holding company of a shareholder	17	882,502	868,673
		<b>19,091,943</b>	<b>20,437,916</b>
<b>NET CURRENT LIABILITIES</b>		<b>(11,207,383)</b>	<b>(11,767,976)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>9,245,032</b>	<b>8,948,204</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	16	1,949,604	455,167
Deferred tax liabilities		40,827	30,233
		<b>1,990,431</b>	<b>485,400</b>
		<b>7,254,601</b>	<b>8,462,804</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	18	1,791,579	1,790,661
Share premium and reserves		5,383,346	6,302,559
Equity attributable to owners of the Company		7,174,925	8,093,220
Non-controlling interests		79,676	369,584
		<b>7,254,601</b>	<b>8,462,804</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000 (Note a)	Exchange reserve HK\$'000	Share option reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000 (Note b)	Security investment reserve HK\$'000	Non-distributable reserve HK\$'000 (Note c)	Accumulated profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2012 (audited and restated)	1,790,661	3,530,626	22,611	33,325	1,127,561	284,623	726,372	(308,806)	51,979	2,889,429	10,148,381	966,906	11,115,287
Loss for the period	-	-	-	-	-	-	-	-	-	(619,494)	(619,494)	(217,260)	(836,754)
Exchange differences arising on translation	-	-	-	-	(25,485)	-	-	-	-	-	(25,485)	(7,843)	(33,328)
Loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	(17,770)	-	-	(17,770)	-	(17,770)
Share of other comprehensive expense of associates	-	-	-	-	(26,697)	-	-	(102,907)	-	-	(129,604)	-	(129,604)
Total comprehensive expense for the period	-	-	-	-	(52,182)	-	-	(120,677)	-	(619,494)	(792,353)	(225,103)	(1,017,456)
Release on disposal of a subsidiary (note 5)	-	-	-	(4,987)	-	-	-	-	-	4,987	-	-	-
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	323	-	-	(323)	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,058)	(2,058)
Recognition of equity-settled share based payment	-	-	-	-	-	1,429	-	-	-	-	1,429	-	1,429
At 30 June 2012 (unaudited)	1,790,661	3,530,626	22,611	28,338	1,075,379	286,052	726,695	(429,483)	51,979	2,274,599	9,357,457	739,745	10,097,202
At 1 January 2013 (audited)	1,790,661	3,530,626	22,611	28,338	1,150,472	287,436	729,070	(442,794)	51,979	944,821	8,093,220	369,584	8,462,804
Loss for the period	-	-	-	-	-	-	-	-	-	(728,478)	(728,478)	(262,367)	(990,845)
Exchange differences arising on translation	-	-	-	-	8,844	-	-	-	-	-	8,844	1,457	10,301
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	(91,545)	-	-	(91,545)	(25,806)	(117,351)
Share of other comprehensive expense of associates	-	-	-	-	63,028	-	-	(172,192)	-	-	(109,164)	-	(109,164)
Total comprehensive income (expense) for the period	-	-	-	-	71,872	-	-	(263,737)	-	(728,478)	(920,343)	(286,716)	(1,207,059)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	89	-	-	(89)	-	-	-
Shares issued at premium	918	367	-	-	-	-	-	-	-	-	1,285	-	1,285
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3,192)	(3,192)
Recognition of equity-settled share based payment	-	-	-	-	-	763	-	-	-	-	763	-	763
At 30 June 2013 (unaudited)	1,791,579	3,530,993	22,611	28,338	1,222,344	288,199	729,159	(706,531)	51,979	216,254	7,174,925	79,676	7,254,601

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2013

Notes:

- (a) Revaluation reserve represented (i) the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) in 2005; and (ii) the difference between the carrying value and the fair value of the prepaid lease rentals of Shougang Concord Godown Limited (“Godown”), a former wholly-owned subsidiary disposed of during the six months ended 30 June 2012, arisen from the transfer of prepaid lease rentals to investment properties as its use had changed as evidenced by end of owner-occupation in previous years. The relevant revaluation reserve was transferred to accumulated profits upon disposal of Godown during the six months ended 30 June 2012.
- (b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after tax of the Company’s subsidiaries under the applicable laws and regulations in the People’s Republic of China (the “PRC”) (other than Hong Kong).
- (c) Non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	NOTE	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Net cash from (used in) operating activities		<b>886,165</b>	(139,258)
Net cash used in investing activities			
Placement of restricted bank deposits		<b>(345,337)</b>	(102,068)
Purchase of property, plant and equipment		<b>(194,040)</b>	(103,212)
Placement of pledged bank deposits		<b>(100,169)</b>	(155,908)
Deposit paid for acquisition of property, plant and equipment		<b>(18,033)</b>	(52,652)
Withdrawal of pledged bank deposits		<b>164,246</b>	47,901
Dividends received from an associate		–	190,315
Interest received		<b>17,853</b>	22,578
Proceeds from disposal of property, plant and equipment		<b>999</b>	–
Repayment of entrusted loan receivables		–	86,144
Proceeds from disposal of a subsidiary	5	–	27,502
Repayment from associates		–	4,397
Other investing activities		–	25
		<b>(474,481)</b>	(34,978)
Net cash used in financing activities			
New borrowings raised		<b>5,659,609</b>	6,129,245
Advance from related companies		<b>27,113</b>	222,649
Advance from ultimate holding company of a shareholder		<b>583,900</b>	102,019
Repayment to ultimate holding company of a shareholder		<b>(498,889)</b>	(103,069)
Advance on discounted bills		<b>78,606</b>	391,043
Proceeds from issue of shares on exercise of share options		<b>1,285</b>	–
Repayment of bank borrowings		<b>(6,495,110)</b>	(7,533,705)
Repayment to related companies		<b>(61,626)</b>	(43,997)
Dividend paid to non-controlling shareholders of a subsidiary		<b>(3,192)</b>	(2,058)
		<b>(708,304)</b>	(837,873)
Net decrease in cash and cash equivalents		<b>(296,620)</b>	(1,012,109)
Cash and cash equivalents at 1 January		<b>1,563,345</b>	1,846,927
Effect of foreign exchange rate changes		<b>8,284</b>	(8,829)
Cash and cash equivalents at 30 June, represented by bank balances and cash		<b>1,275,009</b>	825,989

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Company and its subsidiaries (collectively referred to as the “Group”) had net current liabilities of approximately HK\$11,207,383,000 as at 30 June 2013 of which current liabilities of approximately HK\$7,905,174,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group, including the Group’s unutilised banking facilities, the Group’s ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the Directors are of the opinion that the Group has sufficient working capital to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- HKFRS 10 *Consolidated Financial Statements*;
- HKFRS 11 *Joint Arrangements*;
- HKFRS 12 *Disclosure of Interests in Other Entities*;
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*;
- HKFRS 13 *Fair Value Measurement*;
- HKAS 19 (as revised in 2011) *Employee Benefits*;
- HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*;
- Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to HKFRSs *Annual Improvements to HKFRSs 2009-2011 Cycle*; and
- HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

Except as described below, the applications of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated historical statements.

#### **New and revised standards on consolidation, joint arrangements, associates and disclosures**

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### **New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)**

The impact of the application of these standards is set out below.

#### **Impact of the application of HKFRS 10**

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over its investments in investees in accordance with the requirements of HKFRS 10. The Directors of the Company concluded the application of HKFRS 10 in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

#### **HKFRS 12 Disclosure of interests in other entities**

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards in the consolidated financial statements.

The Directors concluded that the application of HKFRS 12 will result in more disclosures in the consolidated financial statements for the year ending 31 December 2013.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*For the six months ended 30 June 2013*

### **2. PRINCIPAL ACCOUNTING POLICIES (continued)**

#### ***Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. In addition, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

#### ***Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities***

The amendments to HKFRS 7 require entities to disclose information about rights to offset and related arrangements for financial instruments under an enforceable master netting agreement or similar agreement. The Group has outstanding interest rate swap contracts presented as other financial liabilities in the condensed consolidated statement of financial position which are under master netting agreements.

The amendments have been applied retrospectively. For the purpose of preparing the condensed consolidated financial statements, the additional disclosures are not presented but will be included in the Group's consolidated financial statements for the year ending 31 December 2013.

#### ***HKFRS 13 Fair Value Measurement***

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### HKFRS 13 Fair Value Measurement (continued)

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information in accordance with the consequential amendments of HKAS 34 are set out in note 20 and additional disclosures in accordance with the requirements of HKFRS 13, especially relating to fair value of the Group’s investment properties, will be presented in the consolidated financial statements for the year ending 31 December 2013.

### 3. SEGMENT INFORMATION

The Group’s operating segments based on information reported to the Executive Directors of the Company, being the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

Steel manufacturing	– manufacture and sale of steel products;
Shipping operations	– vessel chartering and the leasing of floating cranes;
Commodity trading	– trading of steel products, iron ore, coal and coke;
Mineral exploration	– mining, processing and sale of iron ore; and
Others	– management services business.

The vessel chartering under the shipping operations was discontinued during the year ended 31 December 2012. The segment information reported below included the amounts in relation to discontinued operations, which are described in more details in Note 6.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 3. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by reportable and operating segments:

#### Six months ended 30 June 2013 (unaudited)

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Commodity trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue						
External sales	5,600,580	75	1,853,504	53,301	1,746	7,509,206
Inter-segment sales	4,515	-	-	255,676	-	260,191
Segment revenue	5,605,095	75	1,853,504	308,977	1,746	7,769,397
Elimination						(260,191)
Group revenue						7,509,206
Inter-segment sales are charged at prevailing market rates.						
Segment (loss) profit	(696,777)	(2,176)	23,489	(87,396)	21,262	(741,598)
Interest income						17,853
Central administration costs						(30,406)
Finance costs						(365,608)
Gain from change in fair value of derivative financial instruments						1,181
Share of results of associates						139,447
Loss before taxation						(979,131)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2012 (unaudited)

	Steel manufacturing HK\$'000	Shipping operations HK\$'000	Commodity trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue						
External sales	6,053,801	57,633	1,963,871	446,686	1,746	8,523,737
Inter-segment sales	29,628	–	–	544,673	–	574,301
Segment revenue	<u>6,083,429</u>	<u>57,633</u>	<u>1,963,871</u>	<u>991,359</u>	<u>1,746</u>	<u>9,098,038</u>
Elimination						(574,301)
Group revenue						<u>8,523,737</u>

Inter-segment sales are charged at prevailing market rates.

Segment (loss) profit	(655,461)	(18,639)	(34,015)	(35,829)	3,045	(740,899)
Interest income						22,578
Central administration costs						(32,237)
Finance costs						(354,881)
Gain from change in fair value of derivative financial instruments						582
Gain on deemed acquisition of interests in an associate						17,564
Gain on disposal of a subsidiary						15,559
Share of results of associates						233,742
Loss before taxation arising from discontinued operations						<u>21,693</u>
Loss before taxation from continuing operations						<u>(816,299)</u>

Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, central administration costs, finance costs, gain from change in fair value of derivative financial instruments, gain on disposal of a subsidiary, gain on deemed acquisition of interests in an associate and share of results of associates. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 4. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
<b>Continuing operations</b>		
PRC Enterprise Income Tax	144	807
Underprovision of PRC Enterprise Income Tax in prior periods	1,186	136
	1,330	943
Deferred tax	10,384	(2,181)
Income tax expense (credit)	11,714	(1,238)

No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2013 and 2012 since there is no assessable profits arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 5. DISPOSAL OF A SUBSIDIARY

On 27 March 2012, the Group entered into a sale and purchase agreement with an independent third party (the "Acquirer") to dispose of its entire interest in Godown to the Acquirer. The disposal was completed on 2 April 2012, when the Group lost control of Godown.

	<i>HK\$'000</i>
<b>The net assets of Godown at the date of disposal were as follows:</b>	
Investment properties	10,476
Property, plant and equipment	645
Prepaid lease rentals	822
<hr/>	
Net assets disposed of	11,943
<hr/>	
<b>Gain on disposal of a subsidiary:</b>	
Consideration received	27,502
Net assets disposed of	(11,943)
<hr/>	
Gain on disposal ( <i>Note</i> )	15,559
<hr/>	
<b>Consideration satisfied by:</b>	
Cash	27,502
<hr/>	
<b>Cash inflow arising on disposal:</b>	
Cash consideration received	27,502
<hr/>	

*Note:* The gain on disposal of Godown was mainly attributable to the leasehold land previously held for owner-occupation which was previously recognised as prepaid lease rentals and measured at cost.

An amount of revaluation reserve of HK\$4,987,000, represented the difference between the carrying value and fair value of the prepaid lease rentals arisen from the transfer from prepaid lease rentals to investment property as its use had changed as evidenced by end of owner-occupation in previous years, was transferred directly to accumulated profits upon disposal of Godown.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 6. DISCONTINUED OPERATIONS

The Group mainly conducted the vessel chartering operations through two vessels named as SG Enterprises and SG Prosperity. During the year ended 31 December 2012, the Directors decided to cease the vessel chartering operations, which were previously included in shipping operations segment, the rental contracts of these two vessels had been terminated as agreed with the ship-owner, an independent third party. SG Enterprises and SG Prosperity have been delivered to ship-owner on 25 August 2012 and 28 September 2012 respectively. Vessel chartering operations have been presented as discontinued operations and the comparative figures have been represented.

The result of the vessel chartering operations for the period was as follows:

	Six months ended 30 June 2012 HK\$'000 (unaudited)
Revenue	53,364
Cost of sales	(68,905)
Other gains and losses	(21)
Administrative expenses	(6,131)
<b>Loss for the period</b>	<b>(21,693)</b>

Loss for the period from discontinued operations include the following:

	Six months ended 30 June 2012 HK\$'000 (unaudited)
Auditor's remuneration	97
Staff costs	441
Release of provision for onerous contracts	(35,134)
Exchange loss	21

For the six months ended 30 June 2012, the vessel chartering operations paid HK\$50 million which related to the Group's net operating cash flows and received HK\$57 million in respect of financing activities.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2013 <i>HK\$'000</i> (unaudited)	2012 <i>HK\$'000</i> (unaudited) (restated)
<b>Continuing operations</b>		
Loss for the period has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	<b>194,374</b>	249,402
– retirement benefits scheme contributions	<b>26,731</b>	33,682
– share-based payments	<b>763</b>	1,429
	<b>221,868</b>	284,513
Amortisation of prepaid lease rentals	<b>4,629</b>	4,203
Depreciation of property, plant and equipment	<b>462,081</b>	426,438
Total depreciation and amortisation	<b>466,710</b>	430,641
Change in fair value of derivative financial instruments		
– change in fair value of foreign currency forward contracts	–	(787)
– change in fair value of interest rate swap contracts	<b>(1,181)</b>	205
– change in fair value of commodity forward contracts	<b>6,422</b>	(67,965)
	<b>5,241</b>	(68,547)
Fair value of commodity forward contracts upon delivery, included in cost of sales	<b>88,500</b>	87,965
Interest expenses for bank borrowings	<b>281,635</b>	329,741
Interest expenses for other borrowings	<b>26,672</b>	32,059
Total borrowing costs	<b>308,307</b>	361,800
Less: Amounts capitalised ( <i>Note a</i> )	<b>(13,355)</b>	(45,081)
Add: Factoring cost for discounted receivables	<b>70,656</b>	38,162
Total finance costs	<b>365,608</b>	354,881

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 7. LOSS FOR THE PERIOD (continued)

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Allowance for (reversal of) doubtful debt of trade receivables, net (Note b)	1,231	(382)
Write-down of inventories (Note c)	201,428	107,054
Interest income from bank deposits	(17,853)	(22,578)
Gain on disposal of property, plant and equipment (Note b)	(33)	(18)
Gain on deemed acquisition of interests in an associate (Note b and d)	–	(17,564)
Gain on disposal of a subsidiary (Note b)	–	(15,559)
Research and development cost included in administrative expenses	12,138	10,041
Other tax expenses	17,487	20,730
Net foreign exchange (gain) loss (Note b)	(18,650)	2,730

*Note a:* Borrowing costs capitalised during the six months ended 30 June 2013 arose from general borrowing pool and are calculated by applying a capitalisation rate of 4.65% (six months ended 30 June 2012: 5.01%) per annum to expenditure on qualifying assets.

*Note b:* Amounts included in other gains and losses.

*Note c:* During the six months ended 30 June 2013, the net realisable value of certain inventories fell below their respective costs because of the decline in selling prices. As a result, the write-down of inventories of HK\$201,428,000 (for the six months ended 30 June 2012: HK\$107,054,000) has been recognised in cost of sales.

*Note d:* During the six months ended 30 June 2012, the Group's interest in an associate, Shougang Fushan Resources Group Limited ("SG Resources"), has been increased by 0.39% from 27.22% to 27.61% as SG Resources has repurchased its own shares, resulting in the Group's share of net assets of SG Resources increased by HK\$17,564,000 and credited as gain on deemed acquisition.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors of the Company have determined that no dividend will be paid in respect of the interim period.

### 9. LOSS PER SHARE

#### From continuing and discontinued operations

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
<b>Loss</b>		
Loss for the purpose of basic loss per share:		
Loss for the period attributable to owners of the Company	<b>(728,478)</b>	(619,494)
Effect of dilutive potential ordinary shares of associates:		
Adjustment to the share of profits of associates based on dilution of their earnings	–	(146)
Loss for the purpose of diluted loss per share	<b>(728,478)</b>	(619,640)

	Six months ended 30 June	
	2013	2012
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>8,957,363,686</b>	8,953,306,227

*Note:* For the six months ended 30 June 2013 and 2012, the computation of diluted loss per share does not assume the exercise of share options, as it would result in a decrease in loss per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 9. LOSS PER SHARE (continued)

#### From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Loss for the period attributable to owners of the Company	(728,478)	(619,494)
Less:		
Loss for the period from discontinued operations	–	(21,693)
Loss for the purpose of basic loss per share from continuing operations	(728,478)	(597,801)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of associates based on dilution of their earnings	–	(146)
Loss for the purpose of diluted loss per share from continuing operations	(728,478)	(597,947)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

#### From discontinued operations

For the six months ended 30 June 2012, basic and diluted loss per share for the discontinued operations is 0.24 HK cents per share based on the loss for the period from the discontinued operations of HK\$21,693,000 and the denominators detailed above for both basic and diluted loss per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

In the opinion of the Directors of the Company, the carrying amount of the Group's investment properties as at 30 June 2013 does not differ significantly from their estimated market value. Consequently, no change in fair value has been recognised in respect of the Group's investment properties in the current period.

During the period, the Group incurred approximately HK\$196,186,000 (HK\$199,132,000 for the six months ended 30 June 2012) on acquisition of property, plant and equipment in order to upgrade its operating capacities, in which amount of HK\$25,071,000 (HK\$84,268,000 for the six months ended 30 June 2012) was transferred from deposit for acquisition of property, plant and equipment paid in previous year.

### 11. EQUITY INVESTMENTS

Equity investments comprise:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Listed investments:		
– Equity securities listed in Australia, at fair value	<b>5,955</b>	15,782
Unlisted investments:		
– PRC equity securities, at fair value (Note)	<b>71,756</b>	176,471
<b>Total</b>	<b>77,711</b>	192,253

*Note:* The unlisted PRC equity securities represent the Group's investment in 10% equity interest of unlisted equity securities issued by a private entity established in the PRC, for which the principal activities are ship building, ship repairing and retrofitting. The unlisted equity investments are measured at fair value under HKFRS 9. The fair value of the investment as at 31 December 2012 and 30 June 2013 was measured using valuation technique with significant unobservable inputs.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 12. TRADE AND BILLS RECEIVABLES

For most customers, in particular in the business of steel manufacturing, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 60 days.

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition date:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Within 60 days	<b>1,275,270</b>	1,615,374
61 – 90 days	<b>101,768</b>	155,462
91 – 180 days	<b>173,755</b>	88,963
181 – 365 days	<b>19,840</b>	123,163
	<b>1,570,633</b>	1,982,962

The following were the Group's bills receivables as at 30 June 2013 and 31 December 2012 that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and trade payables and has recognised the cash received from the banks as secured borrowings. These balances are carried at amortised cost in the condensed consolidated statement of financial position.

	<b>Bills receivables discounted to banks with full recourse HK\$'000</b>	<b>Bills receivables endorsed to suppliers with full recourse HK\$'000</b>	<b>Total HK\$'000</b>
<b>At 30 June 2013 (unaudited)</b>			
Carrying amount of bills receivables	<b>69,762</b>	<b>189,651</b>	<b>259,413</b>
Carrying amount of borrowings and trade payables	<b>(69,762)</b>	<b>(189,651)</b>	<b>(259,413)</b>
<b>At 31 December 2012 (audited)</b>			
Carrying amount of bills receivables	252,813	141,858	394,671
Carrying amount of borrowings and trade payables	(252,813)	(141,858)	(394,671)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 13. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts due from (to) related companies represent amounts due from (to) the subsidiaries of Shougang Corporation, ultimate holding company of a shareholder of the Company (collectively referred as "Shougang Group"). The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) related companies are unsecured, interest-free and are repayable on demand.

The trade receivables from related companies and an aged analysis of such balances, net of allowance of doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition date are as follows:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Within 60 days	<b>122,357</b>	151,834
61 – 90 days	<b>28,147</b>	11,625
91 – 180 days	<b>62</b>	–
181 – 365 days	<b>184</b>	–
1 – 2 years	<b>208</b>	395
	<b>150,958</b>	163,854

The trade payables to related companies and an aged analysis of such balances, presented based on the invoice date at the end of the reporting period, are as follows:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Within 90 days	<b>131,498</b>	284,948
91 – 180 days	<b>54,668</b>	37,832
181 – 365 days	<b>59,917</b>	11,918
1 – 2 years	<b>8,115</b>	8,342
Over 2 years	<b>14,797</b>	11,419
	<b>268,995</b>	354,459

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 14. TRADE PAYABLES/AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

As at 30 June 2013 and 31 December 2012, the amount due from ultimate holding company of a shareholder is non-trade in nature, unsecured, interest-free and is repayable on demand.

The trade payables to ultimate holding company of a shareholder are unsecured, interest-free and repayable within 60 days. The non-trade payables to ultimate holding company of a shareholder is unsecured, interest-free and is repayable on demand.

The trade payables to ultimate holding company of a shareholder and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period as follows:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Within 90 days	<b>1,859,912</b>	2,102,859
91 – 180 days	<b>1,824,633</b>	1,179,689
181 – 365 days	<b>383,675</b>	–
1 – 2 years	<b>143</b>	141
	<b>4,068,363</b>	3,282,689

### 15. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Within 90 days	<b>2,877,700</b>	2,818,279
91 – 180 days	<b>738,703</b>	527,424
181 – 365 days	<b>158,544</b>	120,582
1 – 2 years	<b>68,467</b>	70,339
Over 2 years	<b>8,369</b>	3,447
	<b>3,851,783</b>	3,540,071

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*For the six months ended 30 June 2013*

### **16. BANK BORROWINGS**

During the period, the Group obtained new bank loans of HK\$5,659,609,000 (HK\$6,129,245,000 for the six months ended 30 June 2012).

As at 30 June 2013, the fixed-rate bank borrowings carry interest at rates ranged from 0.8% to 7.8% (31 December 2012: 0.8% to 7.872%) per annum.

As at 30 June 2013, the variable-rate bank borrowings carry interest at the London Interbank Offered Rates ("LIBOR") plus 1.45% to 3.5% (31 December 2012: LIBOR plus 1.45% to 3.5%) per annum, which are ranged from 1.64% to 3.69% (31 December 2012: 1.66% to 3.71%) per annum, Hong Kong Interbank Offered Rates ("HIBOR") plus 3% (31 December 2012: HIBOR plus 1.7%) per annum, which is 3.21% (31 December 2012: 2.05%) per annum, and the People's Bank of China's lending rate ("Lending Rate"), or with a 5% to 30% addition or reduction on the Lending Rate, which are ranged from 5.2% to 7.8% (31 December 2012: 5.1% to 7.93%) per annum.

The proceeds were used to finance the acquisition of property, plant and equipment and the general operations of the Group. In addition, the Group also repaid bank loans of HK\$6,495,110,000 (HK\$7,533,705,000 for the six months ended 30 June 2012) during the period.

Included in bank borrowings as at 30 June 2013 was an amount of HK\$69,762,000 of discounted bills (31 December 2012: HK\$252,813,000) that had been discounted to banks.

### **17. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER**

The amounts are unsecured, interest bearing at fixed-rates at 6% as at 30 June 2013 (31 December 2012: ranged from 6% to 6.56%) per annum. The balance is repayable within one year.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 18. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1 January 2012	10,000,000,000	2,000,000
Increased on 25 May 2012 (Note 1)	10,000,000,000	2,000,000
<b>At 31 December 2012 and 30 June 2013</b>	<b>20,000,000,000</b>	<b>4,000,000</b>
Issued and fully paid:		
At 1 January 2012 and 31 December 2012	8,953,306,227	1,790,661
Exercise of share options (Note 2)	4,590,000	918
<b>At 30 June 2013</b>	<b>8,957,896,227</b>	<b>1,791,579</b>

Note 1: On 25 May 2012, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK\$2,000,000,000 divided into 10,000,000,000 shares to HK\$4,000,000,000 divided into 20,000,000,000 shares at the Company's annual general meeting.

Note 2: During the period, a director of the Company exercised 4,590,000 share options at exercise price of HK\$0.28 per share. Therefore, 4,590,000 new shares were issued during the six months ended 30 June 2013.

All new shares issued rank pari passu with the then existing issued shares of the Company in all respects.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 19. CAPITAL COMMITMENTS

	<b>30 June 2013 HK\$'000 (unaudited)</b>	31 December 2012 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>247,532</b>	329,262

### 20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Fair value as at 30 June 2013	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
1) Listed equity securities classified as equity investments designated as fair value through other comprehensive income ("FVTOCI") in the condensed consolidated statement of financial position	Assets – HK\$5,955,000	Level 1	Quoted bid prices in an active market	N/A	N/A
2) Interest rate swaps classified as other financial liabilities in the condensed consolidated statement of financial position	Liabilities – HK\$2,755,000	Level 2	Discounted cash flow  Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
3) Commodity forward contracts classified as other financial assets in the condensed consolidated statement of financial position	Assets – HK\$739,194,000	Level 3	Discounted cash flow  The key inputs are: The spread between Australia-capesize vessel freight rate and Australia-China panamax vessel freight rate, Platts Iron Ore Index, the forecasted annual production of the mines, the lives of mines and the discount rate	The forecasted annual production of the mines and the lives of the mines taking into account management's estimate with reference to the suppliers' expected annual production and ore mine reserve stated in suppliers' mineral resources and ore reserves statement as at 30 June 2012 less the actual purchase of iron ore by the Group from 1 July 2012 to 30 June 2013  Discount rate of 17 per cent is determined by expected rate of return of the commodity forward contracts by using a Capital Asset Pricing Model and adjusted by the specific risk premium	The higher the forecasted annual production of the mines, i.e. the shorter the lives of mines provided that the ore mine reserves remain unchanged, the higher the fair value (Note 1)  The higher the discount rate, the lower the fair value (Note 2)
4) Unlisted equity securities classified as equity investments designated as at FVTOCI in the condensed consolidated statement of financial position	Assets – HK\$71,756,000	Level 3	Market approach by applying market multiples such as the ratio of market capital to net book value and the ratio of enterprise value to earnings before interests, taxation, depreciation and amortisation from comparable companies and adjusted by discount on lack of marketability	Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 20 per cent	The higher the discount, the lower the fair value (Note 3)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

*Note 1:* If the forecasted annual production of the mines were 10% higher/lower while all the other variables were held constant, the carrying amount of the commodity forward contracts would increase/decrease by approximately HK\$36,545,000.

*Note 2:* If the discount rate to the valuation model were 1% higher/lower while all the other variables were held constant, the carrying amount of the commodity forward contracts would decrease/increase by approximately HK\$20,934,000.

*Note 3:* If the discount for the lack of marketability to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the unlisted equity securities would decrease/increase by approximately HK\$8,970,000.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

#### Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity securities HK\$'000	Commodity forward contracts HK\$'000
At 1 January 2013	176,471	834,116
Total gains or losses:		
– to profit or loss	–	(6,422)
– to other comprehensive income	(107,524)	–
Exchange difference	2,809	–
Fair value of commodity forward contracts upon delivery	–	(88,500)
At 30 June 2013	71,756	739,194

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*For the six months ended 30 June 2013*

### **20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)**

#### **Reconciliation of Level 3 fair value measurements of financial assets (continued)**

Of the total gains or losses for the period included in profit or loss, fair value losses of approximately HK\$6,422,000 relates to commodity forward contracts held at the end of the current reporting period. Fair value losses on commodity forward contracts are included in “change in fair value of derivative financial instruments” in the condensed consolidated statement of profit or loss and other comprehensive income.

Included in other comprehensive income is an amount of HK\$107,524,000 fair value loss and HK\$2,809,000 exchange gain related to unlisted equity instruments as at FVTOCI held at the end of the current reporting period and are reported as changes of security investment reserve and exchange reserve respectively.

#### **Fair value measurements and valuation processes**

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available for Level 1 inputs. In the Level 2 fair value measurements, the Group derived the inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly with reference to the market information. When Level 1 and Level 2 inputs are not available, the Group engages a third party qualified valuer to perform the valuation of commodity forward contracts and unlisted equity securities designated as at FVTOCI. The Finance Department works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 21. PLEDGE OF ASSETS

As at 30 June 2013, the following items were used to secure banking facilities granted to the Group:

- (a) Restricted and pledged bank deposits amounting to HK\$1,162,491,000 (31 December 2012: HK\$871,404,000).
- (b) Pledge of the Group's prepaid lease rentals with net book value of HK\$102,619,000 (31 December 2012: HK\$83,828,000).
- (c) Pledge of 1,430,500,000 shares (31 December 2012: 1,363,500,000 shares) of the Group's listed associate with the market value of approximately HK\$4,305,805,000 (31 December 2012: HK\$3,885,975,000).
- (d) As at 31 December 2012, pledge of the Group's plant and machinery with net book value of HK\$19,450,000 (30 June 2013: nil).

### 22. MAJOR NON-CASH TRANSACTION

During the current period, advances drawn on bills receivables of HK\$261,657,000 (for the six months ended 30 June 2012: HK\$255,564,000) are settled by the bills receivables discounted with banks.

### 23. RELATED PARTY DISCLOSURES

#### (a) Transactions and balances with PRC government related entities

The Group is an associate of Shougang Holding (Hong Kong) Limited ("Shougang HK"), which is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise under the supervision of the Beijing State-owned Assets Supervision and Administration Commission. Accordingly, the Group is significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the PRC government. Accordingly, the Group is government related entities in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 23(a)(I) to 23(a)(III).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 23. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (i) Transactions with Shougang Group

		Six months ended 30 June	
		2013	2012
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	<b>937,494</b>	2,017,310
Purchases of goods by the Group	(b)	<b>3,745,107</b>	4,622,817
Lease rentals charged to the Group	(c)	<b>1,865</b>	1,430
Management fees charged to the Group	(d)	<b>480</b>	480
Purchases of spare parts by the Group	(e)	<b>34,820</b>	42,367
Management fees charged by the Group	(f)	<b>1,602</b>	1,602
Rental income charged by the Group	(g)	<b>108</b>	76
Interest charged to the Group	(h)	<b>26,672</b>	32,059
Service fees charged to the Group	(i)	<b>46,861</b>	34,670
Purchase of property, plant and equipment by the Group	(j)	<b>27,525</b>	12,851

##### Notes:

- (a) The Group sold steel products, iron ore and scrap materials to Shougang Group.
- (b) The Group purchased raw materials from Shougang Group.
- (c) The Group entered into various rental agreements with Shougang Group for renting office and residential apartments as staff quarters.
- (d) Management fees were paid to Shougang HK, the Company's shareholder, for the provision of management services.
- (e) The Group purchased spare parts from Shougang Group.
- (f) The Group provided business and strategic development services to Shougang Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 23. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (I) Transactions with Shougang Group (continued)

- (g) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, a wholly-owned subsidiary of Shougang HK, for renting residential apartment.
- (h) For the six month ended 30 June 2013, the interest expenses were charged by Shougang Corporation in respect of loans granted to the Group at interest rate of 6% per annum.

For the six months ended 30 June 2012, the interest expenses were charged by Shougang Corporation and Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang HK in respect of loans granted to the Group at interest rate from 5.56% to 6.31% and of 6% per annum, respectively.

- (i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services.
- (j) The Group acquired property, plant and equipment from Shougang Group.

##### (II) Balances with Shougang Group

As at 30 June 2013, deposits for acquisition of property, plant and equipment of HK\$2,798,000 (31 December 2012: HK\$2,286,000) was paid to the Shougang Group.

Details of balances with the Group's related parties are set out in notes 13, 14 and 17.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2013, the Group had bank loans guaranteed by Shougang Corporation amounting to HK\$5,729,124,000 (31 December 2012: HK\$5,807,736,000).

##### (III) Transactions/balances with other PRC government controlled entities

Apart from the transactions and balances with the Shougang Group as disclosed in notes 23(a)(I) and 23(a)(II), the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2013

### 23. RELATED PARTY DISCLOSURES (continued)

#### (b) Transaction/balance with non-PRC government-related entities

During the period ended 30 June 2013, the Group sold the goods amounting to approximately HK\$5,915,000 (for the six months ended 30 June 2012: HK\$9,447,000) to an associate, Qinhuangdao Shouqin K. Wah Construction Materials Company Limited.

As at 30 June 2013, other receivables of the Group included the dividend receivable in respect of the final dividend from SG Resources for the year ended 31 December 2012 of approximately HK\$146,396,000 (31 December 2012: nil).

The amount due from (to) an associate is unsecured, interest-free and is repayable on demand.

#### (c) Compensation of key management personnel

The remuneration of key management personnel, which represents the Directors of the Company during the period was as follows:

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Short-term benefits	4,295	5,995
Post employment benefits	173	258
Share-based payments	763	1,429
	<b>5,231</b>	<b>7,682</b>

The remuneration of key management personnel is determined by the Remuneration Committee of the Board of Directors having regard to the market practice, competitive market position and individual performance.



# Deloitte.

## 德勤

**TO THE BOARD OF DIRECTORS OF  
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED**

首長國際企業有限公司

*(incorporated in Hong Kong with limited liability)*

### Introduction

We have reviewed the condensed consolidated financial statements of Shougang Concord International Enterprises Company Limited (the "Company") and its subsidiaries set out on pages 4 to 39, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 August 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY OVERVIEW

We are a flagship listed vehicle of Shougang Corporation in Hong Kong. Our operations are mainly segregated into three segments, namely, steel manufacturing, mineral exploration and commodity trading. Our principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei, PRC. In addition, we own a deep processing centre on steel products to extend our business to the downstream value chain. Our mineral exploration segment mainly includes the holding of approximately 27.6% equity stake of Shougang Fushan Resources Group Limited ("Shougang Resources"), a Hong Kong-listed hard coking coal producer in China. For commodity trading, we have long-term iron ore offtake agreements with Australia-listed iron ore producer Mount Gibson Iron Limited ("Mt. Gibson") to enhance our investment in upstream supply chain. Our vertical integration strategy with different upstream, mid-stream and downstream activities is advantageous in enhancing the heavy plate manufacturing operation of the Group.

### PERFORMANCE REVIEW

<i>In HK\$ million</i>	For the six months ended 30 June		
	2013	2012	Change
Loss attributable to shareholders before share of results of associates	<b>(867)</b>	(853) <sup>1</sup>	-2%
Share of results of associates	<b>139</b>	234	-41%
Loss attributable to shareholders	<b>(728)</b>	(619) <sup>1</sup>	-18%

<sup>1</sup> These amounts included loss attributable to shareholders contributed by discontinued operations

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PERFORMANCE REVIEW (continued)

The market of the Group's core business in steel manufacturing was still weak in the first half of 2013. Excessive production capacity and imbalance between supply and demand were still the key issues within the industry which could not be resolved in the near term. Our share of profit from Shougang Resources, an associate with principal business in coking coal mining and sales also showed a sharp decline due to the drop in selling price of coking coal.

For the first six months of 2013, loss attributable to shareholders amounted to HK\$728 million, a further loss of HK\$109 million comparing to attributable loss of HK\$619 million<sup>1</sup> in the last corresponding period. However, if comparing with the attributable loss of HK\$1,328 million<sup>1</sup> in the second half of 2012, the loss amount for this interim period has been significantly reduced. The Group recorded a consolidated turnover of HK\$7,509 million in this period, representing a drop of 11% comparing to that of last period. Basic loss per share was 8.1 HK cents.

### FINANCIAL REVIEW

#### *Six months ended 30 June 2013 compared to the six months ended 30 June 2012*

#### Turnover and Cost of Sales

The Group recorded consolidated turnover of HK\$7,509 million for this interim period, lower by about 11% when comparing to that of last period. Lower turnover mainly came from the drop in average selling price ("ASP") in the steel manufacturing segment.

Cost of sales for the period was HK\$7,961 million, comparing to HK\$8,972 million in last period, a drop of 11%.

<sup>1</sup> *These amounts included loss attributable to shareholders contributed by discontinued operations*

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### EBITDA and Core Operating Loss

For the interim period, earnings before interest, tax, depreciation and amortization (“EBITDA”) of the Group reached HK\$111 million, comparing to EBITDA of HK\$165 million in last period.

Loss after tax included significant non-cash and/or non-recurring charges and are reconciled below:

<i>In HK\$ million</i>	For the six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Loss attributable to shareholders before share of results of associates	(867)	(853) <sup>1</sup>
Adjusted by:		
Fair value loss on iron ore offtake contract with Mt. Gibson, net	95	20
Employee share option expenses	1	1
<b>Core operating loss before share of results of associates</b>	<b>(771)</b>	<b>(832)<sup>1</sup></b>
Share of results of associates	139	234
<b>Core operating loss of the Group</b>	<b>(632)</b>	<b>(598)<sup>1</sup></b>

#### Finance costs

For the interim period under review, finance costs amounted to HK\$366 million, 3% higher than that of last period. The Group maintains a higher leverage currently to take advantage of the low interest environment.

#### Share of results of associates

In this interim period, we have recognized profit of HK\$148 million from Shougang Resources and loss of HK\$11 million from Shougang Concord Century Holdings Limited (“Shougang Century”).

<sup>1</sup> These amounts included loss attributable to shareholders contributed by discontinued operations

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### Taxation

In this interim period, it was HK\$12 million in net tax expense, comparing to HK\$1 million in net tax credit last period. The tax expense in the current period was mainly the reversal of deferred tax assets recognized previously due to foreseeable tax losses utilization.

#### REVIEW OF OPERATIONS

Summary of net profit/(loss) contribution to the group by operation/entity:

HK\$'000	Operation/Entity	Attributable interest	For the six months ended 30 June	
			2013 (unaudited)	2012 (unaudited)
<b>1.</b>	<b>Steel manufacturing</b>			
	Shouqin	76%	<b>(719,509)</b>	(659,906)
	Qinhuangdao Plate Mill	100%	<b>(60,919)</b>	(87,542)
	Sub-total		<b>(780,428)</b>	(747,448)
<b>2.</b>	<b>Mineral exploration</b>			
	Shougang Resources	27.6%	<b>148,107</b>	279,721
	Shouqin Longhui	67.8%	<b>(80,979)</b>	(35,558)
	Sub-total		<b>67,128</b>	244,163
<b>3.</b>	<b>Commodity trading</b>			
	The Trading Group	100%	<b>118,933</b>	(1,043)
<b>4.</b>	<b>Others</b>			
	Shougang Century	35.7%	<b>(10,716)</b>	(33,154)
	Fair value loss on Mt. Gibson offtake contract, net	100%	<b>(94,922)</b>	(20,000)
	Corporate and others	100%	<b>(28,473)</b>	(40,319)
	Sub-total		<b>(134,111)</b>	(93,473)
	<b>Total – continuing operation</b>		<b>(728,478)</b>	(597,801)
	<b>Discontinued operation –</b>			
	Shipping business	100%	–	(21,693)
	<b>Total</b>		<b>(728,478)</b>	(619,494)

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) and Qinhuangdao Shougang Plate Mill Co., Ltd (“Qinhuangdao Plate Mill”). The steel industry faces a dire operating environment. This core segment recorded net loss of HK\$780 million during the current period, while that of last period was net loss HK\$747 million. Summary of production and sales quantities of the two manufacturing plants in the current and last interim period under this segment is as follows:

<i>In '000 mt.</i>		<b>Slabs</b>		<b>Heavy Plates</b>	
<b>For the six months ended 30 June</b>	<b>2013</b>	2012	<b>2013</b>	2012	
<b>(i) Production</b>					
Shouqin	<b>1,191</b>	1,306	<b>864</b>	857	
Qinhuangdao Plate Mill	–	–	<b>317</b>	292	
Total	<b>1,191</b>	1,306	<b>1,181</b>	1,149	
Change		-9%		+3%	
<b>(ii) Sales</b>					
Shouqin <sup>#</sup>	<b>273</b>	319	<b>874</b>	850	
Qinhuangdao Plate Mill	–	–	<b>307</b>	258	
Total	<b>273</b>	319	<b>1,181</b>	1,108	
Change		-14%		+7%	

<sup>#</sup> Difference between production and sales of slabs was mainly represented by those consumed by Shouqin internally to produce heavy plates; slab sales were mainly made towards Qinhuangdao Plate Mill and are eliminated on consolidation

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing (continued)

##### *Shouqin*

The Group holds an effective interest of 76% in Shouqin, the remaining 20% and 4% are held by Hyundai Heavy Industries Limited and Shougang Corporation respectively.

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production, it has formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, hydro-electrical and ultra-thick plates are among the most advanced in the PRC, its annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current interim period, Shouqin reported a turnover of HK\$5,090 million before elimination, recording a 11% drop on the comparative period. The drop was mainly due to decrease of ASP of heavy plates. The ASP (exclude VAT) of heavy plate was HK\$4,633 (RMB3,692) per tonne, about 12% lower than that of the last period. Production of slab was mainly used for Shouqin consumption while some sales were made towards Qinhuangdao Plate Mill and are eliminated on consolidation. The ASP (exclude VAT) of slab was HK\$3,561 (RMB2,838) per tonne, about 12% lower than that of the last period.

Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. In this interim period, this entity recorded HK\$256 million in turnover, 113% higher than that of last period as a result of more processing activities in specific plates.

For the six months ended 30 June 2013, the net loss of Shouqin attributable to the Group was HK\$720 million, comparing to the net loss of HK\$660 million in last period.

##### *Qinhuangdao Plate Mill*

Qinhuangdao Plate Mill recorded a turnover of HK\$1,489 million before elimination for the six months ended 30 June 2013, a drop of 5% comparing with that of last period. The drop was mainly due to lower selling price in the weak market, ASP (exclude VAT) was HK\$4,184 (RMB3,334) per tonne, about 12% lower than that of last interim period. As a result, the Group's share of net loss of Qinhuangdao Plate Mill was HK\$61 million, comparing to net loss of HK\$88 million in last period.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Mineral exploration

##### *Production and sale of coking coal*

Shougang Resources is a 27.6% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover for the interim period was HK\$2,322 million; net profit attributable to shareholders was HK\$582 million, a drop of 30% and 42% respectively over that of last interim period. Profit attributable to the Group was HK\$148 million in this interim period.

Although selling price of coking coal was in a downside during the period, with the brand quality of Shougang Resources's products, we are confident towards its future operations. We are expecting this upstream business can still provide a significant profit base for the Group.

##### *Production of iron ore products*

The Group holds an effective 67.8% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd ("Shouqin Longhui") which is situated in Qinglong County, Qinhuangdao City, Hebei, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities.

During the interim period under review, Shouqin Longhui's production was still affected by improvement initiatives towards environmental requirements. It sold approximately 206,900 tonnes pellets during the period while average selling price was HK\$1,296 (RMB1,033) per tonne. It recorded a turnover of HK\$309 million for the period, loss attributable to the group was about HK\$81 million, comparing to an attributable loss of HK\$36 million in last period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Commodity trading (“Trading”)

Our Trading operations are jointly conducted by SCIT Trading Limited and Shougang Concord Steel Holdings Limited and its subsidiaries (“The Trading Group”), both of which are wholly owned by the Group. The Trading Group reported a turnover of HK\$1,854 million in the six months ended 30 June 2013, lower by 6% comparing to last period. It sold approximately 1.29 million tonnes of iron ore, which was lower from the 1.40 million tonnes sold from that of last period, through long term offtake arrangements with Mt. Gibson starting from mid of 2009. Selling price was increased by 7% to HK\$1,099 (USD141) per tonne. During the period, management has re-negotiated with Mt. Gibson on the iron ore offtake price. The monthly offtake price has been changed from the monthly average price of the Platts Index based on one month preceding price to the price of current month. The results attributable to the Group thus turned from loss to profit. The resulting net profit was HK\$119 million in the interim period, comparing to a loss of HK\$1 million in last period. Results from this operation are expected to be more favorable in the foreseeable future.

#### Other business

##### *Manufacture of steel cord for radial tyres; processing and trading of copper and brass products*

Shougang Century is a 35.7% associate of the Group. The Group’s share of its net loss was HK\$11 million, comparing to share of loss of HK\$33 million in last period.

The keen competition in the steel cord industry has driven lower profit margin while the fixed costs still remain which lead to a loss situation.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

We aim to diversify our funding sources through utilization of both banking and capital markets. To the extent possible, financing is arranged to match business characteristics and cash flows.

#### 1. Leverage

The financial leverage of the Group as at 30 June 2013 as compared to 31 December 2012 is summarized below:

<i>HK\$ million</i>	<b>30 June 2013 (unaudited)</b>	31 December 2012 (audited)
Total Debt		
– from banks*	<b>9,785</b>	10,490
– from parent company	<b>883</b>	869
Sub-total	<b>10,668</b>	11,359
Cash and bank deposits	<b>2,438</b>	2,435
Net debt	<b>8,230</b>	8,924
Total capital (Equity and debt)	<b>17,843</b>	19,452
Financial leverage		
– Net debt to total capital	<b>46.1%</b>	45.9%
– Net debt to total assets	<b>29.0%</b>	30.4%

\* *excluding financing from discounted bills.*

#### 2. Currency and Interest Rate Risk

The Company manages its financial risks in accordance with guidelines laid down by its Board of Directors. The treasury policy aims to manage the Group currency, interest rate and counterparty risks. Derivatives are only used primarily for managing such risks but not for speculative purposes. We also target to ensure that adequate financial resources are available for business growth.

The Group conducts its businesses mainly in Hong Kong and Mainland China, it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non-Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it through borrowings. For the six months ended 30 June 2013, approximately 80% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements. The Group also enters into certain interest rate swaps to mitigate interest rate risks. Notional amounts of such derivative instruments amounted to HK\$194 million (USD25 million).

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)**

#### **3. Financing activities**

The Company has concluded one new bank financing during this interim period, totaling HK\$350 million, of tenor 36 months.

There are various financial covenants under the existing bank loan agreements entered into by the Company. The Company has been from time to time monitoring the compliance with such financial covenants. In the event the Company foresees the possibility that the Company may not be able to attain any required financial indicators for any relevant period, the Company will take pre-caution measures to obtain consents from the relevant banks either to waive compliance with the relevant financial covenants for the relevant period or to revise the relevant financial covenants, as the case may be.

#### **MATERIAL ACQUISITIONS & DISPOSALS**

There were no material acquisitions and disposals during this interim period.

#### **CAPITAL STRUCTURE**

The Company issued 4,590,000 new shares during this interim period.

The issued share capital of the Company was HK\$1,792 million (represented by 8,958 million ordinary shares).

#### **EMPLOYEES AND REMUNERATION POLICIES**

The Group has a total of approximately 4,300 employees as at 30 June 2013.

The remuneration policies of the Group are to ensure fairness and competitiveness of total remuneration in order to motivate and retain current employees as well as to attract potential ones. Remuneration packages are carefully structured to take into account local practices under various geographical locations in which the Group operates.

The remuneration packages of employees in Hong Kong include salary, discretionary bonuses, medical subsidies and a hospitalization scheme. All of the subsidiaries of the Group in Hong Kong provide pension schemes to the employees. The remuneration packages of employees in the PRC include salary, discretionary bonuses, medical subsidies and a welfare fund contribution as part of their staff benefits.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS

Steel industry was still facing an onerous situation in the first half of 2013. The fluctuations in the global economy was reflected from the volatility in stock market and exchange rate of Japan, the debt crisis overcasting many European countries and the future direction of quantitative easing policy in the United States. Coupled with the continuous slowdown in the growth rate of economy in China, instability of the economy is prevailing worldwide.

Under such unstable situation of the global economy, the steel industry was also affected significantly. Despite the mild rise in steel prices during the first quarter, it began to fall again in the second quarter. Notwithstanding the above, the prices of major raw materials used in steel manufacturing, such as iron ore and coke, also fell sharply during the period, along the fall in steel price and alleviate the manufacturing cost accordingly.

Being affected by the drop of prices in commodity market and the impact brought by weak demand for steel, the selling prices of coking coal made by Shougang Resources (our major investment in the upstream operation) also fell significantly during the period. The Group's share of profit from Shougang Resources was reduced correspondingly. It is believed that coking coal prices will continue to follow the trend of economic cycle and steel prices in future. As to iron ore trading, very satisfactory results was achieved after renegotiation on the determination of iron ore offtake price. The offtake price has been changed to the monthly daily average price of the Platts price index in the current month in which the iron ore is trading. It is expected that a substantial amount of profit will be generated from this segment to the Group in the second half of this year and going forward.

Looking ahead, in the second half year, excess production capacity will still remain as the key issue in the industry pending to be resolved. It is foreseeable that only those companies with strong fundamentals can survive after restructuring of the steel industry. Our investments in the upstream operations, together with the processing operations in the downstream will form the entire production chain and a vertical integration. By capitalizing on the excellent quality of our products and our emphasis on environmental protection, our leading position against our peers will become more obvious. The policies adopted by the Chinese government towards urbanization and accelerated consolidation of the steel industry in future will also be conducive to the turnaround of the steel industry.

On the cost side, iron ore prices decreased from the hike during the period. As there will be more iron ore mines commencing operation in overseas and China within the coming future, supply will increase and it is anticipated to create pressure on iron ore prices in medium to long-term. If iron ore prices sustains at a low level, this may bring considerable positive improvement on the manufacturing cost of steel. The steel industry is a key pillar industry both to the nation and the society. Upon the gradual recovery of the economy, the prospect of steel industry is still promising. With the great support from our parent company, Shougang Corporation, we are confident with the prospects of the steel industry.

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2013 (2012: Nil).

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 30 June 2013 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2013 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### (a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company			Total interests as to % of the issued share capital of the Company as at 30.06.2013
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	-	20,000,000	20,000,000	0.22%
Zhang Wenhui	Beneficial owner	-	35,000,000	35,000,000	0.39%
Chen Zhouping	Beneficial owner	-	45,000,000	45,000,000	0.50%
Ip Tak Chuen, Edmond	Beneficial owner	2,290,000	-	2,290,000	0.02%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	-	7,590,000	0.08%
Kan Lai Kuen, Alice	Beneficial owner	-	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	-	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	-	1,500,000	1,500,000	0.01%

\* *The interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "2002 Scheme"). Upon exercise of the share options in accordance with the 2002 Scheme, ordinary shares of HK\$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.*

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

### (b) Long positions in the shares and underlying shares of Shougang Concord Century Holdings Limited ("Shougang Century"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Century			Total interests as to % of the issued share capital of Shougang Century as at 30.06.2013
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	7,652,000	13,800,000	21,452,000	1.11%
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	16,592,000	24,244,000	1.26%

\* *The interests are unlisted physically settled options.*

### (c) Long positions in the shares and underlying shares of Shougang Fushan Resources Group Limited ("Shougang Resources"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources			Total interests as to % of the issued share capital of Shougang Resources as at 30.06.2013
		Interests in shares	Derivative interests*	Total interests	
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%

\* *The interests are unlisted physically settled options.*

Save as disclosed above, as at 30 June 2013, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2013.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2013, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares/underlying shares of the Company

<b>Name of shareholder</b>	<b>Capacity in which interests were held</b>	<b>Number of shares/ underlying shares</b>	<b>Interests as to % of the issued share capital of the Company as at 30.06.2013</b>	<i>Note(s)</i>
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	4,214,625,699	47.04%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.78%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.57%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	2, 3
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	3



## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

### Long positions in the shares/underlying shares of the Company (continued)

Notes:

1. Shougang Holding indicated in its disclosure form dated 7 September 2011 (being the latest disclosure form filed up to 30 June 2013) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned by Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to 30 June 2013) that as at 24 February 2009, 430,274,586 shares of the Company were held by two wholly-owned subsidiaries of Cheung Kong and 25,127,369 shares of the Company were held by CEF Holdings Limited which in turn was held as to 50% by Cheung Kong. Accordingly, Cheung Kong was interested in an aggregate of 455,401,955 shares of the Company.
3. Mr. Li Ka-shing indicated in his disclosure form dated 17 July 2012 (being the latest disclosure form filed up to 30 June 2013) that as at 16 July 2012, his interests in the Company were held by Cheung Kong which in turn was held as to 40.43% by TUT1. TUT1 was wholly-owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco") which in turn was held as to 33.33% by Mr. Li Ka-shing. TDT1 and TDT2, both wholly-owned subsidiaries of Unity Holdco, were deemed to be interested in the shares of the Company which TUT1 was interested in. The long position in the 455,401,955 shares of the Company held by Cheung Kong, Mr. Li Ka-shing, TUT1, TDT1 and TDT2 were the same block of shares.

Save as disclosed above, as at 30 June 2013, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

### SHARE OPTIONS

On 7 June 2002, the shareholders of the Company adopted the 2002 Scheme which would be valid for a period of ten years. On 25 May 2012, the shareholders of the Company approved the termination of the 2002 Scheme (to the effect that no further share option shall be granted by the Company under the 2002 Scheme) and the adoption of a new share option scheme (the "2012 Scheme"), which became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme. The share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

## SHARE OPTIONS (continued)

Particulars of share options in relation to each of the 2002 Scheme and the 2012 Scheme during the period are set out below:

### (a) The 2002 Scheme

No share option was granted or cancelled in accordance with the terms of the 2002 Scheme during the six months ended 30 June 2013. Details of movements in the share options under the 2002 Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Exercised during the period	Lapsed during the period	At the end of the period			
<b>Directors of the Company</b>							
Li Shaofeng	20,000,000 <sup>1</sup>	-	-	20,000,000 <sup>1</sup>	14.12.2010	14.12.2010 – 13.12.2017	HK\$1.180
Zhang Wenhui	35,000,000 <sup>1</sup>	-	-	35,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Chen Zhouping	45,000,000 <sup>1</sup>	-	-	45,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Ip Tak Chuen, Edmond	4,590,000	(4,590,000) <sup>2</sup>	-	-	12.03.2003	12.03.2003 – 11.03.2013	HK\$0.280
Kan Lai Kuen, Alice	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Wong Kun Kim	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Leung Kai Cheung	1,500,000	-	-	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	109,090,000	(4,590,000)	-	104,500,000			
<b>Employees of the Group</b>							
	13,000,000 <sup>1</sup>	-	(5,000,000) <sup>1</sup>	8,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	13,000,000	-	(5,000,000)	8,000,000			
<b>Other participants</b>							
	115,000,000 <sup>1</sup>	-	-	115,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	115,000,000	-	-	115,000,000			
	237,090,000	(4,590,000)	(5,000,000)	227,500,000			

Notes:

- Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.
- The closing price of the shares of the Company immediately before the date on which the share options were exercised was HK\$0.54 per share.

### (b) The 2012 Scheme

No share option has been granted under the 2012 Scheme since its adoption.

## AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2013 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 21 August 2013 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2013.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "Code") during the six months ended 30 June 2013, except for the following deviation:

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The Chairman of the Board, who is also the chairman of the Nomination Committee of the Company, did not attend the annual general meeting of the Company held on 18 June 2013 (the "2013 AGM") as he had other engagements. The Managing Director of the Company, who took the chair of the 2013 AGM, and other members of the Board together with the chairmen of the Audit and Remuneration Committees and all other members of each of the Audit, Remuneration and Nomination Committees attended the 2013 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2013 AGM were already of sufficient calibre and number for answering questions at the 2013 AGM.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2013.

## DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The following is the change in the information of Directors since the date of the 2012 Annual Report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Wong Kun Kim, an Independent Non-executive Director of the Company, retired as an independent non-executive director of Shougang Concord Technology Holdings Limited on 18 June 2013.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

- (a) Pursuant to the facility agreement dated 15 April 2013 (the "Facility Agreement") entered into between the Company and Fubon Bank (Hong Kong) Limited (the "Bank") in relation to a committed term loan facility in an aggregate amount of HK\$350,000,000 (the "Facility"), each of the following will constitute an event of default upon which the Bank may declare that all or part of the Facility together with accrued interest and all other amounts accrued or outstanding be immediately due and payable: (i) Shougang Holding, the controlling shareholder of the Company, ceases to be a wholly-owned subsidiary of Shougang Corporation, a company incorporated in the People's Republic of China and is the holding company of Shougang Holding; (ii) Shougang Holding ceases to be the single largest beneficial shareholder of the Company with ownership of less than 35% of the equity interest and beneficial ownership in the Company; and (iii) Shougang Corporation ceases to be able to direct the affairs of Shougang Holding and/or to control the composition of the board of directors of Shougang Holding. The Facility shall be repaid by the Company by instalments with the last instalment due on the final maturity date which is 36 months from the date of the Facility Agreement.
- (b) Under the facility letter entered into by the Company on 24 June 2011 with Bank of China (Hong Kong) Limited relating to the banking facilities (the "Facilities") of (i) forward foreign exchange and currency option transaction facilities of US\$80,000,000 (the "Facility I"); and (ii) term loan of up to US\$70,000,000 (the "Facility II"), the Company shall procure that (i) Shougang Holding owns not less than 40% interest in the Company and Shougang Holding in turn shall be wholly-owned by Shougang Corporation throughout the life of the Facilities; (ii) Shougang Corporation should maintain management control in Shougang Holding; and (iii) Shougang Holding, either directly or through its subsidiaries indirectly, remains the single largest beneficial shareholder of the Company. Breach of any of the above will constitute an event of default upon which the Facilities will, among others, become immediately due and payable. There is no specific term regarding the life of the Facility I while the Facility II shall be repaid by the Company by instalments with the last instalment due on the date falling 42 months after the date of first drawdown of the Facility II.

## APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board  
**Li Shaofeng**  
*Managing Director*

Hong Kong, 28 August 2013