

Interim Report **2017**



**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697

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## CORPORATE INFORMATION

### Board of Directors

Zhang Bingcheng (*Chairman*)  
Li Shaofeng (*Managing Director*)  
Ding Rucai (*Deputy Managing Director*)  
Shu Hong (*Deputy Managing 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*)  
Ding Rucai  
Shu Hong

### Audit Committee

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

### Nomination Committee

Zhang Bingcheng (*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 Registrar</b>	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East 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 2017. 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 2017

		Six months ended 30 June	
	NOTES	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>			
Revenue	3	1,305,909	478,001
Cost of sales		(1,294,570)	(442,500)
Gross profit		11,339	35,501
Other income		4,084	3,672
Other gains and losses		2,830	(8,186)
Change in fair value of derivative financial instruments		(25,564)	(11,267)
Administrative expenses		(19,661)	(19,887)
Impairment loss on interest in an associate	9	–	(257,000)
Finance costs		(10,079)	(14,407)
Share of results of associates		178,776	(114,004)
Profit (loss) before taxation		141,725	(385,578)
Income tax expense	4	–	–
Profit (loss) for the period from continuing operations	5	141,725	(385,578)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	18	–	(688,899)
Profit (loss) for the period		141,725	(1,074,477)

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

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
NOTES		
<b>Other comprehensive income (expense)</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Exchange differences arising on translation to presentation currency	–	119,903
Fair value gain (loss) on investments in equity instruments designated as at fair value through other comprehensive income	57	(49,698)
Share of exchange differences of an associate arising on translation to presentation currency	16,835	(11,115)
Share of fair value gains on investment in equity instruments designated as at fair value through other comprehensive income of an associate	509	34,440
<b>Item that may be subsequently reclassified to profit or loss:</b>		
Share of exchange differences of an associate arising on translation of foreign operations	95,304	(7,113)
Other comprehensive income for the period	112,705	86,417
Total comprehensive income (expense) for the period	254,430	(988,060)

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

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
Profit (loss) for the period attributable to owners of the Company:			
– from continuing operations		141,725	(385,578)
– from discontinued operations		–	(540,790)
		<b>141,725</b>	(926,368)
Loss for the period attributable to non-controlling interests from discontinued operations		–	(148,109)
		<b>141,725</b>	(1,074,477)
Total comprehensive income (expense) attributable to:			
Owners of the Company		254,430	(856,835)
Non-controlling interests		–	(131,225)
		<b>254,430</b>	(988,060)
Earnings (loss) per share	7		
From continuing and discontinued operations			
– Basic and diluted		<b>1.58 HK cents</b>	(10.34) HK cents
From continuing operations			
– Basic and diluted		<b>1.58 HK cents</b>	(4.30) HK cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment property	8	6,000	6,000
Property, plant and equipment	8	2,377	2,246
Interests in associates	9	4,901,965	4,654,460
Equity investment	10	840	783
Deferred tax assets		34,626	32,291
Other financial assets	17	148,970	181,716
		<b>5,094,778</b>	4,877,496
<b>CURRENT ASSETS</b>			
Trade and bills receivables	11	403,485	394,779
Trade receivables from related companies	12	23,570	8,704
Prepayments, deposits and other receivables		10,311	5,414
Dividend receivable from an associate		43,919	–
Amounts due from related companies	12	399	456
Amounts due from associates	21	15	26
Other financial assets	17	8,390	–
Pledged bank deposits	19(a)	–	23,073
Bank balances and cash		241,470	537,488
		<b>731,559</b>	969,940



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2017

	NOTES	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	92,050	276,093
Trade payables to related companies	12	–	8,212
Other payables, provision and accrued liabilities		31,166	48,831
Tax payable		154,287	192,307
Bank borrowings – due within one year	14	587,986	616,783
Other financial instruments	17	1,208	–
		<b>866,697</b>	1,142,226
<b>NET CURRENT LIABILITIES</b>		<b>(135,138)</b>	(172,286)
<b>NET ASSETS</b>		<b>4,959,640</b>	4,705,210
<b>CAPITAL AND RESERVES</b>			
Share capital	15	5,345,183	5,345,183
Reserves		(385,543)	(639,973)
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>4,959,640</b>	4,705,210

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company											
	Share capital HK\$'000	Capital contribution 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 losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	5,345,183	-	28,338	1,152,585	289,560	726,572	(836,485)	51,979	(5,421,420)	1,336,312	(1,116,374)	219,938
Loss for the period	-	-	-	-	-	-	-	-	(926,368)	(926,368)	(148,109)	(1,074,477)
Exchange differences arising on translation	-	-	-	91,087	-	-	-	-	-	91,087	28,816	119,903
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(37,766)	-	-	(37,766)	(11,932)	(49,698)
Share of other comprehensive income (expense) of associates	-	-	-	(18,228)	-	-	34,440	-	-	16,212	-	16,212
Total comprehensive income (expense) for the period	-	-	-	72,859	-	-	(3,326)	-	(926,368)	(856,835)	(131,225)	(988,060)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(689)	(689)
At 30 June 2016 (unaudited)	5,345,183	-	28,338	1,225,444	289,560	726,572	(839,811)	51,979	(6,347,788)	479,477	(1,248,288)	(768,811)
<b>At 1 January 2017 (audited)</b>	<b>5,345,183</b>	<b>4,848,033</b>	<b>-</b>	<b>38,634</b>	<b>289,560</b>	<b>-</b>	<b>(720,614)</b>	<b>-</b>	<b>(5,095,586)</b>	<b>4,705,210</b>	<b>-</b>	<b>4,705,210</b>
Profit for the period	-	-	-	-	-	-	-	-	141,725	141,725	-	141,725
Fair value gain on investment in equity instrument designated as at fair value through other comprehensive income	-	-	-	-	-	-	57	-	-	57	-	57
Share of other comprehensive income (expense) of associates	-	-	-	112,139	-	-	509	-	-	112,648	-	112,648
Total comprehensive income (expense) for the period	-	-	-	112,139	-	-	566	-	141,725	254,430	-	254,430
At 30 June 2017 (unaudited)	5,345,183	4,848,033	-	150,773	289,560	-	(720,048)	-	(4,953,861)	4,959,640	-	4,959,640

### Notes:

- Revaluation reserve represented the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of the additional equity interest in Qinhuangdao Shouqin Metal Materials Co., Ltd. in 2005.
- 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).
- 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 2017

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Net cash (used in) from operating activities	<b>(290,377)</b>	242,978
Net cash from investing activities		
Decrease of restricted bank deposits	–	173,877
Purchase of property, plant and equipment	<b>(253)</b>	(18,032)
Placement of pledged bank deposits	<b>(10,000)</b>	(59,485)
Deposits paid for acquisition of property, plant and equipment	–	(14,575)
Withdrawal of pledged bank deposits	<b>33,073</b>	225,183
Interest received	<b>4,200</b>	14,477
Proceeds from disposal of property, plant and equipment	–	124
Decrease (increase) in amount due from associates	<b>11</b>	(86)
	<b>27,031</b>	321,483
Net cash used in financing activities		
New bank borrowings raised	<b>1,445,203</b>	3,079,155
Advance from related companies	–	69,197
Advance from ultimate holding company of a shareholder	–	1,118
Repayment to ultimate holding company of a shareholder	–	(1,627)
Advance on discounted bills	–	1,770
Repayment of bank borrowings	<b>(1,479,123)</b>	(3,626,855)
Repayment to related companies	–	(108,675)
Dividends paid to non-controlling shareholders of a subsidiary	–	(689)
	<b>(33,920)</b>	(586,606)
Net decrease in cash and cash equivalents	<b>(297,266)</b>	(22,145)
Cash and cash equivalents at 1 January	<b>537,488</b>	519,474
Effect of foreign exchange rate changes	<b>1,248</b>	(8,234)
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>241,470</b>	489,095

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

### 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 financial information relating to the year ended 31 December 2016 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The Group had net current liabilities of approximately HK\$135,138,000 as at 30 June 2017. Taking into account the financial resources of the Group, including the financial support from the ultimate holding company of the major shareholder of the Company, Shougang Group Co., Ltd. (formerly known as Shougang Corporation), the directors of the Company (“Directors”) are of the opinion that the Group has sufficient working capital to meet in full its financial obligations 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.

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

For the six months ended 30 June 2017

### 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 value, 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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

Amendments to HKFRS 7	Disclosures Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the above new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures as set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

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

Trading business	– trading of steel products and iron ore;
Others	– management services and leasing income.

During the year ended 31 December 2016, the segments of steel manufacturing and mineral exploration and processing were discontinued following the disposal of Ultimate Century Investments Limited on 30 December 2016 and details are set out in note 18.

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION (continued)

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

#### Continuing operations

##### Six months ended 30 June 2017 (unaudited)

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
Revenue			
External sales	1,304,001	1,908	1,305,909
Segment profit (loss)	15,338	(6,534)	8,804
Other income			4,084
Central administration costs			(15,504)
Change in fair value of commodity forward contracts			(24,356)
Finance costs			(10,079)
Share of results of associates			178,776
Profit before taxation			141,725

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION (continued)

#### Continuing operations (continued)

#### Six months ended 30 June 2016 (unaudited) (restated)

	Trading business HK\$'000	Others HK\$'000	Total HK\$'000
Revenue			
External sales	476,201	1,800	478,001
Inter-segment sales	54,121	–	54,121
Segment revenue	530,322	1,800	532,122
Elimination			(54,121)
Group revenue			478,001
Segment profit (loss)	29,525	(6,538)	22,987
Other income			3,672
Central administration costs			(15,559)
Change in fair value of commodity forward contracts			(11,267)
Impairment loss on interest in an associate			(257,000)
Finance costs			(14,407)
Share of results of associates			(114,004)
Loss before taxation			(385,578)

Inter-segment sales are charged at prevailing market rates.

Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of other income, central administration costs, change in fair value of commodity forward contracts, impairment loss on interest in an associate, finance costs 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 2017

### 4. INCOME TAX EXPENSE

#### Continuing operations

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2017 and 2016.

No provision for Hong Kong profits tax from continuing operations is made for the six months ended 30 June 2017 and 2016 since there is no assessable profits arising in Hong Kong.

### 5. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>		
Profit (loss) for the period has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	9,870	9,976
– retirement benefits scheme contributions	396	507
	<b>10,266</b>	10,483
Depreciation of property, plant and equipment	122	153
Change in fair value of derivative financial instruments		
– change in fair value of commodity forward contracts	24,356	11,267
– change in fair value of foreign currency forward contracts	1,208	–
	<b>25,564</b>	11,267
Reversal of allowance for trade receivables, net (included in other gains and losses)	(10)	(10)
Interest income from bank deposits, included in other income	(4,084)	(3,672)
Net foreign exchange loss (included in other gains and losses)	5,392	8,196



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

For the six months ended 30 June 2017

### 6. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2017 and 2016. Directors have determined that no dividend will be paid in respect of the six months ended 30 June 2017 and 2016.

### 7. EARNINGS (LOSS) PER SHARE

#### From continuing and discontinued operations

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Earnings (loss)</b>		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share		
Profit (loss) for the period attributable to owners of the Company	<b>141,725</b>	(926,368)

The denominators used are the same as those detailed below for both basic and diluted earnings (loss) per share.

	Six months ended 30 June	
	2017	2016
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<b>8,957,896,227</b>	8,957,896,227

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

For the six months ended 30 June 2017

### 7. EARNINGS (LOSS) PER SHARE (continued)

#### From continuing and discontinued operations (continued)

For the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the share options as the exercise price of those share options is higher than the average market price for shares for the six months ended 30 June 2017.

For the six months ended 30 June 2016, the computation of diluted loss per share does not assume the exercise of the share options, as it would result in a decrease in loss per share.

#### From continuing operations

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Earnings (loss)</b>		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share		
Profit (loss) for the period attributable to owners of the Company	<b>141,725</b>	(385,578)

The denominators used are the same as those detailed below for both basic and diluted earnings (loss) per share.

	Six months ended 30 June	
	2017	2016
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<b>8,957,896,227</b>	8,957,896,227

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

*For the six months ended 30 June 2017*

### **7. EARNINGS (LOSS) PER SHARE (continued)**

#### **From continuing operations (continued)**

For the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the share options as the exercise price of those share options is higher than the average market price for shares for the six months ended 30 June 2017.

For the six months ended 30 June 2016, the computation of diluted loss per share does not assume the exercise of the share options, as it would result in a decrease in loss per share.

### **8. MOVEMENTS IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT**

In the opinion of the Directors, the carrying amount of the Group's investment property as at 30 June 2017 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 property in the current period.

The fair value measurement of the investment property located in Hong Kong is categorised into level 3 as the significant inputs to the fair value measurement are unobservable.

The key input used in valuing the investment property for the period ended 30 June 2017 and year ended 31 December 2016, which is situated in Hong Kong, is by taking reference to the historical average unit price of similar properties recently available on the market in 2017.

There were no transfers into or out of level 3 during the period/year ended 30 June 2017 and 31 December 2016.

During the period, the Group incurred approximately HK\$253,000 (for the six months ended 30 June 2016: HK\$33,697,000) on acquisition of property, plant and equipment in order to upgrade its operating capacities. During the six months ended 30 June 2016, an amount of HK\$15,665,000 was transferred from deposits for acquisition of property, plant and equipment. No transfer from deposits for acquisition of property, plant and equipment during the six months ended 30 June 2017.

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

For the six months ended 30 June 2017

### 9. INTERESTS IN ASSOCIATES

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Cost of investment in associates	<b>6,834,092</b>	6,834,092
Share of post-acquisition results and other comprehensive expense, net of dividends received	<b>(359,233)</b>	(606,738)
Unrealised gain on transfer from security investment reserve upon disposal of available-for-sale investments (Note)	<b>(364,213)</b>	(364,213)
Impairment loss	<b>(1,208,681)</b>	(1,208,681)
	<b>4,901,965</b>	4,654,460

Note: The amount represents unrealised gain on disposal of available-for-sale investments to the Group's associate, Shougang Fushan Resources Group Limited ("Shougang Resources"), arising from the equity interest of Shougang Resources held by the Group upon completion of the disposal of available-for-sale investments to the associate in 2009.

During the year ended 31 December 2012, Shougang Resources early adopted HKFRS 9. As at 30 June 2017 and 31 December 2016, such investments are continuously held by Shougang Resources and classified as financial assets at fair value through other comprehensive income ("FVTOCI").

Such unrealised gain will be reversed upon the loss of significant influence over Shougang Resources or disposal of such investments by Shougang Resources.

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

For the six months ended 30 June 2017

### 9. INTERESTS IN ASSOCIATES (continued)

Included in cost of investment in Shougang Resources, an associate of the Group, is goodwill of HK\$1,048,488,000 as at 30 June 2017 (31 December 2016: HK\$1,048,488,000) arising from the acquisition of Shougang Resources. The movement of goodwill is set out below.

HK\$'000

#### **COST**

At 1 January 2016, 31 December 2016 (audited) and 30 June 2017 (unaudited) 2,257,169

#### **IMPAIRMENT**

At 1 January 2016 (audited) 951,681

Impairment loss recognised during the year ended 31 December 2016 257,000

At 31 December 2016 (audited) and 30 June 2017 (unaudited) 1,208,681

#### **CARRYING VALUES**

At 31 December 2016 (audited) and 30 June 2017 (unaudited) 1,048,488

No impairment loss has been recognised for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK\$257,000,000) in respect of the interest in Shougang Resources. The recoverable amount of the interest in Shougang Resources has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections prepared by the management with reference to the information provided by the management of the associate covering a 5-year period and using a discount rate of 12.87% (for the six months ended 30 June 2016: 12.14%), and the cash flows beyond 5 years are extrapolated using a zero growth rate. Key assumptions used in the value in use calculation are the estimation of cash inflows arising from forecasted sales and gross margins, derived from the associate's past performance and management's expectations of the market development.

During the six months ended 30 June 2017, as the recoverable amount of the estimated cash flows of the cash-generating unit is higher than the carrying amount of the interest in Shougang Resources, no impairment loss has been recognised on interest in Shougang Resources for the six months ended 30 June 2017.

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

For the six months ended 30 June 2017

### 9. INTERESTS IN ASSOCIATES (continued)

During the six months ended 30 June 2016, the estimated cash flows of the cash-generating unit was revised due to the slowdown of economy in the PRC. As the reassessment of the recoverable amount of the cash-generating unit was less than the carrying amount of the interest in Shougang Resources, an impairment loss of HK\$257,000,000 on interest in Shougang Resources had been recognised for the six months ended 30 June 2016.

### 10. EQUITY INVESTMENT

Equity investment comprise:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Equity securities listed in Australia, at fair value	<b>840</b>	783

### 11. TRADE AND BILLS RECEIVABLES

The credit terms of trade receivables are normally 90 to 180 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 respective revenue recognition dates:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Within 60 days	<b>237,538</b>	356,854
61 – 90 days	<b>75,850</b>	37,925
91 – 180 days	<b>90,097</b>	–
	<b>403,485</b>	394,779

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

For the six months ended 30 June 2017

### 11. TRADE AND BILLS RECEIVABLES (continued)

The following were the Group's bills receivables as at 30 June 2017 and 31 December 2016 that were transferred to banks by discounting 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 has recognised the cash received from the banks as secured borrowings. These financial assets are carried at amortised cost in the condensed consolidated statement of financial position.

	<b>Bills receivables discounted to banks with full recourse</b>
	HK\$'000
<b>At 30 June 2017 (unaudited)</b>	
Carrying amount of bills receivables	59,051
Carrying amount of borrowings	(59,051)

There was no bills receivables discounted to the bank as at 31 December 2016.

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

For the six months ended 30 June 2017

### 12. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies represent amounts due from the subsidiaries of Shougang Group Co., Ltd., the ultimate holding company of the major shareholder of the Company (collectively referred to as the “Shougang Group”). The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days.

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

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Within 60 days	<b>23,560</b>	8,704
61 – 90 days	<b>10</b>	–
	<b>23,570</b>	8,704

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 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Over 2 years	<b>–</b>	8,212



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

For the six months ended 30 June 2017

### 13. 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 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Within 90 days	<b>92,050</b>	276,093

### 14. BANK BORROWINGS

During the period, the Group obtained new bank loans of HK\$1,445,203,000 (for the six months ended 30 June 2016: HK\$3,079,155,000). The proceeds were mainly used to finance the trading operation of the Group. The amount of bank loans repaid by the Group was HK\$1,479,123,000 (for the six months ended 30 June 2016: HK\$3,626,855,000) during the current period.

As at 30 June 2017, bank borrowings include fixed-rate loan of HK\$59,051,000 (31 December 2016: nil) bearing interest rate at 1.9% per annum, which represent the discounted bills that had been discounted to bank.

As at 30 June 2017, the Group has variable-rate bank borrowings of HK\$528,935,000 denominated in United States dollar ("USD") bearing interest at the London Interbank Offered Rates ("LIBOR") plus 1.0% to 3.5% (31 December 2016: LIBOR plus 1.8% to 3.5%) per annum, which ranged from 2.07% to 4.73% (31 December 2016: 2.16% to 4.27%) per annum.

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

For the six months ended 30 June 2017

### 15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<b>Ordinary shares issued and fully paid:</b>		
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017		
– Ordinary shares with no par value	8,957,896,227	5,345,183

### 16. CONTINGENT LIABILITIES

During the ordinary course of business in December 2013, a subsidiary of the Group engaged a charterer of a vessel to transport a cargo of iron ores to its customer in China and issued a letter of indemnity ("LOI") to the charterer for delivering the cargo to the Group's customer without production of the original bill of lading (the "Bill of Lading"). The provision of the LOI was the prevailing market practice in the trading of iron ore. The goods were subsequently sold to a final buyer after several sales and purchases not in relation to the Group afterwards. The issuing bank for the letter of credit issued for the final buyer ("Issuing Bank") honoured the payment to the seller under the letter of credit. The final buyer went into bankruptcy afterwards. The Issuing Bank was therefore not reimbursed. As the final buyer has not paid the cargo proceeds to the Issuing Bank, the Issuing Bank was the lawful holder of the Bill of Lading. However, the Issuing Bank found that the goods were taken by the final buyer without presenting the Bill of Lading. The Issuing Bank appealed to the Qingdao Maritime Court ("Qingdao Court") to arrest the vessel. The vessel owner paid approximately USD10.3 million to secure the release of the vessel. The vessel owner in turn sued the charterer for the security deposit paid and the charterer reimbursed to the vessel owner. In turn, the charterer sued the Group's subsidiary which had engaged it to carry on the transportation services. This legal case has been presented to the High Court of Justice Queen's Bench Division Commercial Court, England ("High Court"). At the same time, the Group sued its customer for the same amount for the reimbursement claim according to the back-to-back indemnity claim. This legal case in High Court is finalised and it is judged that the Group is liable to the charterer and its customer is liable to the Group. As at 30 June 2017 and up to the date of this report, no official final judgement has been received by the Group. As the legal case between the Issuing Bank and the vessel owner in Qingdao Court is still under proceeding, the amount claimed by the vessel owner is not yet known. The Directors are of the opinion that it is unlikely the Group would have any liability on this case and in addition, the Group is entitled to an indemnity from its customer pursuant to the LOI issued by the customer, thus no provision for this legal case (other than legal costs) has been provided for.

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

For the six months ended 30 June 2017

### 17. 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 technique(s) 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).

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
1) As at 30 June 2017, listed equity securities classified as equity investment designated as FVTOCI at level 1 category of HK\$840,000 (31 December 2016: HK\$783,000)	Quoted bid prices in an active market	N/A
2) As at 30 June 2017, foreign currency forward contracts classified as other financial instruments at level 2 category of HK\$1,208,000	Discounted cash flow  Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of counterparty.	N/A

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

For the six months ended 30 June 2017

### 17. 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	Valuation technique(s) and key input(s)	Significant unobservable inputs
3) As at 30 June 2017, commodity forward contracts (the "Original Commodity Forward Contracts") classified as other financial assets at level 3 category of HK\$148,970,000 (31 December 2016: HK\$181,716,000)	<p>Discounted cash flow</p> <p>The key inputs are: The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of capesize vessel freight rate and panamax vessel freight rate, the forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mines, the lives of mines and the discount rate</p>	<p>The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China taking into account management's estimate with reference to research report published by financial institution (Note 1)</p> <p>The average growth rate of capesize vessel freight rate and panamax vessel freight rate for Australia/China ranging from -7.71% to 43.28% (31 December 2016: -4.98% to 11.90%) and from -7.21% to 23.59% (31 December 2016: -35.06% to 9.29%) respectively taking into account management's estimate with reference to research report published by financial institution (Note 2)</p> <p>The forecasted 62% Fe Platts Iron Ore price ranging from USD52/DMT to USD56/DMT (31 December 2016: from USD52/DMT to USD55/DMT) is taking as the reference price to ascertain the price of the relevant grade of iron ore, taking into account management's estimate with reference to research report published by financial institution (Note 3)</p>

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

For the six months ended 30 June 2017

### 17. 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	Valuation technique(s) and key input(s)	Significant unobservable inputs
3) (continued)		<p>The forecasted marketing commission saving is taking into account management's estimate with reference to 3.25% (31 December 2016: 3.25%) on Platts iron ore IODEX 62% Fe CFR North China Price (Note 4)</p> <p>The forecasted annual production of the mines and the lives of the mines taking into account management's estimate with reference to the supplier's expected annual production and ore mine reserve announced on 27 April 2017 (31 December 2016: reserve amount stated in supplier's mineral resources and ore reserves statement as at 30 June 2014 less the actual purchase from 1 July 2014 to 31 December 2016) (Note 5)</p> <p>Discount rate of 19.25% (31 December 2016: 19.49%) 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 (Note 6)</p>

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

For the six months ended 30 June 2017

### 17. 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	Valuation technique(s) and key input(s)	Significant unobservable inputs
4) In December 2016, the Group has entered a New Commodity Forward Contract (as defined below). As at 30 June 2017, the New Commodity Forward Contract classified as other financial assets at level 3 category of HK\$8,390,000 (31 December 2016: nil)	Discounted cash flow  The key inputs are: The forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mine, the life of mine and the discount rate	<p>The forecasted 62% Fe Platts Iron Ore price ranging from USD54/DMT to USD66/DMT is taking as the reference price to ascertain the price of the relevant grade of iron ore, taking into account management's estimate with reference to research report published by financial institution (Note 7)</p> <p>The forecasted marketing commission saving is taking into account management's estimate with reference to 3% for fine and 2.5% for lump on Platts iron ore IODEX 62% Fe CFR North China Price (Note 8)</p> <p>The forecasted annual production of the mine and the life of the mine taking into account management's estimate with reference to the supplier's expected annual production and ore mine reserve stated in supplier's announcement dated 9 February 2017 (Note 9)</p> <p>Discount rate of 20.25% is determined by expected rate of return of the commodity forward contract by using a Capital Asset Pricing Model and adjusted by the specific risk premium (Note 10)</p>

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

For the six months ended 30 June 2017

### 17. 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: An increase in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$9,196,000 (31 December 2016: nil).
- Note 2: An increase in the average growth rate of capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in a decrease in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the average growth rate of capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would decrease/increase the carrying amount of the commodity forward contracts by HK\$2,488,000 (31 December 2016: decrease/increase by HK\$138,000).
- Note 3: An increase in the Platts iron ore price used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the Platts iron ore price holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$6,748,000 (31 December 2016: HK\$6,707,000).
- Note 4: An increase in the market commission saving used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the market commission saving holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$5,702,000 (31 December 2016: HK\$5,770,000).
- Note 5: An increase in the forecasted annual production of the mines used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the forecasted annual production of the mines holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$14,897,000 (31 December 2016: HK\$18,171,000).

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

For the six months ended 30 June 2017

### 17. 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 6: An increase in the discount rate to the valuation model used in isolation would result in a decrease in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the discount rate to the valuation model holding all other variables constant would decrease/increase the carrying amount of the commodity forward contracts by HK\$7,548,000 (31 December 2016: HK\$18,860,000).
- Note 7: An increase in the Platts iron ore price used in isolation would result in an increase in the fair value measurement of the commodity forward contract, and vice versa. A 10% increase/decrease in the Platts iron ore price holding all other variables constant would increase/decrease the carrying amount of the commodity forward contract by HK\$839,000.
- Note 8: An increase in the market commission saving used in isolation would result in an increase in the fair value measurement of the commodity forward contract, and vice versa. A 10% increase/decrease in the market commission saving holding all other variables constant would increase/decrease the carrying amount of the commodity forward contract by HK\$839,000.
- Note 9: An increase in the forecasted annual production of the mine used in isolation would result in an increase in the fair value measurement of the commodity forward contract, and vice versa. A 10% increase/decrease in the forecasted annual production of the mine holding all other variables constant would increase/decrease the carrying amount of the commodity forward contract by HK\$119,000.
- Note 10: An increase in the discount rate to the valuation model used in isolation would result in a decrease in the fair value measurement of the commodity forward contract, and vice versa. A 10% increase/decrease in the discount rate to the valuation model holding all other variables constant would decrease/increase the carrying amount of the commodity forward contract by HK\$65,000.



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

For the six months ended 30 June 2017

### 17. 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)

There were no transfers between level 1 and 2 during the period/year ended 30 June 2017 and 31 December 2016.

The Directors consider that the carrying amounts of other 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

	Original Commodity Forward Contracts HK\$'000	New Commodity Forward Contract HK\$'000	Total commodity forward contracts HK\$'000
At 1 January 2017	181,716	–	181,716
Total gains or losses to profit or loss	(32,746)	8,390	(24,356)
At 30 June 2017	148,970	8,390	157,360

	Original Commodity Forward Contracts HK\$'000	Unlisted equity securities HK\$'000
At 1 January 2016	312,852	55,409
Total gains or losses:		
– to profit or loss	(11,267)	–
– to other comprehensive expense	–	(49,719)
Exchange difference	–	(1,166)
At 30 June 2016	301,585	4,524

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

For the six months ended 30 June 2017

### 17. 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)

##### 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\$24,356,000 (for the six months ended 30 June 2016: HK\$11,267,000) 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.

On 24 October 2014, Mount Gibson Iron Limited ("MGI") announced that there was a slump in the Main Pit seawall in Koolan Island and the Main Pit was inundated as a result of the breach of the seawall (the "Slump"). Subsequent to the Slump, the production of the Koolan Island mine was suspended. On 27 April 2017, management of MGI announced its plan to restart the Koolan Island mine and the first ore sales targeted to commence in early 2019.

The Directors consider that the production of Main Pit is unlikely to resume within the next twelve months, and therefore the entire carrying amount of the Original Commodity Forward Contracts in relation to the production of Main Pit are classified as non-current asset as at 30 June 2017 and 31 December 2016. No fair value change upon delivery was recognised in profit or loss for the six months ended 30 June 2017 (for the period ended 30 June 2016: nil).

In December 2016, the Group has entered a new commodity forward contract (the "New Commodity Forward Contract") in relation to the production of Iron Hill with MGI, pursuant to the New Commodity Forward Contract, the Group is entitled to a discount on the purchase of the pre-agreed quantity of production within one year from the date of the first shipment. The agreement has been approved by the regulatory bodies in Australia during the period and has officially come into effect after obtaining the approval from the shareholders of MGI at the general meeting of MGI in April 2017. Fair value gain of HK\$8,390,000 has been recognised in profit or loss in relation to the New Commodity Forward Contract during the six months ended 30 June 2017.

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

*For the six months ended 30 June 2017*

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

#### **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 of the Group works closely with a qualified third party 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 financial assets and liabilities are disclosed above.

### **18. DISCONTINUED OPERATIONS**

On 3 October 2016, the Company and Shougang Holding Bonds Limited (the "Purchaser"), a wholly-owned subsidiary of a major shareholder of the Company, entered into a sale and purchase agreement pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the entire equity interest in Ultimate Century Investments Limited at consideration of HK\$1 (the "Disposal"). The Disposal has been completed on 30 December 2016 on which the control of the Disposal Group has been passed to the Purchaser. After the Disposal, the Group discontinued the steel manufacturing and mineral exploration and processing operations, the Group treated these operations as discontinued operations and the comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income are re-presented.

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

For the six months ended 30 June 2017

### 18. DISCONTINUED OPERATIONS (continued)

Loss for the period from discontinued operations:

	<b>1 January 2016 to 30 June 2016</b>
	HK\$'000 (unaudited)
Revenue	2,946,686
Cost of sales	(3,169,577)
<hr/>	
Gross loss	(222,891)
Other income	18,358
Other gains and losses	(9,602)
Distribution and selling expenses	(37,989)
Administrative expenses	(182,678)
Finance costs	(256,188)
Share of results of an associate	(251)
<hr/>	
Loss before taxation	(691,241)
Income tax credit	2,342
<hr/>	
Loss for the period	(688,899)
<hr/>	
Loss for the period attributable to:	
Owners of the Company	(540,790)
Non-controlling interests	(148,109)
<hr/>	
	(688,899)
<hr/>	

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

For the six months ended 30 June 2017

### 18. DISCONTINUED OPERATIONS (continued)

#### Segment revenue and results

The following is an analysis of the Disposal Group's revenue and results by operating segment.

Six months ended 30 June 2016 (unaudited) (restated)

	Steel manufacturing HK\$'000	Mineral exploration and processing HK\$'000	Total HK\$'000
Revenue			
External sales	2,946,686	–	2,946,686
Inter-segment sales	–	1,561	1,561
Segment revenue from discontinued operations	2,946,686	1,561	2,948,247
Eliminations			(1,561)
Group revenue			2,946,686
Segment loss	(398,521)	(47,086)	(445,607)
Interest income			10,805
Finance costs			(256,188)
Share of results of an associate			(251)
Loss before taxation from discontinued operations			(691,241)

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, finance costs and share of results of an associate. This is the measure reported to the 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 2017

### 18. DISCONTINUED OPERATIONS (continued)

**1 January 2016  
to  
30 June 2016**  
HK\$'000  
(unaudited)

Loss for the period has been arrived at after charging (crediting):

Staff costs	
– basic salaries and allowances	161,526
– retirement benefits scheme contributions	23,842
	<hr/>
	185,368
Amortisation of prepaid lease rentals	3,754
Depreciation of property, plant and equipment	431,814
	<hr/>
Total depreciation and amortisation	435,568
Allowance for trade and other receivables, net (included in other gains and losses)	7,692
Allowance for inventories, net (Note a)	287,508
Interest income on bank deposits, included in other income	(10,805)
Gain on disposal of property, plant and equipment (included in other gains and losses)	(22)
Research and development cost recognised as expenses	519
Net foreign exchange loss (included in other gains and losses)	1,931
	<hr/>

Note a: During the six months ended 30 June 2016, the net realisable value of certain inventories fell below their respective costs because of the decline in selling price. As a result, the allowance for inventories of HK\$287,508,000 has been recognised in cost of sales.

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

*For the six months ended 30 June 2017*

### **19. PLEDGE OF ASSETS**

As at 30 June 2017, the following items were used to secure banking facilities granted to the Group:

- (a) Pledged bank deposits of nil (31 December 2016: HK\$23,073,000).
- (b) Pledge of 863,000,000 shares (31 December 2016: 863,000,000 shares) of the Group's listed associate, Shougang Resources, with the market value of approximately HK\$1,251,350,000 (31 December 2016: HK\$1,311,760,000).
- (c) Pledged bills receivables of HK\$59,051,000 (31 December 2016: nil)

### **20. MAJOR NON-CASH TRANSACTION**

For the six months ended 30 June 2016, advances drawn on bills receivables of HK\$465,584,000 (for the six months ended 30 June 2017: nil) is settled by the bills receivables discounted with banks.

### **21. RELATED PARTY DISCLOSURES**

The Group is an associate of Shougang Holding (Hong Kong) Limited, which is a wholly-owned subsidiary of Shougang Group Co., Ltd., 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 which is considered to be part of a larger group of companies under the PRC government. Accordingly, the Group is also considered to be a government related entity in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 21(I) to 21(III).

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

For the six months ended 30 June 2017

### 21. RELATED PARTY DISCLOSURES (continued)

#### (I) Transactions with related parties

		Six months ended 30 June	
	NOTES	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>Continuing operations</b>			
<b>Shougang Group</b>			
Sales by the Group	(a)	1,020	1,020
Purchases by the Group	(b)	370,580	2,820
<b>Associate of the Group</b>			
Services provided by the Group	(d)	780	780
<b>Discontinued operations</b>			
<b>Shougang Group</b>			
Sales by the Group	(a)	–	193,760
Purchases by the Group	(b)	–	1,045,271
Interest charged to the Group	(c)	–	38,517



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

*For the six months ended 30 June 2017*

### **21. RELATED PARTY DISCLOSURES (continued)**

#### **(I) Transactions with related parties (continued)**

Notes:

- (a) The Group provides company secretarial services (for the period ended 30 June 2016: raw materials, scrap materials, steel products, leasing and services) to Shougang Group Co., Ltd. and/or its associates.
- (b) Shougang Group Co., Ltd. and/or its associates provide materials, steel products, leasing and services (for the period ended 30 June 2016: raw materials, fuel, energy, equipment, spare parts, steel products, leasing and services) to the Group.
- (c) For the six months ended 30 June 2017, no interest expense was charged by Shougang Group. For the six months ended 30 June 2016, the interest expenses were charged by Shougang Group in respect of loans granted to the Group at interest rates ranging from 4.9% to 6.0% per annum.
- (d) The Group provides company secretarial and administrative services to its associate.

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

Details of balances with the Group's related companies are set out in note 12.

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

Apart from the transactions and balances with the Shougang Group as disclosed in notes 21(I) and 21(II), the Group has entered into various transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions which are government related entities as part of its ordinary course of business. In view of the nature of these 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 2017

### 21. RELATED PARTY DISCLOSURES (continued)

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

During the period ended 30 June 2017, no goods has been sold to a related company, Qinhuangdao Shouqin K. Wah Construction Materials Company Limited (for the six months ended 30 June 2016: HK\$10,046,000).

As at 30 June 2017, other receivables of the Group included a dividend receivable in respect of the final dividend from Shougang Resources for the year ended 31 December 2016 of HK\$43,919,000 (31 December 2016: nil).

The amounts due from associates are unsecured, interest-free and are repayable on demand.

#### (V) 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	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Short-term benefits	1,810	1,970
Post employment benefits	9	9
	<b>1,819</b>	1,979

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 (collectively referred to as the "Group") set out on pages 4 to 41, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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  
24 August 2017

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY OVERVIEW

After the disposal of the Qinhuangdao business at the end of last year, the Group ended the running of many years of steel business. The Group's business has been focused to trading of iron ore. At the same time, through investment in two associates listed in Hong Kong, Shougang Fushan Resources Group Limited ("Shougang Resources") and Shougang Concord Century Holdings Limited ("Shougang Century"), the business of the Group also includes exploration and sales of hard coking coal and manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products in China.

The first interim results of the Group after the disposal of its steel business demonstrated an encouraging performance, making a turnaround from substantial loss in successive years to a profit of HK\$142 million for the period. Significant improvement in performance was mainly a result from excluding the substantial loss of steel business, coupled with the outstanding results of its two associates, achieving turnaround for the period.

### PERFORMANCE REVIEW

	For the six months ended 30 June	
	2017 HK\$ Million	2016 HK\$ Million (Restated)
<b>Results from continuing operations</b>		
Loss attributable to shareholders before share of results of associates	(37)	(271)
Share of results of associates	179	(114)
	142	(385)
<b>Results from discontinued operations</b>	–	(541)
<b>Profit (loss) attributable to shareholders</b>	<b>142</b>	(926)

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### KEY PERFORMANCE INDICATORS

	For the six months ended 30 June	
	2017 HK\$ Million	2016 HK\$ Million
Turnover	1,306	478
Gross profit margin	0.9%	7.4%
Profit (loss) attributable to shareholders		
Continuing operations	142	(385)
Discontinued operations	–	(541)
	142	(926)
Earnings (loss) per share (HK cents)		
Continuing operations	1.58	(4.30)
Discontinued operations	–	(6.04)
	1.58	(10.34)
	As at 30 June 2017 HK\$ Million	As at 31 December 2016 HK\$ Million
Gross assets	5,826	5,847
Net assets	4,960	4,705
Cash and bank balances	241	561
Bank loans	588	617
Gearing ratio*	7.0%	1.2%

The Group's profit attributable to shareholders for the six months ended 30 June 2017 was HK\$142 million as compared to the loss of HK\$926 million for the same period last year. The Group's continuing operations business recorded an consolidated turnover of HK\$1,306 million, representing an increase of 173.2% over the same period last year. The earnings per share for the period was 1.58 HK cents while the loss per share for the same period last year was 10.34 HK cents.

\* *Gearing ratio is defined as bank loans less cash and bank balances divided by shareholders' funds.*

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW

Six months ended 30 June 2017 compared to the six months ended 30 June 2016

#### Turnover and Cost of Sales

The Group recorded consolidated turnover from continuing operations of HK\$1,306 million for this period, represented an increase of 173.2% when comparing to HK\$478 million the same period last year. The increase in turnover was mainly due to the surge in trading volume of iron ore and the increase in average selling price.

Cost of sales from continuing operations for the period was HK\$1,295 million, up 192.6% when comparing to HK\$443 million in the same period last year. Increase in cost of sales was also attributable to the surge in trading volume of iron ore.

Gross profit from continuing operations for the period was HK\$11 million. The gross profit margin was 0.9% in this period while it was 7.4% in the same period last year. The decrease in gross profit margin was mainly because there were still inventory of medium grade iron ore provided by Mount Gibson Iron Limited ("Mt. Gibson") for trading purpose under the offtake agreements entered into with Mt. Gibson, and the agreements include rebate on marketing commission for purchase of iron ore from Mt. Gibson in the same period last year. Besides, trading of medium grade iron ore brought higher gross profit margin than trading of mainstream minerals. Therefore, although the Group devoted much effort in procurement from other suppliers so as to drive the trading volume, the gross profit margin in this period was lower as there were more rebates on marketing commission and the trading of special graded iron ore in the same period last year.

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

### **FINANCIAL REVIEW (continued)**

#### **EBITDA**

For the period under review, earnings before interest, tax, depreciation, amortization, impairment loss and change in fair value of iron ore offtake agreements of the Group for the continuing operations was HK\$176 million (2016 interim: earnings of HK\$10 million).

#### **Finance costs**

For the period under review, finance costs for the continuing operations amounted to HK\$10 million, 30.0% lower than that of the same period last year. The decrease in finance costs was mainly due to the decrease in the overall loan amounts of the Group.

#### **Share of results of associates**

In this period, we have shared a profit of HK\$170 million and HK\$9 million from each of Shougang Resources and Shougang Century, whereas for the same period last year, the share of loss from Shougang Resources and Shougang Century were HK\$97 million and HK\$17 million respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS

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

Operation/Entity	Attributable interest	For the six months ended 30 June	
		2017 HK\$ Million	2016 HK\$ Million
<b>Continuing operations</b>			
1. Trading business	100%	12	29
Sub-total		12	29
2. Share of results of associates			
Shougang Resources	27.61%	170	(97)
Shougang Century	35.71%	9	(17)
Sub-total		179	(114)
3. Others			
Fair value loss on iron ore offtake agreements with Mt. Gibson	–	(24)	(11)
Impairment loss on the goodwill in relation to the investment in Shougang Resources	–	–	(257)
Exchange loss	–	(5)	(8)
Corporate and others	–	(20)	(24)
Sub-total		(49)	(300)
<b>Results from continuing operations</b>		142	(385)
<b>Results from discontinued operations</b>		–	(541)
<b>Profit (loss) attributable to shareholders</b>		142	(926)

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Continuing operations

##### *Trading business*

The trading business of the Group mainly involves the trading of iron ore imported by the PRC. Iron ore is a vital raw material for the manufacturing of steel, while steel is one of the important material widely applied in our daily life, including development of infrastructures, real estates, shipbuilding, railways, industrial machineries, automobiles and home appliances, etc. Currently, the steel production of the PRC accounts to approximately 50% of the world's production, which makes the PRC the world's leading steel manufacturer and iron ore consumer. With better quality, imported iron ore helps reducing substantial mining and processing costs for steel manufacturing, therefore, there is strong demand for imported iron ore in the PRC.

Below is the imported iron ore price movement for the 18 months ended 30 June 2017.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Continuing operations (continued)

##### *Trading business (continued)*

The trading of iron ore imported by the PRC was facing increasing difficulties. China banned ground steel strips, which significantly reduced the demand for scrap steel, the raw material of ground steel strips. As steel mills purchased more scrap steel as their raw materials after the falling of the scrap steel price, the use of iron ore was decreased, which made the supply of iron ore further exceed its demand. Based on actual situation, the Group has adjusted its business mode and started to adopt hedging tools such as iron ore future/swap to reduce the operational risks of its trading business.

Trading business recorded turnover of HK\$1,304 million for the six months ended 30 June 2017, representing an increase of 173.8% when comparing to the same period last year. Ever since 2009, the trading business had mainly involved trading of iron ore pursuant to the offtake agreements entered into with Mt. Gibson. However, the amount of iron ore provided by Mt. Gibson to the Group dropped significantly following the suspension of the Koolan Island mine of Mt. Gibson due to the occurrence of seawall slump and flooding in late 2014. From last year, the Group started to generate more sources of procurement from other suppliers so as to increase the trading volume. During the period, sales volume of approximately 2,525,000 tonnes of iron ore was achieved, representing a rise of 81.4% when comparing to the same period last year, and the average selling price also ascended 34.7% to US\$66 per tonne. While turnover rose, gross profit margin dropped. The decrease in gross profit margin was due to the sale of the inventories of medium grade iron ore in the same period last year provided by Mt. Gibson under the offtake agreements entered into with Mt. Gibson. The agreements include rebate on marketing commission for purchase of the iron ore from Mt. Gibson. Besides, trading of medium grade iron ore brought higher gross profit margin than trading of mainstream minerals. This segment contributed net profit of HK\$12 million for the period, while net profit of HK\$29 million was recorded in the same period last year.

In December 2016, the Group entered into another offtake agreement with Mt. Gibson for the purchase of about one fourth of the first year's production volume of iron ore from Iron Hill, a new project of Mt. Gibson. The offtake agreement has a term of 12 months, with purchase price to be determined based on CFR term market price with reference to Platts iron ore price index, plus general market premium on lump, and penalties in relation to the purity of the iron ore. Under the terms of the CFR, supplier needs to arrange shipment of the goods to the destination port of the buyer at the cost of the supplier. The Group is entitled to extend the term of the agreement to a maximum of 12 months. The agreement has been approved by the regulatory bodies in Australia during the period and has officially come into effect after obtaining the approval from the shareholders of Mt. Gibson at the general meeting of Mt. Gibson in April 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Continuing operations (continued)

##### *Trading business (continued)*

Mt. Gibson has also announced the restoration plan for Koolan Island mine during the period, which states that Mt. Gibson decided to resume the production of Koolan Island mine based on its results of feasibility study and technical assessments on Koolan Island mine. The preliminary results shows that the mine has a reserve of high grade iron ore (66% Fe) of 12,800,000 tonnes and an estimated life of 3.5 years. It is expected that the mine will restart the sales of iron ore in early 2019. In addition, the potential production of 7,000,000 tonnes for the second phase is still under assessment. Under the offtake agreements, the Group purchases from Koolan Island with rebate on marketing commission. It is expected more profits will be contributed to the Group after resuming production of Koolan Island mine.

#### Performance of associates

##### *Shougang Resources*

##### *Exploration and sale of coking coal*

Shougang Resources is a 27.61% held associate of the Group listed in Hong Kong and is a large hard coking coal producer in China. Shougang Resources currently operates three premium coking coal mines in Shanxi province, PRC namely Xingwu coal mine, Zhaiyadi coal mine and Jinjiazhuang coal mine. It sold 732,000 tonnes raw coking coal and 997,000 tonnes clean coking coal during the period and its consolidated turnover for the period was HK\$1,918 million, an increase of 182.9% over that of the same period last year. The selling price (exclude VAT) of raw coking coal and clean coking coal sold during the period were RMB601 and RMB1,254 respectively, represented increases of 151.5% and 152.3% respectively over the same period last year. With the significant rebound of coking coal price, profit attributable to shareholders of Shougang Resources in this period was significantly increased to HK\$662 million while there was loss of HK\$307 million in the same period last year. Profit of Shougang Resources attributable to the Group was HK\$170 million in this period, while it was a loss of HK\$97 million attributable to the Group in the same period last year.

The strong financial base of Shougang Resources with close to zero gearing ratio and bank balances of approximately HK\$4.4 billion enable it to maximize its value when appropriate investment opportunities arise.

Customers are confident of the high quality products of Shougang Resources which are regarded as panda coal.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Performance of associates (continued)

##### *Shougang Century*

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

Shougang Century is a 35.71% associate of the Group listed in Hong Kong whose businesses are manufacture of steel cord for radial tyres and sawing wires; processing and trading of copper and brass products in Shandong province and Zhejiang province, PRC. The Group's share of its net profit was HK\$9 million in this period, comparing to share of loss of HK\$17 million in the same period last year. It recorded a profit in this period mainly due to the increase in selling price of steel cord, which led to great improvement of its profit margin.

Further to the non-legally binding memorandum of understanding ("MOU") dated 13 July 2014 and the supplemental MOUs dated 30 June 2015 and 30 June 2016 between Shougang Century and an independent third party in relation to the proposed capital injection into one of the wholly-owned major subsidiaries of Shougang Century, 滕州東方鋼簾線有限公司 (Tengzhou Eastern Steel Cord Co., Ltd<sup>#</sup>) ("TESC") as well as the proposed strategic cooperation between Shougang Century and the independent third party. Upon completion of the proposal, Shougang Century and the independent third party will each own 50% interests in TESC. The proposed capital injection would enhance the capital base of TESC and provide additional financial resources to TESC, which will be utilised to fund the phase II construction of TESC's steel cord production facilities with an annual production capacity of 100,000 tonnes. The completion of the proposal is subject to the fulfilment of certain conditions. According to the relevant MOUs, Shougang Century and the independent third party agreed to extend the completion of formal agreement until 12 July 2018.

<sup>#</sup> For identification only

## 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. Cash/Bank balances and loans

The cash and bank balances, loans and financial leverage of the Group as at 30 June 2017 as compared to 31 December 2016 is summarized below:

	<b>As at 30 June 2017 HK\$ Million</b>	As at 31 December 2016 HK\$ Million
Cash and bank balances	<b>241</b>	561
Bank loans		
– term loans	<b>418</b>	617
– short term trading loans	<b>170</b>	–
Total bank loans	<b>588</b>	617
Shareholders' funds	<b>4,960</b>	4,705
Gearing ratio	<b>7.0%</b>	1.2%

As at 30 June 2017, all bank borrowings of the Group are denominated in US dollars and repayable within one year. Based on the past financing experience, the Group has the ability to renew or refinance the banking facilities upon maturity.

As at 30 June 2017, the Group pledged 863,000,000 shares of Shougang Resources, a listed associate, to secure its bank borrowings.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### 2. Price, 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's currency, interest rate and counterparty risks. Derivatives are mainly used for managing such risks. We also target to ensure that adequate financial resources are available for business growth.

The Group conducts its businesses mainly in Hong Kong and the 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 2017, almost 100% of the Group's turnover for the continuing operations was denominated in US dollars. Floating rate borrowings are used in the portfolio of the Group's borrowing. The Group will also enter into certain interest rate swaps to mitigate interest rate risks if necessary. To cope with the trading situation, the Group started to use iron ore future/swap and foreign exchange forward to hedge the price risks of the purchase cost and selling price arising from iron ore trading.

At the end of the reporting period, the Group hold forward foreign exchange contracts of September 2017 to purchase USD7.69 million and sell RMB53.49 million, to lock its trading receivables of iron ore to be settled in RMB in September 2017.

#### 3. Financing activities

The Company has no new term loan financing from bank during this period.

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.

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

### **MATERIAL ACQUISITIONS & DISPOSALS**

There were no material acquisitions and disposals by the Group during this period.

### **CAPITAL STRUCTURE**

The Company did not issue any new shares during this period.

The issued share capital of the Company was HK\$5,345,183,055 (represented by 8,957,896,227 ordinary shares).

### **EMPLOYEES AND REMUNERATION POLICIES**

The Group has a total of 43 employees as at 30 June 2017.

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 hospitalization scheme. All of the subsidiaries of the Group in Hong Kong provide pension schemes to the employees as part of their staff benefits.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS

In the first half of 2017, a favourable global economic trend has been maintained, which was mainly benefited from the sufficient supply of capital arising from the global low interest rate environment and the quantitative easing policies. However, with initiatives like repeatedly rate hikes and shrinking the balance sheet, coupled with the unpredictable policy of the new US government, potential changes may be seen in the future economic environment.

After the major reorganisation of the Group at the end of 2016 and upon the disposal of traditional steel business which had been running for many years, the Group currently focus on trading of iron ore imported by the PRC. The Group achieved a turnaround in its first interim results after the reorganisation. However, suffering from the weakening demand, iron ore trading business encountered difficulties as the traditional back to back trading of mainstream minerals can only generate little profit to the Group. Nevertheless, leveraged on the professional team of the Group which has extensive experiences and is sensitive to the market, by utilising hedging tools of iron ore future/swap, the Group still recorded certain profit for its trading business under such difficult market conditions. The Group will continue to adjust its business model to accommodate the changing market conditions. In April, Mt. Gibson announced its restoration plan of Koolan Island mine and the sale of iron ore is expected to resume in early 2019. Under the offtake agreements entered into between the Group and Mt. Gibson, purchase of iron ore of Koolan Island mine includes rebate on marketing commission. Thus, the restoration of Koolan Island mine is expected to increase the profit for the Group in future.

Shougang Resources and Shougang Century, the two main associates of the Group, have performed well during the period, with both achieving turnaround comparing to the same period of last year. Benefiting from the continuous price upturn of coking coal, Shougang Resources especially has made favourable profit. As reported, the financial base of Shougang Resources is strong with close to zero gearing ratio and substantial cash and bank balances enable the Group to maximise its value when appropriate investment opportunities arise.

The Group has already achieved its first target of making turnaround. The Group will be more proactive in seeking appropriate new business for the Group, enabling it to have more growing points. The Group would like to express gratitude for the immense support from Shougang Group, the controlling shareholder of the Company, to assist the Company to navigate such difficult times. Thus, the Company has transited smoothly.

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2017 (2016: 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 2017 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 2017 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 total number of shares of the Company in issue as at 30.06.2017
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%

\* *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 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 in issue as at 30.06.2017	Total interests as to % of the total number of shares of Shougang Century
		Interests in shares	Derivative interests*	Total interests		
Li Shaofeng	Beneficial owner	7,652,000	13,800,000	21,452,000	1.11%	
Leung Shun Sang, Tony	Beneficial owner	7,652,000	12,000,000	19,652,000	1.02%	

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

Save as disclosed above, as at 30 June 2017, 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 2017.

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

As at 30 June 2017 according to the register kept by the Company under Section 336 of the SFO, the following companies 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

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 30.06.2017	Note(s)
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
CK Hutchison Holdings Limited ("CK Hutchison")	Interests of controlled corporations	455,401,955	5.08%	2
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	2

## **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 2017) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.
2. CK Hutchison indicated in its disclosure form dated 23 March 2015 (being the latest disclosure form filed up to 30 June 2017) that as at 18 March 2015, 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. Cheung Kong was in turn wholly-owned by CK Hutchison. The long position in the 455,401,955 shares of the Company held by CK Hutchison and Cheung Kong were the same block of shares.

Save as disclosed above, as at 30 June 2017, 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, exercised, cancelled or lapsed in accordance with the terms of the 2002 Scheme during the six months ended 30 June 2017. Details of the outstanding share options under the 2002 Scheme during the period are as follows:

Category or name of grantee	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
<b>Director of the Company</b>				
Li Shaofeng	20,000,000 <sup>Note</sup>	14.12.2010	14.12.2010 – 13.12.2017	HK\$1.180
	<u>20,000,000</u>			

*Note:* 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 grantee.

### (b) The 2012 Scheme

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 30 June 2017, there was no share option outstanding under the 2012 Scheme.

## AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2017 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 16 August 2017 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2017.

## 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 "CG Code") during the six months ended 30 June 2017, except for the following deviation:

- Under the first part of code provision E.1.2 of the CG 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 26 May 2017 (the "2017 AGM") as he had another business engagement. The Managing Director of the Company took the chair of the 2017 AGM. Other members of the Board including the chairmen of the Audit and Remuneration Committees and all other members of the Audit, Remuneration and Nomination Committees attended the 2017 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2017 AGM were already of sufficient calibre and number for answering questions at the 2017 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 2017.

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

The following are the changes in the information of Directors since the date of the 2016 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- (a) Mr. Li Shaofeng, the Managing Director of the Company, resigned as an executive director and the chairman of the board of directors of each of Shougang Concord Grand (Group) Limited and Global Digital Creations Holdings Limited, both are listed companies in Hong Kong, with effect from 14 June 2017.
- (b) Ms. Kan Lai Kuen, Alice, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of Mason Group Holdings Limited, a Hong Kong listed company, with effect from 24 May 2017.
- (c) Mr. Leung Kai Cheung, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of Hong Kong International Construction Investment Management Group Co., Limited, a Hong Kong listed company, with effect from 15 July 2017.

## **DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES**

- (a) Pursuant to the facility letter entered into by the Company on 26 November 2015 (the "Facility Letter") with China CITIC Bank International Limited ("China CITIC") relating to a term loan facility of US\$15,000,000 (the "China CITIC Facility"), the Company shall ensure that Shougang Holding, the controlling shareholder of the Company, remains its largest shareholder with shareholding of not less than 35% throughout the life of the China CITIC Facility. Breach of the above will constitute an event of default upon the occurrence of which, China CITIC may at any time (a) cancel the China CITIC Facility; (b) declare that all or any part of the China CITIC Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Letter be immediately due and payable; and/or (c) declare that all or any part of the China CITIC Facility be payable on demand by China CITIC. The China CITIC Facility shall be repaid by the Company in one lump sum on final maturity date which falls on the second anniversary from the date of drawdown of the China CITIC Facility.



## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

- (b) Under the facility letter entered into by the Company on 9 February 2015 with Bank of China (Hong Kong) Limited (“BOC”) relating to the banking facilities of (i) a term loan up to US\$35,000,000 (the “BOC Facility I”); and (ii) a revolving loan up to US\$15,000,000 (the “BOC Facility II”) (BOC Facility I and BOC Facility II, collectively the “BOC Facilities”), the Company shall undertake and procure that (i) Shougang Holding, the controlling shareholder of the Company, owns not less than 40% interest in the Company and Shougang Holding in turn shall be wholly-owned by Shougang Corporation (now known as Shougang Group Co., Ltd) (“Shougang Group”) throughout the life of the BOC Facilities; (ii) Shougang Group 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 all amounts due or owing by the Company to BOC under the BOC Facilities shall become immediately due and payable. The BOC Facility I shall be repaid by the Company by two instalments with the last instalment due on the date falling 42 months after the date of first drawn down of the BOC Facility I while the BOC Facility II shall be repaid or reborrowed by the Company at the end of each interest period provided that each drawdown must be repaid not later than one year from the date of relative drawdown. By a letter from BOC dated 10 August 2016, the BOC Facility II was cancelled and the outstanding principal of the BOC Facility I together with interest accrued shall be repaid by 30 December 2017.

## 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, 24 August 2017