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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

For the six months ended 30 June

	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	% Change
Operations			
Revenue	1,095,773	1,142,797	-4.1
Gross profit	181,821	116,547	+56.0
Adjusted EBITDA (Note)	119,479	74,740	+59.9
Profit/(loss) for the period	35,201	(22,543)	N/A
Basic earnings/(loss) per Share (HK cents)	1.83	(1.17)	N/A

Note:

Adjusted EBITDA represents profit/(loss) before finance costs (excluding foreign exchange losses on borrowings and Convertible Bonds), income tax, depreciation, amortization and change in fair value of a financial liability at fair value through profit or loss.

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000	% Change
Financial position			
Total assets	3,280,743	3,414,467	-3.9
Shareholders' equity	1,367,899	1,339,150	+2.1
Net asset value per Share (HK\$)	0.711	0.696	+2.1

The Board presents the unaudited consolidated interim results of the Group for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Revenue	6	1,095,773	1,142,797
Cost of sales	8	<u>(913,952)</u>	<u>(1,026,250)</u>
Gross profit		181,821	116,547
Other income	6	3,243	2,279
Other gains/(losses), net	7	1,691	(333)
Distribution and selling expenses	8	(39,498)	(35,386)
Administrative expenses	8	(31,095)	(34,772)
Research and development expenses	8	(36,854)	(40,220)
Foreign exchange losses, net		(77)	(2,222)
Changes in fair values of investment properties	13(a)	114	3,704
Net impairment losses on financial assets	15(c)	<u>(9,459)</u>	<u>(1,499)</u>
Operating profit		69,886	8,098
Finance costs, net	9	(33,011)	(32,658)
Change in fair value of a financial liability at fair value through profit or loss	20	<u>(1,763)</u>	-
Profit/(loss) before income tax		35,112	(24,560)
Income tax credit	10	<u>89</u>	<u>2,017</u>
Profit/(loss) for the period		<u>35,201</u>	<u>(22,543)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share			
Basic and diluted	11	<u>1.83</u>	<u>(1.17)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Profit/(loss) for the period		<u>35,201</u>	<u>(22,543)</u>
Other comprehensive (loss)/income, net of tax			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences arising on translation into presentation currency		(6,397)	(11,589)
Revaluation of leasehold land and buildings	13(b)	(92)	16,312
Recognition of deferred income tax liability on revaluation of leasehold land and buildings		<u>37</u>	<u>(2,889)</u>
Total comprehensive income/(loss) for the period, net of tax		<u>28,749</u>	<u>(20,709)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
ASSETS			
Non-current assets			
Investment properties	13(a)	55,448	55,449
Property, plant and equipment	13(b)	1,122,989	1,166,333
Right-of-use assets	14	2,186	-
Land use rights		68,372	-
Prepaid lease payments		-	70,897
Pledged deposit on loan from a related company		7,205	7,989
Prepayments for the acquisition of property, plant and equipment		2,383	1,724
Total non-current assets		1,258,583	1,302,392
Current assets			
Inventories		258,327	319,968
Trade receivables	15	703,780	690,931
Bills receivable	15	891,313	924,355
Prepayments, deposits and other receivables		26,599	31,509
Pledged bank deposits		10,402	78,630
Bank balances and cash		131,739	66,682
Total current assets		2,022,160	2,112,075
Total assets		3,280,743	3,414,467
LIABILITIES			
Non-current liabilities			
Other payables		491	566
Bank borrowings	19	209,179	268,407
Lease liabilities	14	1,014	-
Deferred income tax liabilities		29,575	29,617
Total non-current liabilities		240,259	298,590
Current liabilities			
Trade and bills payables	16	697,020	808,951
Other payables and accruals	17	153,845	130,790
Current income tax liabilities		4,264	4,584
Loans from related companies	18	191,222	226,358
Bank borrowings	19	473,271	606,044
Lease liabilities	14	1,200	-
Financial liability at fair value through profit or loss	20	151,763	-
Total current liabilities		1,672,585	1,776,727
Total liabilities		1,912,844	2,075,317
EQUITY			
Share capital	21	1,191,798	1,191,798
Reserves		176,101	147,352
Total equity and liabilities		3,280,743	3,414,467

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2019

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”).

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollar (HK\$’000), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax (Note 10), accounting treatment for the financial liability at fair value through profit or loss and the adoption of new and amended standards as set out below.

3.1 Financial liability at fair value through profit or loss

(a) Classification

The Group, at initial recognition, irrevocably designates the convertible bonds issued by the Company as a financial liability at fair value through profit or loss.

(b) Recognition and derecognition

Financial liability at fair value through profit or loss is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

On derecognition of a financial liability in its entirety or partiality, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or liabilities assumed) shall be recognised in the condensed consolidated statement of profit or loss. When financial liability designated as at fair value through profit or loss are derecognised, fair value gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(c) Measurement

Financial liability at fair value through profit or loss is recognised initially at fair value. Transaction costs of financial liability carried at fair value through profit or loss are expensed in the condensed consolidated statement of profit or loss.

Financial liability at fair value through profit or loss is subsequently measured at fair value. Gains or losses on financial liability designated as at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in the condensed consolidated statement of profit or loss (the remaining amount of change in the fair value of the liability).

3.2 New and amended standards and interpretations adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 12, HKAS 23, HKFRS 3 and HKFRS 11	As part of the Annual Improvements to HKFRSs 2015 - 2017 Cycle
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement

The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 16 on the Group's condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2019.

(i) Accounting policies applied from 1 January 2019

The Group leases various offices. Rental contracts are typically made for fixed periods of one to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the condensed consolidated statement of profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset (including land use rights which is presented as a separate line item in the condensed consolidated statement of financial position) and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and stated at initially recognised amount less depreciation and impairment losses.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- prepayment; and
- any initial direct costs.

(ii) Impact of adoption

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provision in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening of the condensed consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases (“HKAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.36%.

In applying HKFRS 16 for the first time, the Group has used a practical expedient permitted by this standard to use a single discount rate to a portfolio of leases with reasonable similar characteristics.

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 December 2018 and the lease liabilities recognised in the opening of the condensed consolidated statement of financial position as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	(Unaudited) HK\$'000
Operating lease commitments disclosed as at 31 December 2018	2,982
Discounted using the lessee’s incremental borrowing rate at the date of initial application	2,803
Lease liabilities recognised as at 1 January 2019	2,803
Of which are:	
Current lease liabilities	1,193
Non-current lease liabilities	1,610
	2,803

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the opening of the condensed consolidated statement of financial position as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy resulted in the recognition of both right-of-use assets and lease liabilities of HK\$2,803,000 in the condensed consolidated statement of financial position on 1 January 2019.

The recognised right-of-use assets of HK\$2,803,000 are related to office premises.

Prepaid lease payments of HK\$70,897,000 as at 1 January 2019 have been reclassified as land use rights being a part of the right-of-use assets of the Group.

The accounting for the leases in which the Group as the lessors has not significantly changed.

3.3 Impact of standards issued but not yet applied by the Group

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	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 condensed consolidated interim financial information of the Group.

4. FAIR VALUE ESTIMATION

The table below analyses the Group's financial instrument carried at fair value as at 30 June 2019 by level of valuation techniques used to measure its fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial liability that is measured at fair value as at 30 June 2019:

	(Unaudited)			Total <i>HK\$'000</i>
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	
Financial liability				
Financial liability at fair value through profit or loss				
- Convertible bonds	-	-	151,763	151,763

As at 31 December 2018, the Group did not have any financial assets and financial liabilities that were subsequently measured at fair value.

4.1 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 financial instruments for the six months ended 30 June 2019:

	Financial liabilities at fair value through profit or loss – Convertible bonds (Unaudited) <i>HK\$'000</i>
Balance at 1 January 2019	-
Issuance of convertible bonds	150,000
Fair value loss recognised in profit or loss (Note 20)	1,763
	<u>151,763</u>
Unrealised loss recognised in the condensed consolidated statement of profit or loss attributable to the financial instruments at 30 June 2019	<u>1,763</u>

Specific valuation techniques used to value level 3 financial instruments include techniques such as effective interest method and Black-Scholes model.

The Group has engaged the independent qualified professional valuers to perform the valuations of financial assets required for financial reporting purposes, including level 3 fair values.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

(a) Financial liability at fair value through profit or loss – Convertible bonds

The key unobservable assumptions used in the valuation of the convertible bonds as at 30 June 2019 and 11 February 2019 (date of issuance) are:

Valuation techniques	Unobservable inputs	As at 30 June 2019 (Unaudited)	As at 11 February 2019 (date of issuance) (Unaudited)
Effective interest method	Effective interest rate	11.15%	12.04%
Black-Scholes model	Risk-free rate	1.77%	2.13%
	Volatility	46.84%	54.30%

If the effective interest rate shifted downward by 1%, the impact on profit or loss would be HK\$4,459,000 lower. The lower the effective interest rate, the higher the fair value.

If the risk-free rate shifted upward by 1%, the impact on profit or loss would be HK\$116,000 lower. The higher the risk-free rate, the higher the fair value.

If the volatility shifted upward by 5%, the impact on profit or loss would be HK\$2,189,000 lower. The higher the volatility, the higher the fair value.

5. 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 values of investment properties, change in fair value of a financial liability at fair value through profit or loss, 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.

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

For the six months ended 30 June 2019

	Steel cord (Unaudited) <i>HK\$'000</i>	Copper and brass products (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
<u>Sales of goods</u>			
Segment revenue from external customers	1,094,905	-	1,094,905
Segment results	82,396	(4,350)	78,046
Unallocated amounts			
Rental income			868
Other gains, net			3,383
Changes in fair values of investment properties			114
Change in fair value of a financial liability at fair value through profit or loss			(1,763)
Expenses			(12,525)
Finance costs, net			(33,011)
Profit before income tax			<u>35,112</u>

For the six months ended 30 June 2018

	Steel cord (Unaudited) <i>HK\$ '000</i>	Copper and brass products (Unaudited) <i>HK\$ '000</i>	Total (Unaudited) <i>HK\$ '000</i>
<u>Sales of goods</u>			
Segment revenue from external customers	1,022,758	118,984	1,141,742
Segment results	19,059	(84)	18,975
Unallocated amounts			
Rental income			1,055
Other losses, net			(766)
Change in fair values of investment properties			3,704
Expenses			(14,870)
Finance costs, net			(32,658)
Loss before income tax			<u>(24,560)</u>

6. REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Revenue		
Sales of goods:		
Manufacturing of steel cords	1,094,905	1,022,758
Processing and trading of copper and brass products	-	118,984
	1,094,905	1,141,742
Rental income	868	1,055
	1,095,773	1,142,797
Other income		
Government grants (<i>Note</i>)	807	117
Sales of scrap materials	1,647	1,396
Others	789	766
	3,243	2,279

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

7. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net fair value on derivatives held for trading	1,954	-
Losses on disposals of property, plant and equipment, net	(205)	(312)
Others	(58)	(21)
	<u>1,691</u>	<u>(333)</u>

8. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold (including net provision for inventories recognised)	904,714	1,018,761
Employee benefit expense (including directors' emoluments)	107,053	113,675
Depreciation of property, plant and equipment (<i>Note 13(b)</i>)	51,920	67,909
Depreciation of right-of-use assets (<i>Note 14</i>)	617	-
Depreciation of land use rights	2,286	-
Amortisation of prepaid lease payments	-	2,425
Auditor's remuneration		
- Audit services	728	728
- Non-audit services	428	428
Provision for inventories, net	(222)	407
Operating lease rentals in respect of buildings	-	3,879

9. FINANCE COSTS, NET

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Finance income		
Interest income on bank deposits	<u>361</u>	<u>706</u>
Finance costs		
Interest expenses on bank borrowings	(21,826)	(21,025)
Interest expenses on loans from related companies	(4,643)	(7,116)
Interest expenses on lease liabilities (Note 14)	(66)	-
Amortisation of loan transaction costs	(1,246)	(825)
Foreign exchange losses on borrowings and convertible bonds	<u>(5,591)</u>	<u>(4,398)</u>
	<u>(33,372)</u>	<u>(33,364)</u>
Finance costs, net	<u>(33,011)</u>	<u>(32,658)</u>

10. INCOME TAX CREDIT

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax:		
- China corporate income tax	484	420
Overprovision in prior periods	<u>(647)</u>	<u>(607)</u>
Total current income tax	<u>(163)</u>	<u>(187)</u>
Deferred income tax	74	(1,830)
Income tax credit	<u>(89)</u>	<u>(2,017)</u>

Income tax is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. No provision for Hong Kong profits tax for the six months ended 30 June 2018 and 2019 as there is no assessable profit subject to Hong Kong profits tax for both periods.

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 six month ended 30 June 2019 (2018: same).

11. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the period attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the owner of the Company (<i>HK\$'000</i>)	35,201	(22,543)
Weighted average number of ordinary shares in issue (<i>shares</i>)	1,922,900,556	1,922,900,556
Basic earnings/(loss) per share attributable to the owners of the Company (<i>HK cent per share</i>)	1.83	(1.17)

(b) Diluted

Diluted earnings/(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 two categories (2018: one category) of potentially dilutive ordinary shares: share options and convertible bonds (2018: share options). For the share options and convertible bonds, calculations are 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 period) based on the monetary value of the subscription rights attached to outstanding share options and convertible bonds.

For the six month periods ended 30 June 2018 and 2019, as the outstanding share options and convertible bonds would result in anti-dilution at earnings/(loss) per share, the diluted earnings/(loss) per share equals the basic earnings/(loss) per share.

12. DIVIDENDS

No interim or final dividend has paid or proposed for the six months ended 30 June 2018 and 2019, nor has any dividend been proposed since the end of the reporting period.

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

(a) Investment properties

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

	Leasehold land and buildings (Unaudited) <i>HK\$'000</i>
At 1 January 2018	70,790
Changes in fair values recognised in profit or loss	3,704
Disposals	(6,370)
Exchange differences	(250)
At 30 June 2018	<u>67,874</u>
At 1 January 2019	55,449
Changes in fair values recognised in profit or loss	114
Exchange differences	(115)
At 30 June 2019	<u>55,448</u>

At 30 June 2019, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2018: same).

The period of leases whereby the Group leases out its investment properties under operating leases ranged from one to five years (31 December 2018: one to six years).

The carrying amounts of investment properties shown above comprise land and buildings in Hong Kong and other regions in the PRC are as follows:

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Hong Kong	26,300	26,300
PRC	29,148	29,149
	<u>55,448</u>	<u>55,449</u>

(b) Property, plant and equipment

The movement of the net book amount for property, plant and equipment is as follows:

	(Unaudited) HK\$'000
At 1 January 2018	1,273,927
Additions	51,294
Disposals	(5,175)
Depreciation (<i>Note 8</i>)	(67,909)
Revaluation	16,312
Exchange differences	(11,461)
At 30 June 2018	<u>1,256,988</u>
At 1 January 2019	1,166,333
Additions	14,224
Disposals	(1,169)
Depreciation (<i>Note 8</i>)	(51,920)
Revaluation	(92)
Exchange differences	(4,387)
At 30 June 2019	<u>1,122,989</u>

As at 30 June 2019, buildings located in the PRC amounting to HK\$197,213,000 (31 December 2018: HK\$201,312,000) and plant and machinery amounting to HK\$86,597,000 (31 December 2018: HK\$90,404,000) are pledged to secure bank borrowings.

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Amounts recognised in the condensed consolidated statement of financial position

The condensed consolidated statement of financial position shows the following amounts relating to the leases in respect of office premises:

	As at 30 June 2019 (Unaudited) HK\$'000
Right-of-use assets	
Non-current	<u>2,186</u>
Lease liabilities	
Non-current	1,014
Current	1,200
	<u>2,214</u>

Additions to the right-of-use assets during the six months ended 30 June 2019 is HK\$60,000.

(ii) Amounts recognised in the condensed consolidated statement of profit or loss

The condensed consolidated statement of profit or loss shows the following amounts relating to the leases in respect of office premises:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
Depreciation charge of right-of-use assets (<i>Note 8</i>)	617
Interest expense (<i>Note 9</i>)	66
	<u>683</u>

The total cash outflow for leases during the six months ended 30 June 2019 is HK\$656,000.

15. TRADE RECEIVABLES AND BILLS RECEIVABLE

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Trade receivables (<i>Note (a)</i>)	733,281	711,055
Less: provision for impairment loss on trade receivables (<i>Note (c)</i>)	<u>(29,501)</u>	<u>(20,124)</u>
	703,780	690,931
Bills receivable (<i>Note (b)</i>)	<u>891,313</u>	<u>924,355</u>
	<u>1,595,093</u>	<u>1,615,286</u>

(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 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Up to 90 days	514,928	509,968
91 to 180 days	166,159	161,457
Over 180 days	<u>52,194</u>	<u>39,630</u>
	<u>733,281</u>	<u>711,055</u>

(b) Bills receivable

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

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Up to 90 days	120,346	91,277
91 to 180 days	273,816	339,157
Over 180 days	497,151	493,921
	891,313	924,355

As at 30 June 2019, the Group's bills receivable are with maturity date within one year (31 December 2018: same).

(c) Provision for impairment loss on trade receivables

The movement on the provision for impairment loss on trade receivables is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
At beginning of the period	20,124	19,742
Net impairment loss on trade receivables for the period	9,459	1,499
Exchange differences	(82)	(168)
At end of the period	29,501	21,073

16. TRADE AND BILLS PAYABLES

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Trade payables (<i>Note (a)</i>)	663,257	655,809
Bills payable (<i>Note (b)</i>)	33,763	153,142
	697,020	808,951

(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 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Up to 30 days	346,629	127,868
31 to 90 days	152,598	189,506
91 to 180 days	93,336	245,983
181 to 365 days	64,504	78,844
Over 365 days	6,190	13,608
	663,257	655,809

(b) Bills payable

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

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Up to 30 days	15,347	37,206
31 to 90 days	227	64,814
91 to 180 days	18,189	40,007
181 to 365 days	-	11,115
	33,763	153,142

17. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Contract liabilities	1,216	125
Other tax payables	11,209	8,858
Other accrued expenses and payables	141,420	121,807
	<u>153,845</u>	<u>130,790</u>

18. LOANS FROM RELATED COMPANIES

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Current portion		
Loan from Shougang (Hong Kong) Finance Company Limited ((<i>Note (i)</i>))	184,017	205,534
Loan from South China International Leasing Co., Ltd. (“South China Leasing”) ((<i>Note(ii)</i>))	7,205	20,824
	<u>191,222</u>	<u>226,358</u>

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 4.5% per annum (2018: 5% to 6% per annum) and repayable within one year (2018: same).

- (ii) On 29 June 2016, TESC 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 RMB6,338,000 (equivalent to approximately HK\$7,205,000 (2018: HK\$7,989,000)) 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.

19. BANK BORROWINGS

	As at 30 June 2019 (Unaudited) HK\$’000	As at 31 December 2018 (Audited) HK\$’000
Bank loans	607,852	715,430
Less: loan transaction costs	(2,364)	(3,136)
	<u>605,488</u>	<u>712,294</u>
Discounted bills with recourse	76,962	162,157
	<u>682,450</u>	<u>874,451</u>
Non-current portion	209,179	268,407
Current portion	473,271	606,044
	<u>682,450</u>	<u>874,451</u>
Secured	99,698	219,221
Unsecured	582,752	655,230
	<u>682,450</u>	<u>874,451</u>

The Group's bank borrowings were repayable as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Within 1 year	473,271	606,044
Between 1 and 2 years	209,179	118,407
Between 2 and 5 years	-	150,000
	<u>682,450</u>	<u>874,451</u>

The carrying amounts of the bank borrowings approximate their fair values.

As at 30 June 2019, the carrying amount of fixed rate bank loans and variable rate bank loans are HK\$399,814,000 (31 December 2018: HK\$577,587,000) and HK\$282,636,000 (31 December 2018: HK\$296,864,000), respectively.

These bank loans carry variable rate at Hong Kong Interbank Offered Rate ("HIBOR") plus or minus a margin.

The discounted bills with recourse carry fixed rate.

The range of effective interest rates (which are also equal to contractual interest rates) on bank borrowings are as follows:

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Effective interest rate per annum:		
Fixed rate borrowings	3.39% to 6.50%	3.40% to 6.50%
Variable rate borrowings	<u>4.82% to 5.24%</u>	<u>3.97% to 5.17%</u>

20. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

On 11 February 2019 (the “Issuance Date”), the Company issued convertible bonds in the principal amount of HK\$150,000,000 (the “Convertible Bonds”) to Jingxi Holdings Limited (“Jingxi Holdings”), a wholly-owned subsidiary of Shougang Group Co., Ltd (“Shougang Group”, which is the substantial shareholder with significant influence of the Company). The consideration for the Convertible Bonds was HK\$150,000,000. The Convertible Bonds are interest bearing at a coupon rate of 4% per annum.

The holder of the Convertible Bonds has:

- (i) the option to demand the Company to redeem the Convertible Bonds on 11 February 2022 (the “Original Maturity Date”) at 100% of the principal amount outstanding plus any accrued and unpaid interest;
- (ii) the option to convert the Convertible Bonds into ordinary shares of the Company at the conversion price based on certain conditions at the date of conversion falling 6 months from the Issuance Date and up to the maturity date of the Convertible Bonds; and
- (iii) the option to extend the Original Maturity Date for one year twice to the date falling on 11 February 2024.

The Convertible Bonds, together with the abovementioned options, were designated as a financial liability at fair value through profit or loss.

The Convertible Bonds are initially recognised at the fair value as financial liability at fair value through profit or loss. The fair values of the Convertible Bonds were valued by independent valuers, using the combination of effective interest method and Black-Scholes model.

The movement of the financial liability at fair value through profit or loss during the six months ended 30 June 2019 is as below:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
As at 11 February 2019 (the “Issuance Date”)	150,000
Fair value loss recognised in profit or loss	1,763
As at 30 June 2019	151,763

21. SHARE CAPITAL

	Number of shares <i>Thousand</i>	<i>HK\$ '000</i>
Issued and fully paid:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	<u>1,922,901</u>	<u>1,191,798</u>

22. CAPITAL COMMITMENTS

	As at 30 June 2019 (Unaudited) <i>HK\$ '000</i>	As at 31 December 2018 (Audited) <i>HK\$ '000</i>
Commitments in respect of the acquisition of property, plant and equipment - contracted for but not provided in the condensed consolidated financial information	<u>4,972</u>	<u>1,484</u>

23. OPERATING LEASES

The Group as lessee

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2018 (Audited) <i>HK\$ '000</i>
Within one year	1,312
In the second to fifth year inclusive	<u>1,670</u>
	<u>2,982</u>

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Within one year	926	1,175
In the second to fifth year inclusive	1,581	1,563
After fifth year	-	63
	<u>2,507</u>	<u>2,801</u>

24. SUBSEQUENT EVENT

On 8 August 2019, Tengzhou City Natural Resources Bureau (滕州市自然資源局) issued the land use right certificates in relation to three parcels of land with aggregate area of 237,855 square meters to the Group.

25. STATEMENT REQUIRED BY SECTION 436(3) OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) (THE “COMPANIES ORDINANCE”) IN RELATION TO THE PUBLICATION OF THE NON-STATUTORY ACCOUNTS FOR THE COMPARATIVE FINANCIAL INFORMATION INCLUDED IN THIS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The financial information relating to the year ended 31 December 2018 that is included in this condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of operations

The Group is principally engaged in the manufacturing of steel cords for radial tyres and sawing wires. For the six months ended 30 June 2019, the Group recorded a revenue of approximately HK\$1,095,773,000 (2018: approximately HK\$1,142,797,000), representing a slight decrease of approximately 4.1% as compared with the last corresponding period. The decrease in revenue was mainly due to the cessation of the copper and brass segment. Nevertheless, the Group's profit for the six months ended 30 June 2019 has significantly improved and turned around from the net loss position of the Group for the six months ended 30 June 2018. The Group reported net profit of HK\$35,201,000 for the period as compared to net loss of HK\$22,543,000 same period last year. The Board considers that the improved net profit above is mainly attributable to (i) the material increase in sales volume of steel cords; (ii) the discernible reduction in production costs; and (iii) the marked increase in export sales volume of steel cords.

Performance of the steel cord segment

The PRC recorded a decline in second-quarter GDP economic growth of 6.2%, slightly lower than 6.4% in the first quarter of 2019 and previous year at 6.6% amid escalating trade tensions between the PRC and the U.S. However, our sales team made every effort to expand our coverage on large-scale and multinational tyre manufacturers and fine-tune our sales mix to flexibly meet our customers' requirements, thus the steel cord segment was able to achieve a growth in volume of 15.5% over the same period last year. In respect of export sales volume, we were able to follow closely with our customers' realignment of their respective products and production facilities and hence, successfully managed to attain a material increase of 35.7% during the period.

Coupled with the continuous stimulative measures by the PRC Government, the sales volume for the first half of 2019 increased discernibly. This also brought forth positive impact on the gross profit margin, and caused its gross profit to palpably increase from HK\$113,807,000 in first half of last year to HK\$180,997,000 during this period.

This segment sold 98,482 tonnes of steel cord during the period, increased by 15.5% as compared to 85,274 tonnes in the same period last year. In respect of the sales of sawing wire, it dropped substantially by 40.3% from 62 tonnes to 37 tonnes for the corresponding period last year reflecting the rapid change in the production process of photo-voltaic industry. There was a 24.2% decrease in the sales of our other wire products from 6,076 tonnes to 4,605 tonnes for the corresponding period as we needed to preserve our brass wire resources to meet the increased demand for steel cord. The sales volume of this segment for the period is analysed as follows:

	Six months ended 30 June		2018		% change
	2019	% of total sales volume of steel cord	2018	% of total sales volume of steel cord	
	Sales volume (Tonne)		Sales volume (Tonne)		
Steel cords for					
- truck tyres	65,182	66.2	55,961	65.6	+16.5
- off the road truck tyres	3,263	3.3	2,055	2.4	+58.8
- passenger car tyres	30,037	30.5	27,258	32.0	+10.2
Total for steel cords	<u>98,482</u>	<u>100.0</u>	<u>85,274</u>	<u>100.0</u>	+15.5
Sawing wire products	37		62		-40.3
Other steel wires	4,605		6,076		-24.2
Total	<u>103,124</u>		<u>91,412</u>		+12.8

The sales volume for all aforesaid types of tyres recorded growth. In respect of sales mix, the proportion of sales of steel cord for truck tyres accounted for 66.2% of total sales volume of steel cord for the period, similar to that for the same period last year. We are pleased to see that our effort in expanding the sales of “off the road” steel cord has begun to flourish with an increase of 58.8% for the period.

In respect of sales of steel cord by region, the volume of export sales amounted to 21,250 tonnes for the period, increased by 35.7% as compared to 15,656 tonnes for the same period last year. The volume of export sales represented 21.6% of total sales volume for the period, compared to 18.4% for the same period last year signalling the increasing recognition of our brand to the international tyres manufacturers. The breakdown of sales volume of steel cord for the period by geographical location is as follows:

	Six months ended 30 June		2018		% change
	2019	% of total sales volume of steel cord	2018	% of total sales volume of steel cord	
	Sales volume (Tonne)		Sales volume (Tonne)		
PRC	<u>77,232</u>	<u>78.4</u>	<u>69,618</u>	<u>81.6</u>	+10.9
Export sales:					
Asia (other than PRC)	12,485	12.7	8,530	10.0	+46.4
EMEA (Europe, Middle East and Africa)	5,664	5.8	4,755	5.6	+19.1
North America	1,989	2.0	1,271	1.5	+56.5
South America	1,112	1.1	1,100	1.3	+1.1
Total export sales	<u>21,250</u>	<u>21.6</u>	<u>15,656</u>	<u>18.4</u>	+35.7
Total	<u>98,482</u>	<u>100.0</u>	<u>85,274</u>	<u>100.0</u>	+15.5

The overall sales volume growth of 15.5% in steel cord caused the revenue of this segment to increase by 7.1% over the same period last year to HK\$1,094,905,000 (2018: HK\$1,022,758,000) for the period.

Gross profit of this segment increased by 59.0% over the same period last year to HK\$180,997,000 (2018: HK\$113,807,000) for the period. Gross profit margin improved from 11.1% in the same period last year to 16.5% for the period, this reflects our incessant effort in controlling production costs and maximizing our capacity utilization. Hence, EBITDA also increased from the same period last year of HK\$89,663,000 to HK\$136,913,000 for the period.

Performance of copper and brass products segment

Implementing the management's decision to orderly cease the operation of the copper and brass products segment in latter part of 2017, the PRC factory ended its operation in September 2018 and most of the employees were made redundant. Hence, no revenue was generated during the first half of 2019. In view of the discernible impairment loss on receivables, the loss of this segment increased from HK\$84,000 in same period last year to HK\$4,350,000 for the period.

FINANCIAL REVIEW

Revenue

Revenue of the Group amounted to HK\$1,095,773,000 (2018: HK\$1,142,797,000) for the period, decreased by 4.1% over the same period last year. The breakdown of revenue of the Group for the period is as follows:

	Six months ended 30 June				% change
	2019	% of total revenue	2018	% of total revenue	
	<i>HK\$'000</i>		<i>HK\$'000</i>		
Steel cord	1,094,905	99.9	1,022,758	89.5	+7.1
Copper and brass products	-	-	118,984	10.4	N/A
Sub-total	1,094,905	99.9	1,141,742	99.9	-4.1
Property rental	868	0.1	1,055	0.1	-17.7
Total	1,095,773	100.0	1,142,797	100.0	-4.1

Gross profit

Gross profit of the Group increased by 56.0% over the same period last year to HK\$181,821,000 (2018: HK\$116,547,000), which was mainly due to the increase of gross profit of steel cord segment. Gross profit margin of the Group also increased significantly by 6.4 percentage points to 16.6% for the period as compared to the same period last year. The breakdown of gross profit of the Group for the period is as follows:

	Six months ended 30 June				
	2019		2018		% change
	<i>HK\$'000</i>	Gross profit margin (%)	<i>HK\$'000</i>	Gross profit margin (%)	
Steel cord	180,997	16.5	113,807	11.1	+59.0
Copper and brass products	-	N/A	1,735	1.5	N/A
Property rental	824	94.9	1,005	95.3	-18.0
Total	<u>181,821</u>	16.6	<u>116,547</u>	10.2	+56.0

Distribution and selling expenses

Distribution and selling expenses amounted to HK\$39,498,000 (2018: HK\$35,386,000) for the period, increased by 11.6% over the same period last year, mainly due to the increase in sales revenue of steel cord segment of 7.1% in first half of 2019.

Administrative expenses

Administrative expenses amounted to HK\$31,095,000 (2018: HK\$34,772,000) for the period, decreased by 10.6% as compared to the same period last year. Despite the revenue of the Group decreased by 4.1%, the ratio of administrative expenses to revenue lowered from 3.0% in the same period last year to 2.8% for the period mainly due to stricter cost control.

Research and development expenses

Research and development expenses of the Group amounted to HK\$36,854,000 for the period, decreased by 8.4% as compared to HK\$40,220,000 for the same period last year. Such expenses were all incurred by the steel cord segment.

Net impairment losses on financial assets

Net impairment losses on financial assets was related to the net impairment loss on trade receivables. The increase from HK\$1,499,000 to HK\$9,459,000 was mainly due to the trade receivables relating to the customers with known financial difficulties, uncertain recoverability rates or not responding to our Group's collection demands.

Land use rights / Prepaid lease payments

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, so the prepaid lease payments have been reclassified to the land use rights. During the period under review, the Group had no addition of the land use rights / the prepaid lease payments.

TREASURY AND FUNDING POLICIES

The treasury and funding policies of the Group concentrate 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 viable 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 principally 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

Share capital and net asset value

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can 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 period. The total number of issued shares of the Company remained at 1,922,900,556 Shares at 30 June 2019. Net asset value of the Group was HK\$1,367,899,000 at 30 June 2019, increased slightly by 2.1% as compared to HK\$1,339,150,000 at 31 December 2018. The increase in net asset value was attributable to the net profit throughout the period. Net asset value per Share was HK\$0.711 at 30 June 2019, also increased by 2.1% as compared to HK\$0.696 at 31 December 2018.

Issuance 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 issuance of Convertible Bonds was completed. Further details are set out in the announcements of the Company dated 18 December 2018, 1 February 2019 and 11 February 2019, and in the circular of the Company dated 11 January 2019.

Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash (including pledged bank deposits) amounted to HK\$142,141,000 at 30 June 2019, decreased by 2.2% as compared to HK\$145,312,000 at 31 December 2018. Total interest bearing borrowings of the Group (comprised of loans from related companies, bank borrowings and Convertible Bonds) were HK\$1,025,435,000 at 30 June 2019, decreased by 6.8% as compared to HK\$1,100,809,000 at 31 December 2018. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash) therefore decreased from HK\$955,497,000 at 31 December 2018 to HK\$883,294,000 at 30 June 2019.

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 decreased from 71.4% at 31 December 2018 to 64.6% at 30 June 2019. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.21 times at 30 June 2019 as compared to 1.19 times at 31 December 2018.

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

Both the Group's sources of revenue and 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 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)

	As at 30 June 2019		As at 31 December 2018	
	<i>HK\$'000</i>	% of total bank balances and cash (including pledged bank deposits)	<i>HK\$'000</i>	% of total bank balances and cash (including pledged bank deposits)
RMB	91,188	64.2	122,991	84.6
HKD	40,615	28.6	2,701	1.9
USD	9,082	6.4	11,614	8.0
Other currencies	1,256	0.8	8,006	5.5
Total	<u>142,141</u>	<u>100.0</u>	<u>145,312</u>	<u>100.0</u>

Interest bearing borrowings (including banks, related companies and Convertible Bonds)

	As at 30 June 2019		As at 31 December 2018	
	<i>HK\$'000</i>	% of total interest bearing borrowings	<i>HK\$'000</i>	% of total interest bearing borrowings
RMB	407,019	39.7	598,411	54.4
HKD	618,416	60.3	502,398	45.6
Total	1,025,435	100.0	1,100,809	100.0

In respect of exposure to interest rate risk, the majority of interest bearing borrowings at 30 June 2019 were at fixed instead of floating rates. Since the minority of interest bearing borrowings was in floating rates, the Group has not entered into any interest rate swaps on the floating rate borrowings. In light of the relatively lacklustre economic data published lately, the prevailing market view is a cut in interest rate and hence, we do not anticipate to conduct any interest rate swaps in the near term.

During the period under review, the exchange rate of RMB depreciated by approximately 0.39% 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 a total of 5 foreign currency hedging contracts with aggregate notional amount of HK\$180,000,000 were executed in first half of 2019 to sell RMB vs HKD as RMB continued to depreciate. These contracts were fully fixed on 28 June 2019. We will review and adjust 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 exchange rate in second half of 2019.

CAPITAL COMMITMENTS

At 30 June 2019, the Group had commitments in respect of property, plant and equipment amounted to approximately HK\$4,972,000.

BUSINESS DEVELOPMENT PLAN

In 2010 and 2011, TESC acquired the land use rights of three parcels of land with area of 237,855 square meters through a public auction for a total consideration of RMB81,120,000 (the “Lands”) as plant site for its expansion of production capacity. However, given the changes in the market of steel cord and strategic review of the expansion plan, TESC had yet to utilize the Lands since its acquisition, nor received the relevant land use right certificates.

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 (《國有建設用地掛牌出讓成交確認書》) from Tengzhou City Natural Resources Bureau (滕州市自然資源局) (formerly known as Tengzhou Municipal State-owned Land Resources Bureau (滕州市國土資源局)) regarding the Lands in the state of being idle. Subsequently, the Group conducted several rounds of negotiation with the Tengzhou governmental authorities with an aim to reach a consensus for TESC to continue utilizing the Lands.

During the period under review, TESC has entered into the agreements with the governmental authorities in Tengzhou in relation to the investment of a construction project to be carried out on the Lands. Pursuant to the agreements, TESC shall invest in construction of the production lines for an annual capacity of 100,000 tonnes steel cords (of which the construction project of production lines with annual capacity of 20,000 tonnes of brass wires (half-product or work in progress of steel cords) is an integral part) on the Lands. The construction project has commenced in 2019 and being carried out by phases according to the market conditions and the financial capacity of the Company from time to time. The brass wire project as aforementioned is expected to bring positive impact on the performance of the steel cord segment as some of the existing production of brass wires of JESC, which have been in use for over 20 years, incurs high maintenance and operation cost with relatively low production efficiency and quality instability.

In August 2019, TESC received the land use right certificates of the Lands from Tengzhou City Natural Resources Bureau (滕州市自然資源局). The Tengzhou governmental authorities shall assist TESC in the construction project, such as handling relevant procedures for the construction, facilitating in the construction of infrastructure of the project such as water, electricity and roads, and assisting in application of governmental policy support and applicable support funds.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 30 June 2019, the Group had a total of 2,026 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 period under review amounted to approximately HK\$14,175,000.

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 period under review, no options were granted, exercised, cancelled and lapsed.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities at 30 June 2019.

At 30 June 2019, 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. Buildings with an aggregate net book value of HK\$197,213,000;
2. Plant and machinery with an aggregate amount of HK\$86,597,000;
3. Land use rights with an aggregate amount of HK\$61,033,000;
4. Bank deposit of HK\$10,402,000; and
5. Pledged deposits on loan from a related company amounting to HK\$7,205,000.

BUSINESS OUTLOOK

The tortuous situation of the Sino-American trade negotiation has gradually rippled upon the financial markets and business environment in the past 18 months. We have seen our tyres customers sped up export to the US market in light of the implementation of additional tariffs to relocating and/or adding production capacity outside of China with a view to circumvent the probable trade barriers on their products selling to the American market. We are maintaining our previous view that the economic dynamics of the steel cord market is etching towards equilibrium as we understand that a similar size competitor is in the process of liquidation due to its own predicament. On top of these macro factors, our customer and product development efforts have commenced fruition which transpire to a material growth in sales/production volume both domestic and abroad. The proliferation of our sales then leads to better economy of scale and hence, a marked increase in profitability and efficiency.

We are well aware that the continual Sino-American trade saga will weigh on global economic growth, and we cannot afford any complacency despite a turnaround result in first half this year. In the latter half, we will continue to: -

- Channel resources to our product research and development with a view to align our product mix with the needs of our tyres customers;
- Proceed with the construction of the 20,000 tonnes brass wire project at TESC;
- Proceed with the planning of additional steel cord production capacity in accordance with our own financial wherewithal and market conditions;
- Reduce production and other indirect costs to sustain profitability and cash flow positive; and
- Reduce financial leverage and interest charges.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2019. In addition, the independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim financial information for the Period in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

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 six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

The Board is committed to practicing and achieving a high standard of corporate governance. It also recognises that effective risk management and internal control systems are crucial to the long term development of the Company. Thus, the Board reviews from time to time the daily corporate governance practices and procedures of the Company and its subsidiaries and procures the Company and its subsidiaries to strictly comply with the relevant laws and regulations, and the rules and guidelines of regulatory bodies, aiming to maintain sound and effective risk management and internal control systems 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 where appropriate, in order to enhance the effectiveness of the corporate governance practices and the risk management and internal control systems, and to get in line with the relevant amendments of law, rules and regulations.

In the opinion of the Board, the Company has complied with all the principles and code provisions of the Code and also the SCCHL Corporate Governance Code throughout the six months ended 30 June 2019, except for deviations from code provision A.2.1, A.6.7 and D.1.4 of the Code as below:

Deviation from code provision A.2.1 of Code

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 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 Code

During the first half year of 2019, Mr. Liao Jun (“Mr. Liao”), who is a non-executive Director of the Company, was unable to attend the general meeting held on 1 February 2019 regarding the proposed issue of Convertible Bonds due to his other business engagement 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 to attend general meetings 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 period under review. The Board will advise Mr. Liao to use his endeavors to attend all future general meetings.

Deviation from code provision D.1.4 of 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 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.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation of the continued support and confidence from our customers, suppliers and Shareholders. I would also like to take this opportunity to thank all the fellow directors for their responsible performance, valuable contribution and the management and colleagues for their loyalty, dedication and continued hard work to the Group throughout the period under review.

DEFINITIONS

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

“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 Century”	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
“Conversion Price”	HK\$0.33 per Conversion Share (subject to adjustments)
“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
“HKD/HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shougang Fund”	Beijing Shougang Fund Co., Ltd., a company established in the PRC with limited liability and a wholly-owned subsidiary of Shougang Group
“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
“TESC Phase II Project”	the construction project of production lines with an annual capacity of 20,000 tonnes of brass wires (half product or work in progress)
“U.S.”	The United States of America
“USD/US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

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

Hong Kong, 29 August 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. Ye Qian (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 interim 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 2019 Interim Report will be despatched to Shareholders and made available on the above websites in due course.