**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**
**首長寶佳集團有限公司**
*(Incorporated in Hong Kong with limited liability)*
(Stock Code: 103)

# FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

| **HIGHLIGHTS** | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | 2017 | **Change** |
| | ***HK$'000*** | *HK$'000* | *%* |
| **Operations** | | | |
| Revenue | **2,254,170** | 2,113,258 | **+6.7** |
| Gross profit | **267,467** | 196,065 | **+36.4** |
| EBITDA *(Note)* | **179,293** | 104,096 | **+72.2** |
| Loss for the year | **(8,681)** | (68,518) | **-87.3** |
| Basic loss per share *(HK cents)* | **(0.45)** | (3.56) | **-87.3** |

*Note:* EBITDA represents earnings before finance costs, income tax, depreciation and amortisation.

| | **At 31 December** | | |
|---|---|---|---|
| | **2018** | 2017 | **Change** |
| | ***HK$'000*** | *HK$'000* | *%* |
| **Financial position** | | | |
| Total assets | **3,414,467** | 3,444,076 | **-0.9** |
| Shareholders' equity | **1,339,150** | 1,391,528 | **-3.8** |
| Net asset value per Share *(HK$)* | **0.696** | 0.724 | **-3.8** |

The Board announces that the audited consolidated results of the Group for the year ended 31 December 2018 and that final results were reviewed by the Audit Committee of the Company.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2018*

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **2,254,170** | 2,113,258 |
| Cost of sales | *7* | **(1,986,703)** | (1,917,193) |
| Gross profit | | **267,467** | 196,065 |
| Other income | *5* | **3,756** | 3,418 |
| Other (losses)/gains, net | *6* | **(4,557)** | 944 |
| Distribution and selling expenses | *7* | **(69,698)** | (65,579) |
| Administrative expenses | *7* | **(58,936)** | (71,771) |
| Research and development expenses | *7* | **(76,941)** | (62,385) |
| Foreign exchange gains/(losses), net | | **3,770** | (17,519) |
| Changes in fair values of investment properties | *12* | **4,017** | 23,820 |
| Impairment losses on prepaid lease payment | | **–** | (72,523) |
| Net impairment losses on financial assets | | **(1,365)** | 728 |
| Finance costs, net | *8* | **(78,630)** | (10,411) |
| Loss before income tax | | **(11,117)** | (75,213) |
| Income tax credit | *9* | **2,436** | 6,695 |
| Loss for the year | | **(8,681)** | (68,518) |
| | | ***HK cents*** | *HK cents* |
| Loss per share: | | | |
| Basic and diluted | *11* | **(0.45)** | (3.56) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Loss for the year | | **(8,681)** | (68,518) |
| **Other comprehensive (loss)/income, net of tax** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Exchange differences arising on translation into presentation currency | | **(68,436)** | 107,416 |
| Surplus on revaluation upon transfer of property, plant and equipment to investment property | *13* | **–** | 3 |
| Revaluation of leasehold land and buildings | *13* | **29,816** | 34,200 |
| Recognition of deferred income tax liability on revaluation of leasehold land and buildings | | **(5,077)** | (3,538) |
| Total comprehensive (loss)/income for the year, net of tax | | **(52,378)** | 69,563 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

| | | As at 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | *12* | **55,449** | 70,790 |
| Property, plant and equipment | *13* | **1,166,333** | 1,273,927 |
| Prepaid lease payments | | **70,897** | 79,042 |
| Intangible assets | | **–** | – |
| Pledged deposit on loan from a related company | | **7,989** | 8,374 |
| Club memberships | | **–** | 331 |
| Prepayments for the acquisition of property, plant and equipment | | **1,724** | 8,967 |
| **Total non-current assets** | | **1,302,392** | 1,441,431 |
| **Current assets** | | | |
| Inventories | | **319,968** | 306,232 |
| Trade receivables | *14* | **690,931** | 688,333 |
| Bills receivable | *14* | **924,355** | 683,954 |
| Prepayments, deposits and other receivables | | **31,509** | 52,466 |
| Tax recoverable | | **–** | 1,321 |
| Pledged bank deposits | | **78,630** | 59,780 |
| Bank balances and cash | | **66,682** | 210,559 |
| **Total current assets** | | **2,112,075** | 2,002,645 |
| **Total assets** | | **3,414,467** | 3,444,076 |

| | | As at 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Other payables | | **566** | 1,119 |
| Loan from a related company | *16* | **–** | 22,170 |
| Bank borrowings | *17* | **268,407** | 295,322 |
| Deferred income tax liabilities | | **29,617** | 27,044 |
| **Total non-current liabilities** | | **298,590** | 345,655 |
| **Current liabilities** | | | |
| Trade and bills payables | *15* | **808,951** | 830,269 |
| Other payables and accruals | *15* | **130,790** | 139,563 |
| Current income tax liabilities | | **4,584** | 5,543 |
| Loans from related companies | *16* | **226,358** | 228,754 |
| Bank borrowings | *17* | **606,044** | 502,764 |
| **Total current liabilities** | | **1,776,727** | 1,706,893 |
| **Total liabilities** | | **2,075,317** | 2,052,548 |
| **EQUITY** | | | |
| Share capital | *18* | **1,191,798** | 1,191,798 |
| Reserves | | **147,352** | 199,730 |
| **Total equity** | | **1,339,150** | 1,391,528 |
| **Total equity and liabilities** | | **3,414,467** | 3,444,076 |

*Notes:*

## 1. GENERAL INFORMATION

Shougang Concord Century Holdings Limited (the “Company”) is an investment holding company and together with its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1215, 12/F., Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These financial statements are presented in thousands of units of Hong Kong dollars (HK$’000), unless otherwise stated.

## 2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except for certain classes of property, plant and equipment and investment properties, which are measured at fair values.

The financial information relating to the years ended 31 December 2017 and 2018 included in this preliminary announcement of annual results 2018 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Hong Kong Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

## 2.1 New and amended standards and interpretations adopted by the Group

The Group has applied the following new and amended standards and interpretations for the first time for the annual reporting period commencing from 1 January 2018:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the Related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers to Investment Property |

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed below. The other standards did not have any impact on the Group's accounting policies.

### *(i) Impact of adoption on financial statements — HKFRS 9 and HKFRS 15*

#### (a) Adoption of HKFRS 9

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 does not result in significant adjustments to the amounts recognised in the consolidated financial statements.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. Since the Group does not have any financial assets that are carried at fair value, there is no impact to the Group's consolidated statement of financial position as a result of the adoption.

Impairment of financial assets

The Group has three types of financial assets that are subject to the new expected credit loss model of the HKFRS 9:

- Trade receivables
- Bills receivable
- Other financial assets at amortised cost

The Group was required to revise its impairment methodologies under the HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's accumulated losses and equity is insignificant.

While pledged bank deposits and bank balances and cash are also subject to the impairment requirements of the HKFRS 9, the identified impairment loss was immaterial.

Trade receivables and bills receivable

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables and bills receivable.

To measure the expected credit losses, the receivables relating to customers with known financial difficulties or those not responding to collection activities are assessed individually for provision for impairment loss.

Expected credit losses are then estimated by grouping the receivables based on shared credit risk characteristics and aging profile and collectively assessed for likelihood of recovery.

The expected credit loss rates are determined based on historical credit losses experienced over the past 3 years and adjusted to reflect current and forward-looking information including macroeconomic factors affecting the ability of the customers to settle the receivables.

Management has closely monitored the credit qualities and the collectability of the trade receivables and bills receivable. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables and bills receivable as at 1 January 2018.

Other financial assets at amortised cost

Other financial assets at amortised cost include deposits and other receivables. The Group has assessed the expected credit loss model apply to the other financial assets at amortised cost as at 1 January 2018 and the change in impairment methodologies has no impact to the net assets value of the Group and the opening provision of impairment loss is not restated in this respect.

**(b) Adoption of HKFRS 15**

The Group has adopted HFKRS 15 from 1 January 2018 (the date of initial application of HKFRS 15) which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statement. In accordance with the transitional provisions in HKFRS 15, the Group has adopted the modified retrospective approach and comparative figures have not been restated.

Contract liabilities for the advanced payments received from the customers recognised in relation to the sales of goods were previously presented as "other payables and accruals – advance receipts from customers".

Reclassification has made to be consistent with the terminology used under HKFRS 15. The impact on the Group's financial position by the application of HKFRS 15 is as follows:

| | As previously stated<br>*HK$'000* | Reclassification under HKFRS 15<br>*HK$'000* | As restated<br>*HK$'000* |
|---|---|---|---|
| **As at 1 January 2018** | | | |
| Consolidated statement of financial position (extract): | | | |
| Other payables and accruals: | | | |
| – Contract liabilities | **–** | **93** | **93** |
| – Advance receipts from customers | **93** | **(93)** | **–** |
| **As at 31 December 2018** | | | |
| Consolidated statement of financial position (extract): | | | |
| Other payables and accruals: | | | |
| – Contract liabilities | **–** | **125** | **125** |
| – Advance receipts from customers | **125** | **(125)** | **–** |

The adoption of HKFRS 15 has no impact to the Group's net assets as at 1 January 2018 and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, loss per share (basic and diluted) and the consolidated statement of cash flows for the year ended 31 December 2018.

## 2.2 Impact of new and amended standards and interpretations issued but not yet applied by the Group

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 |
| HKFRS 16 | Leases | 1 January 2019 |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to HKAS 12, HKAS 23, HKFRS 3 and HKFRS 11 | As part of the Annual Improvements to HKFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to HKAS 28 | Long-term Interest in Associates and Joint Ventures | 1 January 2019 |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to HKFRS 3 | Definition of a Business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

None of these is expected to have a significant effect on the consolidated financial statement of the Group, except for the following set out below.

***HKFRS 16 Leases***

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The new standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$2,982,000. Of these commitments, approximately HK$120,000 relate to short-term leases which will be recognised on a straight-line basis as expense in the consolidated statement of profit or loss.

For the remaining lease commitments the Group expects to recognise both right-of-use assets and lease liabilities of HK$2,707,000.

The accounting for lessors will not significantly change. However, some additional disclosures will be required from next year.

Mandatory application date

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

## 3. REVENUE

The Group is principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products. Revenue recognised during the year are as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Sales of goods: | | |
| Manufacturing of steel cords | **2,121,189** | 1,805,523 |
| Processing and trading of copper and brass products | **131,177** | 305,405 |
| | **2,252,366** | 2,110,928 |
| Rental income | **1,804** | 2,330 |
| | **2,254,170** | 2,113,258 |

## 4. SEGMENT INFORMATION

Information reported to the Company's managing director, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

Specifically, the Group's operating and reportable segments under HKFRS 8 Operating Segments are as follows:

(i) The steel cord segment comprising the manufacturing of steel cords; and

(ii) The copper and brass products segment comprising the processing and trading of copper and brass products.

Segment results represent the profit or loss of each segment without allocation of changes in fair value of investment properties, certain foreign exchange gains or losses, central administration costs, the emoluments of directors of the Company, interest income on bank deposits, finance costs and rental and other income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## (a) Segment revenues and results

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

**For the year ended 31 December 2018**

| | **Steel cord** *HK$'000* | **Copper and brass products** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| Sales of goods | | | |
| Total segment revenue | **2,121,189** | **132,045** | **2,253,234** |
| Inter-segment revenue | **–** | **(868)** | **(868)** |
| Segment revenue from external customers | **2,121,189** | **131,177** | **2,252,366** |
| Segment results | **93,264** | **(3,860)** | **89,404** |
| Unallocated amounts | | | |
| Rental income | | | **1,804** |
| Other losses, net | | | **(3,407)** |
| Changes in fair value of investment properties | | | **4,017** |
| Expenses | | | **(24,305)** |
| Finance costs, net | | | **(78,630)** |
| Loss before income tax | | | **(11,117)** |

For the year ended 31 December 2017

| | Steel cord *HK$'000* | Copper and brass products *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Sales of goods | | | |
| Segment revenue from external customers | 1,805,523 | 305,405 | 2,110,928 |
| Segment results | (47,106) | 2,127 | (44,979) |
| Unallocated amounts | | | |
| Rental income | | | 2,330 |
| Other gain, net | | | 373 |
| Changes in fair value of investment properties | | | 23,820 |
| Expenses | | | (46,346) |
| Finance costs, net | | | (10,411) |
| Loss before income tax | | | (75,213) |

## 5. OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Government grants *(Note)* | **1,097** | 411 |
| Sales of scrap materials | **2,659** | 3,007 |
| | **3,756** | 3,418 |

*Note:* The government grants represented immediate financial subsidies granted by the local governments in the PRC.

## 6. OTHER (LOSSES)/GAINS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Net fair value losses on derivatives held for trading | **(1,956)** | (1,467) |
| Losses on disposals of property, plant and equipment, net | **(2,723)** | (110) |
| (Loss)/gain on disposal of club memberships | **(225)** | 395 |
| Others | **347** | 2,126 |
| | **(4,557)** | 944 |

## 7. EXPENSES BY NATURE

Expenses included in cost of sales, distribution and selling expenses, administrative expenses and research and development expenses are analysed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold (including net provision for inventories recognised) | **1,971,365** | 1,898,939 |
| Employee benefit expense (including directors' emoluments) | **225,568** | 194,610 |
| Depreciation of property, plant and equipment *(Note 13)* | **130,343** | 118,903 |
| Auditor's remuneration | | |
| – Audit services | **1,495** | 1,495 |
| – Non-audit services | **428** | 428 |
| Amortisation of prepaid lease payments | **4,681** | 7,919 |
| Provision for inventories, net | **(740)** | (1,708) |
| Operating lease rentals in respect of buildings | **5,269** | 7,776 |

## 8. FINANCE COSTS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| **Finance income** | | |
| Interest income on bank deposits | **1,297** | 399 |
| Foreign exchange gains on borrowings | **–** | 41,677 |
| Total finance income | **1,297** | 42,076 |
| **Finance costs** | | |
| Interest expenses on bank borrowings | **(42,113)** | (42,956) |
| Interest expenses on loans from related companies | **(12,790)** | (5,169) |
| Amortisation of loan transaction costs | **(2,422)** | (4,653) |
| Foreign exchange losses on borrowings | **(24,541)** | – |
| | **(81,866)** | (52,778) |
| Amount capitalised | **1,939** | 291 |
| Total finance costs | **(79,927)** | (52,487) |
| Finance costs, net | **(78,630)** | (10,411) |

## 9. INCOME TAX CREDIT

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| – China corporate income tax | **886** | 622 |
| Overprovision in prior years | **(1,254)** | (7,047) |
| Total current income tax | **(368)** | (6,425) |
| Deferred income tax | **(2,068)** | (270) |
| Income tax credit | **(2,436)** | (6,695) |

No provision for Hong Kong profits tax for the years ended 31 December 2017 and 2018 as there is no assessable profit subject to Hong Kong profits tax for both years.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies in the PRC are subject to income tax of 25% unless preferential rate is applicable.

If a subsidiary is subject to CIT and qualified as High and New Technology Enterprise ("HNTE"), the applicable CIT tax rate is 15%.

Jiaxing Eastern Steel Cord Co., Ltd ("JESC") was renewed as HNTE in 2017 under the new PRC CIT Law. As such, the applicable CIT tax rate for JESC was 15% for the year ended 31 December 2018 (2017: same).

## 10. DIVIDENDS

No interim or final dividend was paid or proposed for the years ended 31 December 2017 and 2018, nor has any dividend been proposed since the end of the reporting period.

## 11. LOSS PER SHARE

### (a) Basic

Basic loss per share is calculated by dividing the loss for the year attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **Year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| Loss attributable to the owners of the Company *(HK$'000)* | **(8,681)** | (68,518) |
| Weighted average number of ordinary shares in issue *(shares)* | **1,922,900,556** | 1,922,900,556 |
| Basic loss per share attributable to the owners of the Company *(HK cent per share)* | **(0.45)** | (3.56) |

### (b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has one category of potentially dilutive ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the year) based on the monetary value of the subscription rights attached to outstanding share options.

For the years ended 31 December 2017 and 2018, as the outstanding share options would result in an anti-dilution at loss per share, the diluted loss per share equals the basic loss per share.

## 12. INVESTMENT PROPERTIES

The movement of the net book amount for investment properties is as follows:

| | **Leasehold land and buildings** |
|---|---|
| | *HK$'000* |
| At 1 January 2017 | 58,675 |
| Changes in fair value recognised in profit or loss | 23,820 |
| Transferred from property, plant and equipment *(Note 13)* | 1,000 |
| Disposals | (14,181) |
| Exchange differences | 1,476 |
| At 31 December 2017 | 70,790 |
| At 1 January 2018 | 70,790 |
| Changes in fair value recognised in profit or loss | 4,017 |
| Transferred to property, plant and equipment *(Note 13)* | (11,600) |
| Disposals | (6,370) |
| Exchange differences | (1,388) |
| At 31 December 2018 | 55,449 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | *HK$'000* |
|---|---|
| **At 1 January 2017** | |
| Opening net book amount | 1,169,092 |
| Additions | 109,458 |
| Disposals | (16,417) |
| Transferred to investment properties | (1,000) |
| Depreciation | (118,903) |
| Revaluation | 34,203 |
| Exchange differences | 97,494 |
| **At 31 December 2017** | 1,273,927 |
| **At 1 January 2018** | |
| Opening net book amount | **1,273,927** |
| Additions | **54,231** |
| Disposals | **(8,221)** |
| Transferred from investment properties | **11,600** |
| Depreciation | **(130,343)** |
| Revaluation | **29,816** |
| Exchange differences | **(64,677)** |
| **At 31 December 2018** | **1,166,333** |

## 14. TRADE RECEIVABLES/BILLS RECEIVABLE

| | **As at 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables *(Note (a))* | **711,055** | 708,075 |
| Less: provision for impairment loss on trade receivables | **(20,124)** | (19,742) |
| | **690,931** | 688,333 |
| Bills receivable *(Note (b))* | **924,355** | 683,954 |
| | **1,615,286** | 1,372,287 |

*Notes:*

*(a)* Trade receivables

The Group's credit terms to trade debtors range from 30 to 90 days. The ageing analysis of the trade receivables primarily based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Up to 90 days | **509,968** | 535,777 |
| 91 to 180 days | **161,457** | 145,993 |
| Over 180 days | **39,630** | 26,305 |
| | **711,055** | 708,075 |

*(b)* Bills receivable

The ageing analysis of the bills receivable primarily based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Up to 90 days | **91,277** | 50,595 |
| 91 to 180 days | **339,157** | 266,311 |
| Over 180 days | **493,921** | 367,048 |
| | **924,355** | 683,954 |

As at 31 December 2018, the Group's bills receivable are with maturity date within one year (2017: same).

## 15. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(Note (a))* | **655,809** | 705,298 |
| Bills payable *(Note (b))* | **153,142** | 124,971 |
| | **808,951** | 830,269 |
| Other payables and accruals | | |
| Advance receipts from customers | **–** | 93 |
| Contract liabilities | **125** | – |
| Other tax payables | **8,858** | 11,258 |
| Other accrued expenses and payables | **121,807** | 128,212 |
| | **130,790** | 139,563 |
| | **939,741** | 969,832 |

*Notes:*

*(a)* Trade payables

The Group's credit period granted by the suppliers is 30 days. The ageing analysis of the trade payables primarily based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Up to 30 days | **127,868** | 208,686 |
| 31 to 90 days | **189,506** | 236,611 |
| 91 to 180 days | **245,983** | 227,788 |
| 181 to 365 days | **78,844** | 24,377 |
| Over 365 days | **13,608** | 7,836 |
| | **655,809** | 705,298 |

*(b)* Bills payable

The ageing analysis of the bills payable primarily based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Up to 30 days | **37,206** | 20,174 |
| 31 to 90 days | **64,814** | 74,577 |
| 91 to 180 days | **40,007** | 30,220 |
| 181 to 365 days | **11,115** | – |
| | **153,142** | 124,971 |

## 16. LOANS FROM RELATED COMPANIES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| **Current portion** | | |
| Loan from Shougang (Hong Kong) Finance Company Limited *(Note (i))* | **205,534** | 200,657 |
| Loan from South China International Leasing Co., Ltd. ("South China Leasing") *(Note (ii))* | **20,824** | 28,097 |
| | **226,358** | 228,754 |
| **Non-current portion** | | |
| Loan from South China Leasing *(Note (ii))* | **–** | 22,170 |

*Notes:*

*(i)* The amount represents the loan from and interest payable to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang HK"). The Company is an associate of Shougang HK. The loan is unsecured, bears interest at 5% to 6% per annum (2017: 6% per annum) and repayable within one year (2017: same).

*(ii)* On 29 June 2016, TESC had entered into an agreement (the "Agreement") with South China Leasing whereby TESC had drawn down a loan of RMB70,000,000 (equivalent to approximately HK$81,159,000) from South China Leasing on 16 August 2016 on a sale and leaseback arrangement, which was to be repayable by 12 quarterly instalments plus interest at 5.13% per annum and obligated to pay lease handling fee of RMB2,100,000 (equivalent to approximately HK$2,454,000). South China Leasing is an indirect 75% owned subsidiary of Shougang Concord Grand (Group) Limited, which is in turn held as to approximately 50.53% by Shougang HK. As such, South China Leasing is an associate of Shougang HK.

As collaterals for the above financing,

(i) TESC transferred the ownership title of certain machineries and equipment ("Machineries and Equipment") to South China Leasing;

(ii) TESC placed a pledged deposit of RMB7,000,000 (equivalent to approximately HK$7,989,000 (2017: HK$8,374,000)) to South China Leasing; and

(iii) the Company entered into a guarantee agreement in favour of South China Leasing for the payment obligations of TESC under the Agreement.

Upon discharging TESC's obligations under the Agreement, South China Leasing will return the ownership title of the Machineries and Equipment to TESC for a nominal purchase price of RMB1,000. Despite the Agreement involves a legal form of a lease, the Group accounted for the Agreement as collateralised borrowing in accordance with the actual substance of the Agreement.

## 17. BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Bank loans | **715,430** | 765,361 |
| Less: loan transaction costs | **(3,136)** | (4,678) |
| | **712,294** | 760,683 |
| Discounted bills with recourse | **162,157** | 37,403 |
| | **874,451** | 798,086 |
| Non-current portion | **268,407** | 295,322 |
| Current portion | **606,044** | 502,764 |
| | **874,451** | 798,086 |
| Secured | **219,221** | 134,303 |
| Unsecured | **655,230** | 663,783 |
| | **874,451** | 798,086 |

## 18. SHARE CAPITAL

| | **Number of shares** | |
|---|---|---|
| | *Thousand* | *HK$'000* |
| **Issued and fully paid** | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | **1,922,901** | 1,191,798 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Business model and strategy

Our mission is to be one of the top tier steel cord and wire products manufacturers in the PRC capable of consistently purveying premium quality steel cords and wire products; and the evolution into a diversified metal product manufacturer benefiting from a successful "Eastern" brand recognition in the PRC and worldwide markets. Our ultimate goal is to maintain long term profitability, deliver sustainable growth in our stakeholders' value under a prudent and manageable capital structure and contribute to the economic and social development of the communities in which we operate.

The Board is responsible for the development of business models and setting of strategies, planning and development of the Group. The strategies adopted by the Board will be executed by the Managing Director who will motivate the staff to achieve the designated business goals and financial targets under risk tolerance levels prescribed by the Board. The progress of implementation of the strategies and business goals will be reviewed and adjusted to respond to the constantly changing market environment. Corrective and follow-up actions are made regularly at the Board and/or other management meetings throughout the years.

### Review of operations

The PRC economy advanced 6.4% year-on-year in the last quarter of 2018, which was the lowest growth rate since the global financial crisis amid intense trade dispute with the U.S. and weakening domestic demand. Considering full year of 2018, the economy expanded by 6.6%, the weakest pace since 1990. As compared with 2017, PRC statistics bureau revised down the country's GDP growth to 6.8% from 6.9%.

The Sino-US trade debacle has weighed on sentiment, particularly the property market and fixed asset investment growth for the first half of 2018. The sentiment of industrial sectors was also affected during the first half year; these brought along the slowdown in demand for radial tyres from the automobile and transportation sectors and in return lowered the demand for steel cord in the latter half of first quarter and early part of second quarter of 2018.

Discernible operating loss of the Group incurred during the first half of 2018 which mainly came from the latter half of first quarter and early part of second quarter in 2018. Lower sales volume and turnover attributable to the unexpected decrease in demand from some of our major domestic customers during this year and relatively high inventory level of the tyre industry in general.

Owing to the effort of our management, sales team and employees of the Group, the Steel cord segment successfully managed to achieve growth in both sales volume and selling price in a steady pace starting from May and June till the end of 2018. The overall growth of sales revenue and gross profit of this segment was hence achieved for the full year of 2018. Steel cord segment incurred operating loss of HK$47,106,000 last year as opposed to operating profit of HK$93,264,000 during this year. Its gross profit margin increased to 12.5% as compared to 10.3% last year.

In respect of Copper and brass products segment, sales volume and revenue declined during this year in both the PRC and Hong Kong as the business has begun retracting since the latter part of 2017 and PRC operation had been decided to cease in September 2018. Despite that management had adopted strict operating cost control, the decrease in sales revenue volume and cost of closure of PRC manufacturing plant in September 2018 caused this segment to incur an operating loss of HK$3,860,000 versus an operating profit of HK$2,127,000 last year.

Combined with the strong sales revenue growth in Steel cord segment, cost savings in purchase of raw materials and reduction mainly in Hong Kong Headquarter operation expenses, all these major factors contributed to increase in EBITDA of the Group to HK$179,293,000 (2017: HK$104,096,000) this year.

However, due to net loss in foreign exchange of HK$20,771,000 (sum of HK$3,770,000 gain in non-finance portion net off with HK$24,541,000 loss on interest bearing borrowings) from the depreciation of RMB against HKD incurred during this year at a magnitude of 4.8%, the overall growth of sales revenue and sales volume plus reduction in operation expenses could not bring forth positive impact on the net profit. The Group had net loss of HK$8,681,000 during the year, compared with net loss of HK$68,518,000 from previous year.

**Steel cord**

*Overall performance*

The growth of the automobile industry in the PRC slowed down during the year and resulted in a negative annual growth for the first time among 30 years. According to the information from China Associations of Automobile Manufacturers, the production of new vehicles accounted to 28 million units in 2018, representing a decrease of 4.2% as compared to 3.2% positive growth in 2016/17. During 2018, the production volume of passenger cars decreased by 5.2% over last year; whereas the production volume of commercial vehicles increased by 1.7% over the prior year.

Despite the performance was below expectation in the latter half of the first quarter and early second quarter, with the industrious effort of our sales division, this segment still achieved a growth in sales volume of 7.9% over last year, reflecting the result of our strategy to expand our coverage on large-scale and multinational tyre manufacturers and the fine-tuning of sales mix to flexibly meet our customers' requirements. In respect of selling price of steel cord, the average selling price had an increase of 6.7% year-on-year.

With an increase in sales volume, average selling price and commendable effort of our production team in controlling costs, the gross profit improved significantly this year to HK$265,397,000, as compared to HK$186,543,000 last year, by 42.3% increase as explained earlier in '**Review of Operations**' section.

With a higher gross profit, EBITDA also increased from last year at HK$78,929,000 to HK$228,646,000 this year. This segment recorded strong operating profit of HK$93,264,000 this year as opposed to operating loss of HK$47,106,000 last year.

*Revenue*

This segment sold 184,910 tonnes of steel cord during the year, increased by 6.3% as compared to 173,986 tonnes last year. In respect of the sales of sawing wires, it dropped substantially by 79.4% from 389 tonnes to 80 tonnes last year reflecting the rapid change in the production process of photo-voltaic industry. On the contrary, there was an increase in the sales of other steel wire products which was sold 11,100 tonnes during the year, increased by 50.5% as compared to 7,376 tonnes last year. The sales volume of this segment for the year is analysed as follows:

| | **2018** | | 2017 | | |
|---|---|---|---|---|---|
| | **Sales volume *(Tonne)*** | **% of total sales volume of steel cords** | Sales volume *(Tonne)* | % of total sales volume of steel cords | **% change** |
| Steel cords for | | | | | |
| – truck tyres | **123,205** | **66.7** | 116,327 | 66.9 | **+5.9** |
| – off the road truck tyres | **4,333** | **2.3** | 3,556 | 2.0 | **+21.9** |
| – passenger car tyres | **57,372** | **31.0** | 54,103 | 31.1 | **+6.0** |
| Total for steel cords | **184,910** | **100.0** | 173,986 | 100.0 | **+6.3** |
| Sawing wire products | **80** | | 389 | | **-79.4** |
| Other steel wires | **11,100** | | 7,376 | | **+50.5** |
| Total | **196,090** | | 181,751 | | **+7.9** |

The sales volume of steel cord for all aforesaid types of tyres recorded growth. In respect of sales mix, there was no significant change during the year, the proportion of sales of steel cord for truck tyres accounted for 66.7% of total sales volume of steel cord for the year (2017: 66.9%).

In respect of sales of steel cord by region, the volume of export sales of steel cord amounted to 35,435 tonnes for the year, increased by 4.6% as compared to 33,892 tonnes for last year. The volume of export sales represented 19.2% of total sales volume of steel cord for the year, compared to 19.5% for last year. The breakdown of sales volume of steel cord for the year by geographical location is as follows:

| | **2018** | | 2017 | | |
|---|---|---|---|---|---|
| | **Sales volume *(Tonne)*** | **% of total sales volume of steel cords** | Sales volume *(Tonne)* | % of total sales volume of steel cords | **% change** |
| PRC | **149,475** | **80.8** | 140,094 | 80.5 | **+6.7** |
| Export sales: | | | | | |
| Asia (other than PRC) | **19,074** | **10.3** | 17,589 | 10.1 | **+8.4** |
| EMEA (Europe, Middle East and Africa) | **11,022** | **6.0** | 10,938 | 6.3 | **+0.8** |
| North America | **3,594** | **1.9** | 2,024 | 1.2 | **+77.6** |
| Latin America | **1,745** | **1.0** | 3,341 | 1.9 | **-47.8** |
| Total export sales | **35,435** | **19.2** | 33,892 | 19.5 | **+4.6** |
| Total | **184,910** | **100.0** | 173,986 | 100.0 | **+6.3** |

The overall sales volume growth of 6.3% in steel cord and the increase in average selling price of 6.7% were recorded, in addition to combined growth in sawing wire products and other steel wires were achieved, together lead to revenue of this segment increased by 17.5% over last year to HK$2,121,189,000 (2017: HK$1,805,523,000) for this year.

*Cost of sales*

Cost of sales of this segment increased by 14.6% to HK$1,855,792,000 (2017: HK$1,618,980,000) for the year. Certain non-raw material costs that constitute part of cost of sales could not decrease in direct proportion to the unexpected decrease in sales volume and turnover in latter half of first quarter and first part of second quarter in 2018. However, with the effort of our purchasing and operations teams, savings in procurement costs of wire rod (by reducing the use of wire rod agents) and other raw materials incurred overcame the shortfall during the remaining part of the year. Hence, the average unit cost of production of steel cord slightly increased by approximately 3.1% as compared to last year.

*Gross profit*

Gross profit of this segment increased by 42.3% over last year to HK$265,397,000 (2017: HK$186,543,000) for the year. Gross profit margin increased from 10.3% last year to 12.5% this year. The increase in unit prices in wire rod was successfully reflected in the selling price of steel cord to our customers.

*Other income*

Other income increased by 9.9% over last year to HK$3,756,000 (2017: HK$3,418,000) for the year, primarily as government grant increased as compared to last year.

*Impairment loss on trade receivables*

Impairment loss on trade receivables of HK$1,653,000 was provided during the year (2017: HK$728,000 impairment loss on trade receivables was reversed) primarily on certain steel cord customers, reflecting the challenging market environment in this industry.

*Impairment loss recognised in respect of property, plant and equipment*

Based on the impairment assessments of property, plant and equipment of both JESC and TESC, their recoverable amounts exceeded the carrying amounts as at 31 December 2018, we are of the view that no impairment loss is required to be recognised in respect of property, plant and equipment of both JESC and TESC.

*Impairment loss recognised in respect of prepaid lease payments*

In late November 2017, TESC received a notice regarding the rescission of confirmation letter in respect of successful bidding of state-owned land for construction (the "Rescission Notice") from Tengzhou Municipal State-owned Land Resources Bureau (the "State-owned Land Resources Bureau") regarding three parcels of idle land with area of brownfield sites reaching 237,855 square meters or equivalent to 357 mou (the "Lands"). The Lands were acquired through public auctions with a total consideration of RMB81,120,000 (equivalent to approximately HK$92,582,000 as at 31 December 2017) as plant site for the expansion of production capacity of TESC in 2010 and 2011 and recognised as prepaid lease payments. However, given the changes in the market of steel cord and strategic review of the expansion plan, TESC had yet to utilise the Lands since its acquisition, nor received the relevant land use right certificates. As at 31 December 2017, the aggregate carrying amount of the prepaid lease payments was RMB60,623,000 (equivalent to approximately HK$72,523,000). If the Rescission Notice is being carried out, TESC may possibly require to surrender the Lands and forfeit the land use rights attached thereto.

Subsequently, TESC negotiated with the relevant Tengzhou government authorities with an aim to reach a consensus for TESC to continue utilizing the Lands to proceed with the construction plan in pursuit of obtaining the land use right certificates. In the process of obtaining the land use right certificates, TESC has been requested to pay compensation payments for attachments to land and green sprout during land acquisition, land deed tax and farmland occupancy tax (collectively referred to as the "Compensation and Tax Payments") regarding the Lands with an estimated aggregate amount of approximately RMB33,300,000 (equivalent to approximately HK$38,005,000)in early February 2018. For the sake of prudence, the Group recognised a full impairment of the carrying amount of the prepaid lease agreement for the Lands of HK$72,523,000 for year 2017. No such impairment of same nature occurred this year.

In 2018, the Group including TESC continued to negotiate with the relevant Tengzhou government authorities with an aim to withdraw the Rescission Notice, the grant of waiver of the Compensation and Tax Payments by the latter. Since the completion of the issue of the Convertible Bonds on 11 February 2019, we have escalated our effort to reach a consensus with Tengzhou government authorities for TESC to continue utilising the Lands. Both the Group including TESC and Tengzhou government authorities in principle have a consensus to first utilise certain portions of the Lands for TESC Phase II Project with 20,000 tonnes of annual production capacity but subject to the construction cost and time needed to supplement the production need for both TESC and JESC. Please refer to "**BUSINESS DEVELOPMENT AND CAPITAL COMMITMENTS**" section for details of project.

The Company will comply with any applicable requirements prescribed by the Listing Rules and/or the Inside Information Provisions as and when appropriate, and further announcement(s) will be made by the Company with respect to any material development of the matters of the Lands as and when required.

*Distribution and selling expenses*

Distribution and selling expenses increased by 6.9% over last year to HK$67,786,000 (2017: HK$63,389,000) for the year, in which the percentage is much lower compared to the revenue of this segment increasing by 17.5% over the last year.

*Administrative expenses*

Administrative expenses amounted to HK$32,371,000 for the year, decreased by 8.8% as compared to HK$35,478,000 for last year, mainly due to sound cost control measures in place despite the revenue of this segment increased over the last year.

*Research and development expenses*

Research and development expenses amounted to HK$76,941,000 (2017: HK$62,385,000) for the year, significantly increased by 23.3% as compared to last year. These expenses accounted for 3.6% of revenue for the year, increased by 0.1 percentage points as compared to 3.5% last year which is within our expected range of 3% to 4% each year.

**Copper and brass products**

*Overall performance*

To carry out the management's decision to downsize Copper and brass products segment in latter part of 2017, the PRC business has ceased factory operation in September 2018. Most of the employees were redundant. The sales volume of this segment decreased by 61.9% as compared to last year, while revenue of this segment also decreased by 57.0%. Despite that management had adopted strict operating cost control, this segment had changed from operating profit of HK$2,127,000 last year to operating loss of HK$3,860,000 this year.

*Revenue*

Attributable to the retracting of Copper and brass products segment, this segment sold 2,527 tonnes of copper and brass products during the year, decreased by 61.9% as compared to 6,627 tonnes last year. The sales to customers in the PRC decreased year-on-year by 55.9%, and no sales to customers in Hong Kong was made during the year. The breakdown of sales volume of this segment for the year by geographical regions is as follows:

| | **2018** | | 2017 | | |
|---|---|---|---|---|---|
| | **Sales volume *(Tonne)*** | **% of total sales volume** | Sales volume *(Tonne)* | % of total sales volume | **% change** |
| PRC | **2,527** | **100.0** | 5,733 | 86.5 | **-55.9** |
| Hong Kong | **–** | **–** | 894 | 13.5 | **-100.0** |
| Total | **2,527** | **100.0** | 6,627 | 100.0 | **-61.9** |

This segment recorded a decrease in revenue of 57.0% as compared to last year to HK$131,177,000 (2017: HK$305,405,000) for the year.

*Gross profit*

In addition to revenue decreased by 57.0% as compared to last year, gross profit recorded a decrease of 95.1% as compared to last year to HK$363,000 (2017: HK$7,412,000) for the year. Gross profit margin dropped by 2.1 percentage points from 2.4% last year to 0.3% for the year. The selling price in copper market was declining in the first half of 2018. Attributable to the discounted selling price to clear out inventory (remaining portion sold in scrap value) prior to the closure of PRC factory premises, gross profit margin was reduced. Another factor caused the decrease in gross profit was the redundancies of operations staff accounted for higher cost of goods sold.

*Reverse in impairment loss on trade receivables*

A reversal in impairment loss on trade receivables of HK$287,000 (2017: Nil) had been made for a trade receivable during this year.

*Loss on disposal of fixed assets*

Upon the closure of rented factory premises of Copper and brass products segment in PRC in September 2018, remaining fixed assets were sold in secondary market. Net proceeds were below their net asset value and thereby incurred loss on disposal of property, plant and equipment of HK$569,000 for the year (2017: HK$33,000).

**Relationship with key customers and suppliers**

The revenue from sales to top five customers of the Group accounted for 48.3% (2017: 42.2%) of total revenue of the Group for the year, while the revenue from sales to the largest customer accounted for 16.5% (2017: 14.4%) of the Group for the year.

All of the top five customers for the year are customers of Steel cord segment, they are well-known radial tyres manufacturers either in the PRC or in worldwide markets, and have business relationships with the Group for over five years. The credit period granted to these top five customers are from a range of 30 to 90 days, which was similar to the credit periods granted to other customers of the Group. We have reviewed the receivables position of these customers at the end of the reporting period and are of the view that no impairment loss on the receivables of the top five customers is required.

The Group had concentration risk of reliance on major customers as the percentage of sales to top five customers accounted for 48.3% (2017: 42.2%) for the year. Any changes in the business operations, financial conditions or purchasing patterns of these customers that result to the termination of business with our Steel cord segment, may have material impact to the results of the Group. The management of the Group values the long term relationships with these customers. We will mitigate these risks by monitoring their respective financial position and purchasing pattern, and the delivery of high and persistent stable quality products and keeping pace with these customers' new products development through our ongoing research and development activities. We will also exert more efforts on development of new customers and/or ripening the product mix to other customers to reduce the reliance to these major customers. In addition, we will look for and/or develop any opportunity to diversify our business in related industry as shown in the discernible increase in sales volume of our steel wire products.

Regarding suppliers, the purchases from the Group's five largest suppliers accounted for approximately 61.8% (2017: 47.1%) of the total purchases of the Group for the year, while the purchases from the largest supplier accounted for 17.1% (2017: 24.5%) of the total purchases of the Group for the year.

The supplies from the five largest suppliers of the Group include steel wire rod for manufacturing of steel cords. The Group has business relationship with these suppliers for over five years. We value the long term relationship with these suppliers, who have been consistently providing stable quality of raw materials to the Group. We aim to maintain ongoing mutual trust with these suppliers in order to achieve better payment terms and delivery schedule to suit our production need, which in turn enhance our production efficiency.

As far as the Directors are aware, neither the Directors, their associates, nor those Shareholders (who own more than 5% of the total number of issued shares of the Company) to the best knowledge of the Directors had any beneficial interest in the Group's five largest customers and suppliers.

## FINANCIAL REVIEW

The Group reported net loss of HK$8,681,000 for the year, markedly improved from the net loss of HK$68,518,000 for last year. The operating performance and key financial information of the Group for the year are analysed as follows:

| | **2018** | 2017 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **Change** |
| **OPERATING PERFORMANCE** | | | |
| Revenue | **2,254,170** | 2,113,258 | **+6.7%** |
| Gross profit margin *(%)* | **11.9** | 9.3 | **+2.6pp** |
| EBITDA | **179,293** | 104,096 | **+72.2%** |
| EBITDA margin *(%)* | **8.0** | 4.9 | **+3.1pp** |
| Loss for the year | **(8,681)** | (68,518) | **-87.3%** |
| Net loss margin *(%)* | **-0.4** | -3.2 | **+2.8pp** |
| Basic loss per share *(HK cents)* | **(0.45)** | (3.56) | **-87.4%** |

| | At 31 December | | |
|---|---|---|---|
| | **2018** | 2017 | |
| | ***HK$'000*** | *HK$'000* | **% Change** |
| **KEY FINANCIAL INFORMATION** | | | |
| Total assets | **3,414,467** | 3,444,076 | **-0.9** |
| Total liabilities | **2,075,317** | 2,052,548 | **+1.1** |
| Equity attributable to owners of the Company | **1,339,150** | 1,391,528 | **-3.8** |
| Net current assets | **335,348** | 295,752 | **+13.4** |
| Bank balances and cash (including pledged deposits) | **145,312** | 270,339 | **-46.2** |
| Total interest bearing borrowings | **1,100,809** | 1,049,010 | **+4.9** |
| Net interest bearing borrowings *(Note)* | **955,497** | 778,671 | **+22.7** |

*Note:* Net interest bearing borrowings represents total interest bearing borrowings less bank balances and cash (including pledged bank deposits).

The Group recorded EBITDA of HK$179,293,000 for the year, increased by 72.2% as compared to HK$104,096,000 for the previous year.

**Revenue**

Revenue of the Group amounted to HK$2,254,170,000 (2017: HK$2,113,258,000) for the year, increased by 6.7% over last year. The strong year on year growth in percentage of Steel cord segment of 17.5% was impacted by the decline in Copper and brass products segment of 57% to yield at overall rate of 6.7%. The breakdown of revenue of the Group for the year is as follows:

| | **2018** | | 2017 | | |
|---|---|---|---|---|---|
| | ***HK$'000*** | **% of total revenue** | *HK$'000* | % of total revenue | **% change** |
| Steel cord | **2,121,189** | **94.1** | 1,805,523 | 85.4 | **+17.5** |
| Copper and brass products | **131,177** | **5.8** | 305,405 | 14.5 | **-57.0** |
| Sub-total | **2,252,366** | **99.9** | 2,110,928 | 99.9 | **+6.7** |
| Property rental | **1,804** | **0.1** | 2,330 | 0.1 | **-22.6** |
| Total | **2,254,170** | **100.0** | 2,113,258 | 100.0 | **+6.7** |

**Gross profit**

Gross profit of the Group significantly increased by 36.4% over last year to HK$267,467,000 (2017: HK$196,065,000) for the year, which was mainly due to the increase of gross profit of Steel cord segment from higher sales volume and sales prices from May and June to second half of 2018. Gross profit margin of the Group also increased by 2.6 percentage points to 11.9% for the year as compared to last year, with Steel cord segment gross profit margin of 12.5%. The breakdown of gross profit of the Group for the year is as follows:

| | **2018** | | 2017 | | |
|---|---|---|---|---|---|
| | | **Gross profit** | | Gross profit | |
| | ***HK$'000*** | **margin (%)** | *HK$'000* | margin (%) | **% change** |
| Steel cord | **265,397** | **12.5** | 186,543 | 10.3 | **+42.3** |
| Copper and brass products | **363** | **0.3** | 7,412 | 2.4 | **-95.1** |
| Property rental | **1,707** | **94.6** | 2,110 | 90.6 | **-19.1** |
| Total | **267,467** | **11.9** | 196,065 | 9.3 | **+36.4** |

**Other income**

Other income increased by 9.9% over last year to HK$3,756,000 (2017: HK$3,418,000) for the year, primarily due to government grant increased as compared to last year.

**Other (losses) and gains, net and other profit or loss items**

The Group recorded net loss of HK$4,557,000 on other gains and losses for the year, as compared to net gain of HK$944,000 last year. The breakdown of other gains and losses for the year is as follows:

| | **2018** | 2017 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **% change** |
| Net fair value losses on derivatives held for trading *(Note *)* | **(1,956)** | (1,467) | **+33.3** |
| (Loss)/gain on disposal of club memberships | **(225)** | 395 | **N/A** |
| Losses on disposals of property, plant and equipment, net | **(2,723)** | (110) | **+2375.5** |
| Others | **347** | 2,126 | **-83.7** |
| Other (losses) and gains, net | **(4,557)** | 944 | |

The breakdown of other profit or loss items for the year is as follows:

| | **2018** | 2017 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **% change** |
| Foreign exchange gains/(losses), net (non-finance portion) | **3,770** | (17,519) | **N/A** |
| Changes in fair values of investment properties | **4,017** | 23,820 | **-83.1** |
| Impairment losses on prepaid lease payment | **–** | (72,523) | **N/A** |
| Net impairment losses on financial assets | **(1,365)** | 728 | **N/A** |
| Other profit or loss items | **6,422** | (65,494) | |

*Note *:* During the year under review, the Group entered into foreign currency hedging contracts to minimise its exposure to fluctuation of RMB with an aggregate notional amount of HKD180,000,000 and at future rates from RMB0.8757/HKD1 to RMB0.8913/HKD1. These contracts were classified as "fair value on derivatives held for trading" and were fully settled on 28 December 2018.

**Distribution and selling expenses**

Distribution and selling expenses amounted to HK$69,698,000 (2017: HK$65,579,000) for the year, increased by 6.3% over last year, mainly due to the sales revenue of Steel cord segment increased by 17.5%.

**Administrative expenses**

Administrative expenses amounted to HK$58,936,000 (2017: HK$71,771,000) for the year, decreased by 17.9% as compared to last year. Despite the revenue of the Group increased by 6.7% as compared to last year, with stricter cost control in both plants in JESC and TESC and Hong Kong Headquarters, the ratio of administrative expenses to revenue lowered from 3.4% last year to 2.6% this year.

**Research and development expenses**

Research and development expenses of the Group amounted to HK$76,941,000 for the year, increased by 23.3% as compared to HK$62,385,000 last year. Such expenses were all incurred by the Steel cord segment, which have been mentioned in "**Steel cord**" section above.

**Segment results**

The Group recorded operating profit of HK$89,404,000 from its business segments for the year, as compared to operating loss of HK$44,979,000 last year. The breakdown of the operating profit (loss) of the Group's business segments for the year is as follows:

| | **2018** | 2017 | **%** |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **change** |
| Steel cord | **93,264** | (47,106) | **N/A** |
| Copper and brass products | **(3,860)** | 2,127 | **N/A** |
| Total | **89,404** | (44,979) | **N/A** |

**Finance cost, net**

Net finance costs amounted to HK$78,630,000 for the year, increased by 6.6 times as compared to HK$10,411,000 last year. The overall increase on finance cost was mainly attributable to foreign exchange loss directly related to interest bearing borrowings (included bank and related companies) of HK$24,541,000 for the year, while foreign exchange gain directly related to interest bearing borrowings was HK$41,677,000 for the year of 2017. The foreign exchange loss in 2018 was due to depreciation of RMB to HKD at approximately 4.8% during the year against appreciation of 6.7% last year.

The increase in interest income was mainly derived from the increase in interest rate for the year ranging from 0.3% to 1.75% of pledged bank deposit.

The bank borrowing principal of HK$200,000,000 outstanding during last year was repaid by a bridging loan granted by Shougang HK which has been classified as loans from related company since December 2017 to present, with the same principal amount of HK$200,000,000. This in turn caused the increase of the item "Interest expenses on loans from related companies" amounted to HK$12,790,000 (2017:HK$5,169,000), representing an increase of 1.5 times.

The bank borrowing interest expenses did not decrease in proportion to bank borrowing principal amount for the year under comparison on the item "Interest expenses on bank borrowings" was mainly attributable to interest expenses on bank advances for discounted bills in RMB were subject to relatively higher interest rate. The breakdown is listed hereunder:

| | **2018** | 2017 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **% Change** |
| **Finance income** | | | |
| Interest income on bank deposits | **1,297** | 399 | **+225.1** |
| Foreign exchange gains on interest bearing borrowings | **–** | 41,677 | **N/A** |
| Total finance income | **1,297** | 42,076 | **-96.9** |
| **Finance costs** | | | |
| Interest expenses on bank borrowings | **(42,113)** | (42,956) | **-2.0** |
| Interest expenses on loans from related companies | **(12,790)** | (5,169) | **+147.4** |
| Amortisation of loan transaction costs | **(2,422)** | (4,653) | **-47.9** |
| Foreign exchange losses on borrowings | **(24,541)** | – | **N/A** |
| | **(81,866)** | (52,778) | |
| Amount capitalised | **1,939** | 291 | **+566.3** |
| Total finance costs | **(79,927)** | (52,487) | **+52.3** |
| **Finance costs, net** | **(78,630)** | (10,411) | **+655.3** |

**Income tax credit**

Income tax credit amounted to HK$2,436,000 for the year, as compared to the same of HK$6,695,000 last year. The Group has recorded deferred tax credit of HK$2,068,000 for the year (2017: HK$270,000), which was mainly attributable to the depreciation of fixed assets netted off with the impact of revaluation of properties.

In respect of income tax rates, JESC, which has been recognised as a state-encouraged high-new technology enterprise starting from 2014 and renewed in 2017, thus entitled to a preferential tax rate of 15% in 2017, 2018 and 2019, subject to annual review by the relevant tax authority in the PRC. There was no change in applicable tax rates of the Company and its subsidiaries during the year.

For the Company and subsidiaries operating in Hong Kong, they are subject to Hong Kong Profits Tax at a rate of 16.5% (2017: 16.5%) for the year. No provision for Hong Kong Profits Tax for the years ended 31 December 2017 and 2018 as there is no assessable profit subject to Hong Kong Profits Tax for both years.

In addition, according to the EIT Law and Implementation Regulation and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Group is subject to withholding tax on dividends paid by subsidiaries in the PRC to holding companies in Hong Kong at a rate of 5% (2017: 5%).

**Trade receivables**

The amount of trade receivables (before provision of impairment loss) amounted to HK$711,055,000 at 31 December 2018, increased by 0.4% as compared to HK$708,075,000 at 31 December 2017. The amount of provision of impairment loss amounted to HK$20,124,000 at 31 December 2018, increased by 1.9% as compared to HK$19,742,000 at 31 December 2017. The above increase was in line with the revenue growth of 6.7% during the year.

The trade receivables (net of provision of impairment loss) amounted to HK$688,333,000 at end of 2017 and HK$690,931,000 at 31 December 2018.

The aging analysis of trade receivables (net of provision of impairment loss) of the Group as at 31 December 2018 and the comparison with 31 December 2017 is as follows:

| **Age** | **31 December 2018** | | 31 December 2017 | | |
|---|---|---|---|---|---|
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* | **% change** |
| Up to 90 days | **509,968** | **73.8** | 535,777 | 77.8 | **-4.8** |
| 91 to 180 days | **161,448** | **23.4** | 145,993 | 21.2 | **+10.6** |
| Over 180 days | **19,515** | **2.8** | 6,563 | 1.0 | **+197.3** |
| Total | **690,931** | **100.0** | 688,333 | 100.0 | **+0.4** |

The overall quality of trade receivables continues to be in a manageable condition, as trade receivables aged within 180 days accounted for 97.2% of total trade receivables at 31 December 2018.

Regarding the provision of impairment loss on trade receivables of HK$20,124,000 at 31 December 2018, they mainly represented those made for receivables from sales of steel cord, while we have strived to pursue the recovery of these receivables and continue to use best efforts to do such.

In respect of the trade receivables at 31 December 2018, approximately 51.0% has been subsequently settled by cash or bills receivable up to 11 March 2019. The details of subsequent settlement of trade receivables of the Group and from top five customers of the Group for the year are as follows:

| | **Total trade receivables of the Group** | | **Trade receivables from top five customers of the Group** | |
|---|---|---|---|---|
| **Age** | **Amount at 31 December 2018** *HK$'000* | **% of subsequent settlement** | **Amount at 31 December 2018** *HK$'000* | **% of subsequent settlement** |
| Up to 90 days | **509,968** | **43.2** | **252,895** | **45.7** |
| 91 to 180 days | **161,448** | **71.8** | **81,913** | **67.3** |
| Over 180 days | **19,515** | **82.3** | **13,151** | **97.8** |
| Total | **690,931** | **51.0** | **347,959** | **52.7** |

## TREASURY AND FUNDING POLICIES

The treasury and funding policies of the Group concentrates on the management of liquidity and the monitoring of financial risks, including interest rate risk, currency risk and counterparty risks. The objectives are to ensure the Group has adequate financial resources to maintain business growth with a healthy financial position.

Surplus funds of the Group are generally placed on short term deposits denominated in HKD, RMB or USD with reputable banks in Hong Kong and the PRC. The financing of the Group usually comprises short to medium term loans from banks. The loan portfolio takes into consideration of the liquidity of the Group and interest costs.

## SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long-term reasonable return to its Shareholders.

There was no change in the total number of issued shares of the Company during the year. The total number of issued shares of the Company remained at 1,922,900,556 Shares at 31 December 2018. Net asset value of the Group was HK$1,339,150,000 at 31 December 2018, decreased slightly by 3.8% as compared to HK$1,391,528,000 at 31 December 2017. The decrease in net asset value was attributable to the negative impact on depreciation of RMB exchange rate against HKD of approximately 4.8% throughout the year. Net asset value per Share was HK$0.696 at 31 December 2018, also decreased by 3.9% as compared to HK$0.724 at 31 December 2017.

### Cash flows

The Group generated net cash operating inflow of HK$168,973,000 for the year as follows:

| | *HK$'000* |
|---|---|
| Net cash from operating activities as per consolidated statement of cash flows (include bills receivable endorsed to creditors and matured during the year) | (131,263) |
| Add: Operating cash inflows not reflected in consolidated statement of cash flows (non-cash transactions): | |
| Bills receivable that has been discounted to banks during the year | 300,236 |
| Net operating cash inflow for the year | 168,973 |

In respect of cash flows on other activities:

1. The Group recorded net cash outflow on investing activities of HK$31,661,000 during the year, which is mainly Steel cord segment's capital expenditure of HK$11,375,000 and net placement of pledged bank deposit of HK21,599,000; and

2. The Group recorded net cash inflow on financing activities of HK$27,503,000 during the year. When net proceeds from bank advances for discounted bills that were matured during the year of HK$131,542,000 were excluded, the Group incurred net cash outflow of HK$104,039,000 on financing activities during the year that represented sum of net reduction of interest bearing borrowings of HK$57,625,000 and interest expenses paid at HK$46,414,000 during the year.

**Bank balances and cash and interest bearing borrowings**

The Group's bank balances and cash (including pledged bank deposits) amounted to HK$145,312,000 at 31 December 2018, decreased by 46.2% as compared to HK$270,339,000 at 31 December 2017. Main reason of the decrease in the bank balances and cash is the increase in proportion in bills receivable received from customers instead of receiving payment in form of cash. Total interest bearing borrowings of the Group (comprised of loans from related companies and bank borrowings including discounted bills) were HK$1,100,809,000 at 31 December 2018, increased by 4.9% as compared to HK$1,049,010,000 at 31 December 2017. The rise is mainly due to the increased amount in bank advances of discounted bills during the year. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash (including pledged bank deposits)) therefore increased from HK$778,671,000 at 31 December 2017 to HK$955,497,000 at 31 December 2018.

At 31 December 2018, the interest bearing borrowings on majority of bank loans and related companies loans were fixed rates ranging from 3.4% to 6.5% per annum total at HK$803,945,000. While smaller portion of these interest bearing borrowings were floating-rate borrowings at total of HK$296,864,000 with interest rates ranging from 3.97% to 5.17% this year. The nature and maturing profile of the Group's interest bearing borrowings at 31 December 2018, based on contracted repayment schedules were as follows:

| | ***HK$'000*** | **% of total interest bearing borrowings** |
|---|---|---|
| Due in 2019 or on demand: | | |
| – Short term bank loans | 445,429 | 40.5 |
| – Bank advances for discounted bills | 162,157 | 14.7 |
| – Loans from related companies | 226,358 | 20.6 |
| Total due in 2019 | 833,944 | 75.8 |
| Total due in 2020 or after | | |
| – Non-current bank loans | 270,000 | 24.5 |
| Total | 1,103,944 | 100.3 |
| Unamortised loan arrangement fees | (3,135) | (0.3) |
| Total | 1,100,809 | 100.0 |

The Group will plan to service the interest bearing borrowings due in 2019 and 2020 by cash flow generated from its operations and refinancing from banks and exploring from other sources to raise capital such as issue of Convertible Bonds.

**Debt and liquidity ratios**

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash (including pledged bank deposits) divided by Shareholders' equity) of the Group increased from 56.0% at 31 December 2017 to 71.4% at 31 December 2018 mainly due to decrease in bank balances and cash. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.19 times at 31 December 2018 as compared to 1.17 times at 31 December 2017.

## FOREIGN CURRENCY AND INTEREST RATE

Both the Group's sources of revenue, purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in a mix of these currencies to minimise the risk of significant mismatch between the sources of revenue with interest bearing borrowings. The respective currency composition of the Group's bank balances and cash (including pledged bank deposits) and interest bearing borrowings was as follows:

**Bank balances and cash (including pledged bank deposits)**

| | **31 December 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| | ***HK$'000*** | **% of total bank balances and cash (including pledged bank deposits)** | *HK$'000* | % of total bank balances and cash (including pledged bank deposits) |
| RMB | **122,991** | **84.6** | 155,644 | 57.6 |
| HKD | **2,701** | **1.9** | 58,396 | 21.6 |
| USD | **11,614** | **8.0** | 40,193 | 14.9 |
| Other currencies | **8,006** | **5.5** | 16,106 | 5.9 |
| Total | **145,312** | **100.0** | 270,339 | 100.0 |

**Interest bearing borrowings (including banks and related companies)**

| | **31 December 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| | ***HK$'000*** | **% of interest bearing borrowings** | *HK$'000* | % of interest bearing borrowings |
| RMB | **598,411** | **54.4** | 553,031 | 52.7 |
| HKD | **502,398** | **45.6** | 495,979 | 47.3 |
| Total | **1,100,809** | **100.0** | 1,049,010 | 100.0 |

In respect of exposure to interest rate risk, the majority of interest bearing borrowings at 31 December 2018 are at fixed instead of floating rates. For the minority of interest bearing borrowings are in floating rates, the Group had not entered into any interest rate swaps to contain any upside risks on the floating interest rates to the results and cash flows of the Group as those relevant floating rate borrowings are for a term of less than one year. While the interest rate of USD may rise further in the future, the latest dovish forward looking statement by the Federal Reserve has led us to believe the frequency and magnitude of an interest rate increase should not warrant us to enter into any interest rate swaps.

During the year, the exchange rate of RMB depreciated by approximately 4.8% against HKD. The depreciation of RMB exchange rate has negative impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD, and the Group has not entered into derivative financial instruments to hedge against foreign currency risk in first half of 2018 as the rate was volatile. However, total of 5 foreign currency hedging contracts with aggregate notional amount of HK$180,000,000 and at future rates from RMB0.8757/HKD1 to RMB0.8913/HKD1 were executed in second half of 2018 to sell RMB vs HKD as RMB continued to depreciate. These contracts were classified as "fair value on derivatives held for trading" and were fully settled on 28 December 2018. We will review and adjust, when necessary, the currency composition of our interest bearing borrowings from time to time to minimise our risks on exchange and interest rate in respect of our interest bearing borrowings. In any event, we would keep monitoring the currency and interest rate composition of the Group's interest bearing borrowings under the guidance of the Internal Control Manual and take appropriate action to minimise our exchange and interest rate risks when needed, such as entering into new derivative financial instruments to hedge the risk of RMB vs HKD exchange rate in 2019.

## BUSINESS DEVELOPMENT AND CAPITAL COMMITMENTS

### TESC Phase II Project

Some of the existing production lines of brass wires of JESC, which have been in use for over 20 years, incur high maintenance and operation costs with relatively low production efficiency and quality instability. Construction of the new brass wire production lines of 20,000 tonnes per annum at TESC will enhance the efficiency of production of both JESC and TESC, which is expected to bring positive impact on the performance of the Steel cord segment.

Approximately HK$110,000,000 from issuance of Convertible Bonds on 11 February 2019 will be used for funding the capital expenditures and working capital for TESC Phase II Project. The Group intends to upgrade some of its brass wires production lines by supplementing the existing production facilities with the TESC Phase II Project.

The project is to proceed in phases commencing in the latter half of 2019 and planned to be completed in the third quarter of 2020.

### Capital Commitments

Capital expenditures incurred by the Group during the year amounted to HK$54,231,000, which were mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in 2019 is estimated to be approximately HK$13,969,000, which are to be incurred by Steel cord segment mainly for enhancement of production efficiency of the two manufacturing plants. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

### Issue of Convertible Bonds

On 18 December 2018, the Company entered into the Subscription Agreement with Jingxi Holdings (a related party and a wholly-owned subsidiary of Shougang Fund) whereby the Company issued and Jingxi Holdings subscribed for the Convertible Bonds in the principal amount of HK$150,000,000. The interest rate is 4.0% per annum while Conversion Price is HK$0.33 per Share, with conversion available commencing 6 months from issuance date till end of term. Tenor is 3 years from issuance date which can be extended by Jingxi Holdings for one year twice to the date falling on the fifth anniversary of the issue date of the Convertible Bonds.

The Conversion Price was arrived at after arm's length negotiations between the Group and Jingxi Holdings with reference to the prevailing market prices of the Shares. On 11 February 2019, the issue of Convertible Bonds was completed.

The net proceeds from the subscription of HK$149,000,000, are expected to be used as follows: (i) approximately HK$37,300,000 for repaying interest-bearing borrowings with higher interest rate of the Group; (ii) approximately HK$110,000,000 for funding the capital investment and working capital for the TESC Phase II Project subject to the construction cost and time needed to supplement the production need for both TESC and JESC for facilities of brass wire; and (iii) approximately HK$1,700,000 being the remaining proceeds for supplementing general working capital of the Group.

## EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 31 December 2018, the Group had a total of 2,060 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits or loss as they are incurred. The amount charged to consolidated statement of profit or loss for the year under review amounted to approximately HK$23,103,000.

The Group had also provided training programmes or courses for the mainland staff at all levels from different departments, and also for Directors and employees of the Company so as to further enhance their technical skills in production operation and management, professional skills and knowledge, respectively.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company had adopted the 2002 Scheme. Under the 2002 Scheme, the Board shall, subject to and in accordance with the provisions of the 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for Shares for the purpose of providing incentives or rewards to him/her for contribution to the Group. The 2002 Scheme remained in force for a period of ten years from the date of its adoption and expired on 6 June 2012. The Shareholders at the annual general meeting held on 25 May 2012 approved the termination of the 2002 Scheme and adoption of the 2012 Scheme which serves the same purpose as the 2002 Scheme. The 2012 Scheme will remain in force for a period of ten years from 29 May 2012, the date of obtaining the approval of the listing and permission to deal in the Shares falling to be allotted and issued pursuant to the exercise of any options granted under the 2012 Scheme.

Share options granted and remained outstanding under the 2002 Scheme remain valid and exercisable in accordance with their terms of issue.

During the year under review, no options were granted, exercised, cancelled and lapsed under the 2012 Scheme while only 103,700,000 share options lapsed under the 2002 Scheme.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities at 31 December 2018.

At 31 December 2018, the following assets had been pledged to the Group's bankers and a related company for banking facilities and bills payable issued and to secure loan from a related company granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK$201,312,000;

2. Plant and machinery with an aggregate amount of HK$90,404,000;

3. Prepaid land payments with an aggregate amount of HK$62,859,000;

4. Bank deposit of HK$78,630,000; and

5. Pledged deposits on loan from a related company amounting to HK$7,989,000.

## THE RESULT ON THE POSSIBLE DEEMED DISPOSAL OF EQUITY INTEREST IN TESC AND THE PROPOSED STRATEGIC COOPERATION WITH 棗莊礦業（集團）有限責任公司 (ZAOZHUANG MINING (GROUP) CO., LTD.*) ("ZAOZHUANG MINING")

As regards the second supplemental memorandum of understanding (the "Second Supplemental MOU") entered into by the Company and Zaozhuang Mining (the "Parties") dated 30 June 2016, the long stop date to the effect that the formal agreement under the Second Supplemental MOU has expired on 12 July 2018, the Parties to the Second Supplemental MOU have not yet gone through the necessary internal approval procedures customary to state-owned enterprises of the PRC and hence, the major terms and conditions in respect of the proposed capital injection or the proposed strategic cooperation between the Group and Zaozhuang Mining Group could not be concluded and no legally-binding agreement could be reached. Accordingly, the Second Supplemental MOU had lapsed in accordance with its terms and ceased to have any effect.

The Directors are of the view that the lapse of the Second Supplemental MOU does not have any material adverse impact on the business operation and financial position of the Group. However, the Group will maintain dialogue with Zaozhuang Mining Group should the opportune timing and projects arise in the future.

## BUSINESS OUTLOOK

Against the backdrop of a slew of weakening economic data from various sizeable economies of the globe, the corollary of general consumers' and investors' confidence is fidgety and cautious. Albeit there are signs that the Sino-US trade debacle might arrive to an agreeable solution, the negotiation process is expected to drag on and there will always be a lingering concern as to whether the trade balance scuffle is a mere front of a larger political and international leadership scrimmage. In order to counter the uncertainties and the probable decline in economic growth, the government and the central banks of most developed economies are or expected to embark upon a dovish approach in interest rate normalization, balance sheet reduction and/or even the resumption of quantitative easing. The Central Government of the PRC has also announced a number of relief measures such as value-added tax reduction, reduction in electricity charges and access to capital/credit initiatives on boosting consumption and encouraging investments, particularly for small and medium enterprises, which would help stabilizing the demand for automobiles, tyres and hence, steel cord. On the supply side, we believe there will be more relocation of production capacity of steel cord as opposed to new capacity addition. In this connection, we do not expect a major shift in the dynamic of the steel cord market which continues to edge towards equilibrium amidst the trade and economic uncertainties in 2019.

* *For identification only*

In order to maintain a reasonable market share in the steel cord business and restore our financial health, we will use our best endeavors to:

- pare down production and finance costs;
- expand our business volume in regions relatively unscathed from protectionism;
- work with Shougang Fund (subject to relevant rules and regulations) in identifying other investment opportunities within the realm of our principal business; and
- broaden the scope of our hedging activities against a depreciation of the RMB.

## FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2018.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 4 June 2019 to Tuesday, 11 June 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting which is scheduled to be held on Tuesday, 11 June 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 3 June 2019.

## CORPORATE GOVERNANCE CODE

The Board is committed to practicing and achieving a high standard of corporate governance. It also recognises that an effective risk management and internal control systems are crucial to the long term development of the Company. Hence, the Board reviews from time to time the effectiveness of the systems of risk management and internal control of the Group, such as financial, operational and compliance controls and risk management functions. The Company has adopted the SCCHL Corporate Governance Code and the Internal Control Manual, which will be amended and revised in order to enhance the effectiveness of the corporate governance practices and the risk management and internal control systems, and also to be in line with the relevant amendments to the law, rules and regulations.

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code and also the SCCHL Corporate Governance Code throughout the year ended 31 December 2018, except three deviations from code provisions of the Code as below:

**Deviation from code provision A.2.1 of the Code**

During the year under review, the roles of chairman and managing Director in the Company are performed by Mr. Su Fanrong ("Mr. Su") which constitutes the deviation from the code provision A.2.1 of the Code which stipulates that the roles of chairman and managing Director should be separate and should not be performed by the same person. In consideration of Mr. Su's extensive knowledge and experience in various aspects, in particular the management in the steel industry and sales area, the Board considers this present arrangement still enables the Company to make decisions promptly in the formulation and implementation of the Company's strategies in achieving corporate goals. Notwithstanding the deviation, the Board is of the view that there are sufficient checks and balances amongst the Board to reach decisions in the interests of the Company and its Shareholders as a whole. The Board will review the management structure from time to time according to board diversity policy of the Company and the need to separate the roles of the chairman of the Board and the managing Director into two individuals.

**Deviation from code provision A.6.7 of the Code**

During the year under review, Mr. Liao Jun ("Mr. Liao"), who is an non-executive Director of the Company, was unable to attend the annual general meeting due to his other business engagement and only able to attend three out of five board meetings during the year and this might constitute a deviation of the code provision A.6.7 of the Code which requires generally the independent non-executive Directors and non-executive Directors of the Company to attend general meetings to gain and develop a balanced understanding of the views of Shareholders. Notwithstanding the deviation, Mr. Liao demonstrated an active participation and contributed his skills, expertise from his varied backgrounds and qualifications to the board meetings he attended during the year under review. The Board will advise Mr. Liao to use his endeavors to attend all the meetings for the coming years.

**Deviation from code provision D.1.4 of the Code**

During the year under review, the Company deviated from the code provision D.1.4 of the Code. According to the subscription agreement and further agreement dated 22 September 2006 and 24 February 2015 respectively entered into by the Company and Bekaert, Bekaert group nominated Mr. Liao as a non-executive Director. Mr. Liao does not have any formal letter of appointment setting out the key terms and conditions of his appointment as Director, which therefore deviated from the code provision D.1.4 of the Code.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express sincere gratitude to all Shareholders, suppliers and customers for their longstanding support. I would also like to thank you my fellow members on the Board and the staff members of the Group for their unwavering commitment to the Group's business. I am confident that the Group will continue to explore and capture opportunities in the coming year and beyond.

## FORWARD LOOKING STATEMENTS

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions have the meanings set out below:

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| "2002 Scheme" | A share option scheme adopted and terminated by the Shareholders at the annual general meetings held on 7 June 2002 and 25 May 2012 respectively |
| "2012 scheme" | A share option scheme adopted by the Shareholders at the annual general meeting held on 25 May 2012 and became effective on 29 May 2012 |
| "Bekaert" | NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial Shareholder (as defined under the SFO) |
| "Board" | the board of Directors |
| "Code" | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| "Company" | Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange |
| "Copper and brass products" | processing and trading of copper and brass products |
| "Conversion Price" | HK$0.33 per Conversion Share (subject to adjustment) |
| "Convertible Bonds" | the 4% unsecured fixed coupon convertible bonds in the aggregate principal amount of HK$150,000,000 due 2022 (extendable to 2024) issued by the Company to Jingxi Holdings pursuant to the Subscription Agreement |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |

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| "HKD/HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Inside Information Provisions" | Part XIVA of the SFO |
| "Internal Control Manual" | an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter |
| "JESC" | Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company |
| "Jingxi Holdings" | Jingxi Holdings Limited 京西控股有限公司, a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of Shougang Fund |
| ‘Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "PRC" | the People's Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Macau and Taiwan |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SCCHL Corporate Governance Code" | Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time) |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of the Company |
| "Shareholder(s)" | holder(s) of the Shares |
| "Shougang Fund" | 北京首鋼基金有限公司 (Beijing Shougang Fund Co., Ltd.), a company established in the PRC with limited liability and a wholly-owned subsidiary of Shougang Group |

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| "Shougang Group" | Shougang Group Co., Ltd. (a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission), a controlling Shareholder (as defined under the SFO) |
| "Shougang HK" | Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial Shareholder (as defined under the SFO) |
| "Steel cord" | manufacturing of steel cord for radial tyres |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscription Agreement" | the subscription agreement dated 18 December 2018 entered into between the Company and Jingxi Holdings in relation to the subscription for the Convertible Bonds by Jingxi Holdings pursuant to the terms and subject to the conditions of the Subscription Agreement |
| "TESC" | Tengzhou Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company |
| "USD/US$" | United States dollars, the lawful currency of the United State of America |
| "%" | per cent. |

By order of the Board
**Shougang Concord Century Holdings Limited**
**Su Fanrong**
*Chairman and Managing Director*

Hong Kong, 22 March 2019

*As at the date of this announcement, the Board comprises the following Directors:*

*Mr. Su Fanrong (Chairman and Managing Director), Mr. Tang Cornor Kwok Kau (Deputy Managing Director), Mr. Liao Jun (Non-executive Director), Mr. Yip Kin Man, Raymond (Independent Non-executive Director), Mr. Law, Yui Lun (Independent Non-executive Director) and Mr. Lam Yiu Kin (Independent Non-executive Director).*

*This final results announcement is published on the websites of the Company at http://www.irasia.com/listco/hk/sccentury/ and the Stock Exchange at http://www.hkexnews.hk. The Annual Report 2018 will be despatched to Shareholders and made available on the above websites in due course.*