



# SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

INTERIM REPORT **2014**

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## CORPORATE PROFILE

**Shougang Concord Century Holdings Limited** (“Shougang Century”; together with its subsidiaries, collectively the “Group”) has been listed on the Stock Exchange since April 1992. Shougang HK, a wholly owned subsidiary of Shougang Corporation, and its controlled corporations, Bekaert and Li Ka Shing Foundation are the substantial shareholders of Shougang Century.

The Group is primarily involved in the following activities:

1. manufacturing of steel cords for radial tyres
2. sales and processing and trading of copper and brass products
3. manufacturing of sawing wires

## CORPORATE'S VISION AND MISSION

*Shougang Century's Vision is to:*

- deliver world-class products and services to our customers
- contribute to the economic and social development of the communities in which we operate
- maximize our shareholders' return

*Shougang Century's Mission is to:*

- strive for a successful “Eastern” brand awareness and recognition in steel cord industry
- be an enterprise of 200,000 tonnes annual production capacity in steel cord manufacturing
- be one of the top three independent manufacturers in China steel cord industry
- be one of the top five manufacturers in China sawing wire industry
- become a diversified metal product manufacturer capable of consistently purveying premium quality steel cords and sawing wire products

*To learn more about Shougang Century, please visit <http://www.shougangcentury.com.hk>.*

## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

Li Shaofeng (*Chairman*)  
Yang Kaiyu (*Managing Director*)  
Tang Cornor Kwok Kau (*Deputy Managing Director*)  
Zhang Zhong

#### Non-executive Directors

Leung Shun Sang, Tony  
Zhang Wenhui

#### Independent Non-executive Directors

Yip Kin Man, Raymond  
Law, Yui Lun  
Chan Chung Chun

### Audit Committee

Yip Kin Man, Raymond (*Chairman*)  
Law, Yui Lun  
Chan Chung Chun

### Remuneration Committee

Yip Kin Man, Raymond (*Chairman*)  
Li Shaofeng (*Vice Chairman*)  
Leung Shun Sang, Tony  
Law, Yui Lun  
Chan Chung Chun

### Nomination Committee

Li Shaofeng (*Chairman*)  
Leung Shun Sang, Tony (*Vice Chairman*)  
Yip Kin Man, Raymond  
Law, Yui Lun  
Chan Chung Chun

### Authorised Representatives

Tang Cornor Kwok Kau  
Chan Lai Yee

### Company Secretary

Chan Lai Yee

### Qualified Accountant

Wu Siu Man

## CORPORATE INFORMATION (continued)

<b>Principal Bankers</b>	Agricultural Bank of China Bank of China Bank of China (Hong Kong) Limited China CITIC Bank International Limited Hang Seng Bank Limited Industrial and Commercial Bank of China Industrial and Commercial Bank of China (Asia) Limited
<b>Auditor</b>	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>
<b>Share Registrar</b>	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Registered Office</b>	5th Floor, Bank of East Asia Harbour View Centre 51–57 Gloucester Road Wanchai Hong Kong
<b>Company's Website</b>	<a href="http://www.shougangcentury.com.hk">http://www.shougangcentury.com.hk</a>
<b>Website For Publishing Listing Rules Related Announcements And Other Documents</b>	<a href="http://www.irasia.com/listco/hk/sccentury/">http://www.irasia.com/listco/hk/sccentury/</a>
<b>HKEx Stock Code</b>	103
<b>Listing Date</b>	9 April 1992

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	% Change
<b>Operations</b>			
Revenue	<b>900,222</b>	872,431	<b>+3.2</b>
Gross profit	<b>88,682</b>	75,353	<b>+17.7</b>
EBITDA (Note 1)	<b>70,815</b>	90,016	<b>-21.3</b>
Adjusted EBITDA (Note 2)	<b>76,553</b>	75,279	<b>+1.7</b>
Loss for the period	<b>(38,397)</b>	(30,005)	<b>+28.0</b>
Loss per Share (basic) (HK cents)	<b>(2.00)</b>	(1.56)	<b>+28.2</b>

Notes:

- EBITDA represents earnings before finance costs, income tax, depreciation and amortisation.
- Adjusted EBITDA ("Adjusted EBITDA") represents EBITDA before (i) allowance for bad and doubtful debts reversed of HK\$86,000 (2013: HK\$9,269,000); (ii) foreign exchange losses of HK\$6,654,000 (2013: foreign exchange gains of HK\$2,041,000); and (iii) increase in fair value of investment properties of HK\$830,000 (2013: HK\$3,427,000).

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	% Change
<b>Financial position</b>			
Total assets	<b>4,143,005</b>	4,123,008	<b>+0.5</b>
Shareholders' equity	<b>2,074,881</b>	2,125,254	<b>-2.4</b>
Net asset value per Share (HK\$)	<b>1.079</b>	1.105	<b>-2.4</b>

## INFORMATION FOR INVESTORS

### Share Information

Board lot size:	2,000 Shares
Shares outstanding as at 30 June 2014:	1,922,900,556 Shares
Market capitalisation as at 30 June 2014:	HK\$528,797,653
Closing stock price as at 30 June 2014:	HK\$0.275
Loss per Share (basic) for the six months ended 30 June 2014:	(HK2.00 cents)

### Key Date

Announcement of 2014 Interim Results:	28 August 2014
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### Investor Relations Contact

Address	: 5th Floor, Bank of East Asia Harbour View Centre 51–57 Gloucester Road, Wanchai, Hong Kong
Telephone	: (852) 2527 2218
Fax	: (852) 2861 3527
E-mail address	: <a href="mailto:business_link@shougangcentury.com.hk">business_link@shougangcentury.com.hk</a> <a href="mailto:ir@shougangcentury.com.hk">ir@shougangcentury.com.hk</a> <a href="mailto:scchl@shougangcentury.com.hk">scchl@shougangcentury.com.hk</a>
Website	: <a href="http://www.shougangcentury.com.hk">http://www.shougangcentury.com.hk</a>

### Shareholder Enquiries

Any matters relating to your shareholding, e.g. transfer of Shares, change of name or address, lost share certificates and dividend warrants, should be sent in writing to:

Tricor Tengis Limited

Address	: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone	: (852) 2980 1888
Fax	: (852) 2810 8185
E-mail address	: <a href="mailto:is-enquiries@hk.tricorglobal.com">is-enquiries@hk.tricorglobal.com</a>
Website	: <a href="http://www.tricoris.com">http://www.tricoris.com</a>

## BUSINESS CONTACTS

### **JESC** Jiaxing Eastern Steel Cord Co., Ltd.

Address: 1 Dong Fang Road, Jiaxing Economic  
Development Zone, Zhejiang Province, PRC  
Postal code: 314003  
Telephone: (86) 573 8222 2790  
Fax: (86) 573 8221 3500  
Website: <http://www.jesc.com.cn>  
E-mail address: [jesc@jesc.com.cn](mailto:jesc@jesc.com.cn)

### **TESC** Tengzhou Eastern Steel Cord Co., Ltd.

Address: 1 Dong Fang Road, Tengzhou Economic  
Development Zone, Shandong Province, PRC  
Postal code: 277500  
Telephone: (86) 632 525 2100  
Fax: (86) 632 525 2111  
Website: <http://www.tesc.com.cn>  
E-mail address: [tesc@tesc.com.cn](mailto:tesc@tesc.com.cn)



### **Hing Cheong Metals (China & Hong Kong) Limited**

Address: Unit 2-3, G/F., TCL Tower, 8 Tai Chung Road  
Tsuen Wan, Hong Kong  
Telephone: (852) 2498 7800  
Fax: (852) 2498 7912  
E-mail address: [hingcheong\\_m@ctimail.com](mailto:hingcheong_m@ctimail.com)



### **東莞興銅五金有限公司**

Address: San Zhong Jinlong Industrial Zone, Qingxi  
Dongguan, Guangdong Province, PRC  
Postal code: 523660  
Telephone: (86) 769 8709 1818  
Fax: (86) 769 8709 1810  
Website: <http://www.dgxtong.com>



### **首長寶佳(上海)管理有限公司**

Address: 16F., Shartex Plaza, No. 88 Zunyi Nan Road  
Shanghai, PRC  
Postal code: 200336  
Telephone: (86) 21 6291 8806  
Fax: (86) 21 6291 8805



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

### TO THE BOARD OF DIRECTORS OF SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

首長實佳集團有限公司

*(incorporated in Hong Kong with limited liability)*

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Shougang Concord Century Holdings Limited (the “Company”) and its subsidiaries set out on pages 9 to 36, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 August 2014

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

		Six months ended 30 June	
	NOTES	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	3	900,222	872,431
Cost of sales		(811,540)	(797,078)
Gross profit		88,682	75,353
Investment and other income	4	1,650	3,124
Other gains and losses	5	(5,661)	14,562
Distribution and selling expenses		(25,737)	(21,674)
Administrative expenses		(36,580)	(36,673)
Research and development expenses		(29,587)	(19,150)
Finance costs	6	(32,443)	(40,340)
Loss before tax		(39,676)	(24,798)
Income tax credit (expenses)	7	1,279	(5,207)
Loss for the period	8	(38,397)	(30,005)
Loss per share	9		
Basic and diluted		(HK2.00 cents)	(HK1.56 cents)

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

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Loss for the period	<b>(38,397)</b>	(30,005)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss		
Surplus on revaluation of properties	<b>10,298</b>	9,648
Recognition of deferred tax liability on revaluation of properties	<b>(2,535)</b>	(2,238)
Exchange differences arising on translation of group entities	<b>(19,739)</b>	37,539
Other comprehensive (expense) income for the period (net of tax)	<b>(11,976)</b>	44,949
Total comprehensive (expense) income for the period	<b>(50,373)</b>	14,944

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	11	47,627	46,907
Property, plant and equipment	11	1,851,404	1,928,784
Prepaid lease payments		181,228	187,325
Goodwill		41,672	41,672
Club memberships		759	762
Deposit paid for the acquisition of property, plant and equipment		1,775	651
Deferred tax assets		258	1,151
		<b>2,124,723</b>	<b>2,207,252</b>
<b>Current assets</b>			
Inventories		344,459	324,316
Trade receivables	12	626,116	662,815
Bills receivable	12	569,394	644,472
Prepayments, deposits and other receivables		153,752	151,415
Prepaid lease payments		8,645	8,728
Pledged bank deposits		21,656	–
Bank balances and cash		294,260	124,010
		<b>2,018,282</b>	<b>1,915,756</b>
<b>Current liabilities</b>			
Trade payables	13	294,085	345,450
Other payables and accruals	14	134,263	172,012
Tax payable		18,705	28,197
Bank borrowings – due within one year	15	1,589,804	1,099,542
		<b>2,036,857</b>	<b>1,645,201</b>
<b>Net current (liabilities) assets</b>		<b>(18,575)</b>	<b>270,555</b>
<b>Total assets less current liabilities</b>		<b>2,106,148</b>	<b>2,477,807</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2014

	NOTES	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	15	–	322,430
Other payable		1,287	1,250
Deferred tax liabilities		29,980	28,873
		<b>31,267</b>	352,553
		<b>2,074,881</b>	2,125,254
<b>Capital and reserves</b>			
Share capital	16	1,191,798	192,290
Reserves		883,083	1,932,964
		<b>2,074,881</b>	2,125,254

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	PRC reserve funds HK\$'000 (Note ii)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2013 (Audited)	192,290	996,784	23,990	2,724	40,219	351,000	32,347	45,468	379,728	2,064,550
Loss for the period	-	-	-	-	-	-	-	-	(30,005)	(30,005)
Surplus on revaluation of properties	-	-	-	-	9,648	-	-	-	-	9,648
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(2,238)	-	-	-	-	(2,238)
Exchange differences arising on translation of group entities	-	-	-	-	-	37,539	-	-	-	37,539
Total comprehensive income (expense) for the period	-	-	-	-	7,410	37,539	-	-	(30,005)	14,944
At 30 June 2013 (Unaudited)	192,290	996,784	23,990	2,724	47,629	388,539	32,347	45,468	349,723	2,079,494
At 1 January 2014 (Audited)	<b>192,290</b>	<b>996,784</b>	<b>23,990</b>	<b>2,724</b>	<b>52,576</b>	<b>415,937</b>	<b>32,080</b>	<b>45,468</b>	<b>363,405</b>	<b>2,125,254</b>
Loss for the period	-	-	-	-	-	-	-	-	(38,397)	(38,397)
Surplus on revaluation of properties	-	-	-	-	10,298	-	-	-	-	10,298
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(2,535)	-	-	-	-	(2,535)
Exchange differences arising on translation of group entities	-	-	-	-	-	(19,739)	-	-	-	(19,739)
Total comprehensive income (expense) for the period	-	-	-	-	7,763	(19,739)	-	-	(38,397)	(50,373)
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	999,508	(996,784)	-	(2,724)	-	-	-	-	-	-
Cancellation of share options	-	-	-	-	-	-	(268)	-	268	-
At 30 June 2014 (Unaudited)	<b>1,191,798</b>	<b>-</b>	<b>23,990</b>	<b>-</b>	<b>60,339</b>	<b>396,198</b>	<b>31,812</b>	<b>45,468</b>	<b>325,276</b>	<b>2,074,881</b>



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

For the six months ended 30 June 2014

*Notes:*

- i.* The capital reserve represented the benefit of acquiring a shareholder's loan from a previous shareholder upon the acquisition of a subsidiary in previous years.
- ii.* In accordance with the articles of association of the subsidiaries established in the People's Republic of China (the "PRC") and relevant PRC laws and regulations, these subsidiaries are required to transfer at least 10% of their profit after taxation, which is determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund (including the general reserve fund and enterprise expansion fund, where appropriate). Transfer to this statutory reserve fund is subject to the approval of the respective board of directors, and is discretionary when the balance of such fund has reached 50% of the registered capital of the respective company. Statutory reserve fund can only be used to offset accumulated losses or to increase capital.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash from (used in) operating activities:		
Loss before tax	<b>(39,676)</b>	(24,798)
Allowance for bad and doubtful debts reversed, net	<b>(86)</b>	(9,269)
Depreciation of property, plant and equipment	<b>73,713</b>	70,209
Adjustments for non-cash items	<b>4,477</b>	6,167
	<b>38,428</b>	42,309
Operating cash flows before movements in working capital	<b>(23,778)</b>	3,722
(Increase) decrease in inventories	<b>(179,201)</b>	(252,194)
Increase in trade and bills receivables	<b>(5,510)</b>	11,510
(Increase) decrease in prepayments, deposits and other receivables	<b>178,450</b>	172,110
Increase in trade payables	<b>16,247</b>	(6,096)
Increase (decrease) in other payables and accruals	<b>24,636</b>	(28,639)
	<b>(21,656)</b>	–
Net cash used in investing activities:	<b>(3,920)</b>	(2,063)
Placement of pledged bank deposits	<b>(2,782)</b>	(5,278)
Purchase of property, plant and equipment	<b>90</b>	215
Deposit paid for the acquisition of property, plant and equipment	<b>(28,268)</b>	(7,126)
Proceeds from disposal of property, plant and equipment		



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash from financing activities:		
New bank loans raised	399,847	573,527
Trust receipt loans raised	54,960	64,379
Bank advances for discounted bills	8,929	31,140
Repayment of bank loans	(241,620)	(444,229)
Repayment of trust receipt loans	(47,135)	(57,540)
Loan advanced from a related company	–	150,000
Repayment to a related company	–	(150,000)
	<b>174,981</b>	167,277
Net increase in cash and cash equivalents	171,349	131,512
Cash and cash equivalents at 1 January	124,010	175,923
Effect of foreign exchange rate changes	(1,099)	1,724
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>294,260</b>	309,159



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

### 1. BASIS OF PREPARATION

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

As of 30 June 2014, the Group had net current liabilities of approximately HK\$18,575,000. Up to the date these condensed consolidated financial statements were authorised for issuance, the relevant banks agreed to renew the banking facilities amounting to approximately HK\$403,149,000 upon the maturity in the coming 12 months. In addition, the Group has undrawn banking facilities of approximately HK\$195,112,000 which will not be expired in the coming 12 months. Therefore, the management of the Group is satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

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

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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION

Information reported to the Company's managing director, being the chief operating decision maker ("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 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.

These operating segments are the basis that is regularly reviewed by the CODM in order to allocate resources to the segment and to assess its performance. During the six months ended 30 June 2014, the Group had no material change in segment assets and segment liabilities.

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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION (continued)

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

#### Six months ended 30 June 2014

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000
Segment revenue			
External sales	710,670	188,684	899,354
Inter-segment sales (Note)	–	11,211	11,211
<b>Total</b>	<b>710,670</b>	<b>199,895</b>	<b>910,565</b>
Segment results	11,806	(953)	10,853

Note: Inter-segment sales are made based on prevailing market price.

#### Reconciliation of revenue

Total revenue for operating segments	(Unaudited) HK\$'000
Rental income	910,565
Elimination of inter-segment sales	868
	(11,211)
<b>Group revenue</b>	<b>900,222</b>

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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2014 (continued)

#### Reconciliation of loss before tax

	<b>(Unaudited)</b> <b>HK\$'000</b>
Total profit for operating segments	<b>10,853</b>
Profit arising from property investment	<b>1,508</b>
Unallocated amounts	
Unallocated income	<b>814</b>
Unallocated foreign exchange losses, net	<b>(6,422)</b>
Unallocated expenses	<b>(13,986)</b>
Unallocated finance costs	<b>(32,443)</b>
<b>Loss before tax</b>	<b>(39,676)</b>

Six months ended 30 June 2013

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000
Segment revenue			
External sales	669,149	202,622	871,771
Inter-segment sales (Note)	–	12,101	12,101
<b>Total</b>	<b>669,149</b>	<b>214,723</b>	<b>883,872</b>
<b>Segment results</b>	<b>20,223</b>	<b>(1,569)</b>	<b>18,654</b>

Note: Inter-segment sales are made based on prevailing market price.

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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2013 (continued)

Reconciliation of revenue

	(Unaudited) HK\$'000
Total revenue for operating segments	883,872
Rental income	660
Elimination of inter-segment sales	(12,101)
<hr/>	
Group revenue	<hr/> <hr/> 872,431

Reconciliation of loss before tax

	(Unaudited) HK\$'000
Total profit for operating segments	18,654
Profit arising from property investment	3,788
Unallocated amounts	
Unallocated income	469
Unallocated foreign exchange gains, net	5,840
Unallocated expenses	(13,209)
Unallocated finance costs	(40,340)
<hr/>	
Loss before tax	<hr/> <hr/> (24,798)

Segment results represents the profit and loss of each segment without allocation of profit arising from property investment, certain foreign exchange gains or losses, central administration costs, the emoluments of directors of the Company, interest income on bank deposits and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

For the six months ended 30 June 2014

### 4. INVESTMENT AND OTHER INCOME

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Investment income</b>		
Interest income on bank deposits	759	463
<b>Other income</b>		
Government grants (Note)	315	2,036
Sales of scrap materials	176	430
Others	400	195
	891	2,661
	1,650	3,124

Note: The government grants represented immediate financial supports granted by the local government. There were no specific conditions attached to the grants and the amounts were recognised in profit or loss when the grants were received.

### 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Foreign exchange (losses) gains, net	(6,654)	2,041
Increase in fair value of investment properties	830	3,427
Allowance for bad and doubtful debts reversed, net	86	9,269
Gain on disposal of property, plant and equipment, net	77	34
Fair value loss on derivative financial instruments	–	(209)
	(5,661)	14,562

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

For the six months ended 30 June 2014

### 6. FINANCE COSTS

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	30,341	33,006
Interest expenses on loans from a related company wholly repayable within five years	–	4,488
Amortisation of transaction costs	2,250	3,040
Total borrowing costs	32,591	40,534
Less: amounts capitalised	(148)	(194)
	32,443	40,340

Borrowing costs capitalised during the six months ended 30 June 2014 arose on general borrowing pool and were calculated by applying a capitalisation rate of 4.05% (six months ended 30 June 2013: 4.69%) per annum to expenditure on qualifying assets.



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

For the six months ended 30 June 2014

### 7. INCOME TAX (CREDIT) EXPENSES

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	180	3,950
Overprovision in prior periods:		
PRC EIT	(984)	(80)
Deferred tax	(475)	1,337
	<b>(1,279)</b>	5,207

For the six months ended 30 June 2014 and 30 June 2013, no provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong.

Under the Law of the PRC on EIT, the Company's major subsidiaries in the PRC are subject to a tax rate of 25%.

### 8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	73,713	70,209
Allowance for inventories recognised (included in "Cost of sales")	750	–
Amortisation of prepaid lease payments (included in "Cost of sales")	4,335	4,265

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

For the six months ended 30 June 2014

### 9. LOSS PER SHARE

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

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Loss</b>		
Loss for the period for the purposes of calculation of basic and diluted loss per share	<b>(38,397)</b>	(30,005)

	Six months ended 30 June	
	2014	2013
<b>Number of shares</b>		
Number of ordinary shares for the purposes of calculation of basic and diluted loss per share	<b>1,922,900,556</b>	1,922,900,556

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options during the six months ended 30 June 2014 and 30 June 2013 since their exercise would result in a decrease in loss per share.

### 10. DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

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

For the six months ended 30 June 2014

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

During the six months ended 30 June 2014, the Group incurred approximately HK\$4,352,000 (six months ended 30 June 2013: HK\$9,221,000) on the enhancement of production facilities of steel cord segment. In addition, the Group also acquired approximately HK\$136,000 (six months ended 30 June 2013: HK\$673,000) of other property, plant and equipment in the current interim period.

During the six months ended 30 June 2014, the Group disposed of certain machineries with an aggregate carrying amount of HK\$13,000 (six months ended 30 June 2013: HK\$181,000) for cash proceeds of HK\$90,000 (six months ended 30 June 2013: HK\$215,000), resulting in a gain on disposal of HK\$77,000 (six months ended 30 June 2013: HK\$34,000).

The fair value of the Group's investment properties at the end of the reporting period has been arrived at on the basis of a valuation carried out on that date by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the recent transactions for similar premises in the proximity. The resulting increase in fair value of investment properties of approximately HK\$830,000 (six months ended 30 June 2013: HK\$3,427,000) has been credited to profit or loss for the period.

The leasehold land and buildings of approximately HK\$385,167,000 (31 December 2013: HK\$391,103,000) included in property, plant and equipment were valued by Grant Sherman on either: (1) an open market value basis by reference to recent market transactions for comparable properties; or (2) on basis of depreciated replacement costs for certain properties in the absence of a known market based on comparable sales at the end of the reporting period. The resulting increase in fair value of leasehold land and buildings has been credited to property revaluation reserve of approximately HK\$10,298,000 (six months ended 30 June 2013: HK\$9,648,000).

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

For the six months ended 30 June 2014

### 12. TRADE RECEIVABLES/BILLS RECEIVABLE

The Group normally allows credit period of 30 to 90 days to its trade customers.

An aged analysis of trade receivables net of allowance for bad and doubtful debts at the end of the reporting period presented based on sales invoice date, which approximated the respective revenue recognition dates, is as follows:

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
0 – 90 days	<b>460,991</b>	521,771
91 – 180 days	<b>125,896</b>	115,045
Over 180 days	<b>39,229</b>	25,999
	<b>626,116</b>	662,815

An aged analysis of bills receivable at the end of the reporting period based on sales invoice date is as follows:

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
0 – 90 days	<b>37,757</b>	46,960
91 – 180 days	<b>193,172</b>	258,042
Over 180 days	<b>338,465</b>	339,470
	<b>569,394</b>	644,472

Included in bills receivable as at 30 June 2014 was an amount of approximately HK\$8,929,000 (31 December 2013: HK\$1,272,000) and approximately HK\$188,518,000 (31 December 2013: HK\$277,529,000) that have been discounted to banks (note 15) and have been endorsed to certain creditors, respectively, on a full recourse basis.

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

For the six months ended 30 June 2014

### 12. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

As the Group has not transferred the significant risks and rewards related to these receivables, it continues to recognise the full carrying amount of the bills receivable and the associated liabilities. At the end of the reporting period, all bills receivable are with maturity date within one year based on the issuance date of relevant bills.

The aged analysis of trade receivables which are past due but not impaired based on the due date is as follows:

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
0 – 90 days	<b>203,910</b>	228,582
91 – 180 days	<b>33,438</b>	14,448
Over 180 days	<b>18,583</b>	14,814
	<b>255,931</b>	257,844

Movement in the allowance for bad and doubtful debts:

	HK\$'000
At 1 January 2013 (Audited)	59,535
Exchange realignment	1,740
Amount written off as uncollectible	(1,138)
Impairment losses reversed on receivables	(12,763)
At 31 December 2013 (Audited)	47,374
Exchange realignment	(440)
Amount written off as uncollectible	(13,524)
Impairment losses reversed on receivables	(86)
At 30 June 2014 (Unaudited)	33,324

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

For the six months ended 30 June 2014

### 13. TRADE PAYABLES

An aged analysis of trade payables at the end of the reporting period based on purchase invoice date is as follows:

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
0 – 30 days	<b>89,442</b>	151,522
31 – 90 days	<b>81,318</b>	119,584
91 – 180 days	<b>102,562</b>	64,522
181 – 365 days	<b>17,465</b>	7,560
Over 1 year	<b>3,298</b>	2,262
	<b>294,085</b>	345,450

The average credit period on purchases of goods is 30 days.

### 14. OTHER PAYABLES AND ACCRUALS

At 30 June 2014, included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK\$83,479,000 (31 December 2013: HK\$124,773,000).

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

For the six months ended 30 June 2014

### 15. BANK BORROWINGS

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
Trust receipt loans	<b>33,847</b>	26,040
Other bank loans	<b>1,547,028</b>	1,394,660
Discounted bills with recourse	<b>8,929</b>	1,272
	<b>1,589,804</b>	1,421,972
Secured	<b>57,531</b>	54,348
Unsecured	<b>1,532,273</b>	1,367,624
	<b>1,589,804</b>	1,421,972

During the six months ended 30 June 2014, the Group obtained new bank borrowings of approximately HK\$463,736,000 (six months ended 30 June 2013: HK\$669,046,000) and repaid bank borrowings of approximately HK\$288,755,000 (six months ended 30 June 2013: HK\$501,769,000). These borrowings carry interest at market rates ranging from 1.87% to 7.07% per annum (six months ended 30 June 2013: 1.76% to 7.22% per annum) and are repayable over a period of one to two years.

The Group has classified the bank borrowings of HK\$1,589,804,000 (31 December 2013: HK\$1,099,542,000) as current liabilities. Of which HK\$1,307,304,000 (31 December 2013: HK\$665,251,000) are repayable within one year according to agreed schedule repayment dates and HK\$282,500,000 (31 December 2013: HK\$434,291,000) that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause.

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

For the six months ended 30 June 2014

### 16. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
<b>Authorised</b>		
At 1 January 2013, 30 June 2013 and 1 January 2014		
– Ordinary shares of HK\$0.10 each	5,000,000	500,000
At 30 June 2014 (Note)	N/A	N/A

Note: Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

	Number of shares '000	Amount HK\$'000
<b>Issued and fully paid</b>		
At 1 January 2013, 30 June 2013 and 1 January 2014		
– Ordinary shares of HK\$0.10 each	1,922,901	192,290
Transfer from share premium and capital redemption reserve upon abolition of par value	–	999,508
At 30 June 2014		
– Ordinary shares with no par value	1,922,901	1,191,798



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

For the six months ended 30 June 2014

### 17. SHARE-BASED PAYMENT

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. A new share option scheme (the "2012 Scheme") was adopted and the 2002 Scheme was terminated by the shareholders of the Company at the annual general meeting held on 25 May 2012.

The 2012 Scheme which serves the same purpose as the 2002 Scheme became effective on 29 May 2012 upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of, and permission to deal in, any shares falling to be issued and allotted upon the exercise of the share options granted, and will remain in force for a period of ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2012 Scheme is 192,290,055 shares which represented 10% of the issued share capital of the Company as at the date of approval of this interim report. The other principal terms of the 2012 Scheme are same as the 2002 Scheme.

No shares options have been granted under the 2012 Scheme during the six months ended 30 June 2014 and 30 June 2013. The share options which have been granted and remained outstanding under the 2002 Scheme shall remain valid and exercisable in accordance with their term of issue.

The movements of the share options granted under the 2002 Scheme:

	<b>Number of share options</b>
Outstanding at 1 January 2013	266,450,000
Lapsed during the year	(148,182,000)
<hr/>	
Outstanding at 31 December 2013 and 1 January 2014	118,268,000
Cancelled during the period	(1,000,000)
<hr/>	
Outstanding at 30 June 2014	117,268,000
<hr/>	

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

For the six months ended 30 June 2014

### 18. CAPITAL COMMITMENTS

	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the condensed consolidated financial statements	<b>5,200</b>	397
– authorised but not contracted for	<b>18,580</b>	25,310
	<b>23,780</b>	25,707

### 19. RELATED PARTY TRANSACTIONS/BALANCES

The Company is an associate of Shougang (Holding) Hong Kong Limited (“Shougang HK”), which is a wholly owned subsidiary of Shougang Corporation, a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission. Shougang Corporation, together with its associates (as defined in the Listing Rules) other than the Group, will hereinafter be referred to as the “Shougang Group”. Accordingly, the Group is significantly influenced by Shougang Group, which is part of a larger group of companies ultimately controlled by the PRC government.

Apart from the transactions with Shougang HK and its subsidiaries (collectively referred to as the “Shougang HK Group”), the Group also conducts businesses with other PRC government-related entities in the ordinary course of business.

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

For the six months ended 30 June 2014

### 19. RELATED PARTY TRANSACTIONS/BALANCES (continued)

#### (i) Transactions with PRC government-related entities

##### (a) Transactions with Shougang HK Group

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	480	480
Rental expenses paid to Shougang HK Group	1,188	1,188
Loan from Shougang HK Group	–	150,000
Loan repaid to Shougang HK Group	–	150,000
Interest expense on loan from Shougang HK Group	–	4,488

##### (b) Transactions with other PRC government-related entities

The Group has entered into various transactions, including sales to, purchases from and other operating expenses paid to other PRC government-related entities. In the opinion of the directors of the Company, the transactions are considered as individually insignificant to the operation of the Group during the reporting period.

In addition, the Group has entered into various banking transactions, including deposits placements, borrowings, derivative contracts and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

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

For the six months ended 30 June 2014

### 19. RELATED PARTY TRANSACTIONS/BALANCES (continued)

#### (ii) Transactions with non-PRC government-related entities

##### *Compensation of key management personnel*

The key management of the Group comprises all executive directors of the Company, details of their emoluments are as follows:

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Director fees	75	75
Salaries and other benefits	2,312	2,312
Retirement benefit scheme contributions	115	115
	<b>2,502</b>	2,502

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

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

For the six months ended 30 June 2014

### 20. EVENT AFTER THE END OF REPORTING PERIOD

Subsequent to the end of reporting period, on 13 July 2014, the Company and 棗莊礦業(集團) 有限責任公司 (“Zaozhuang Mining”), an independent third party, which is principally engaged in coal production and operates in Zaozhuang, the PRC, entered into a non-legally binding memorandum of understanding (the “MOU”) under which it is proposed that Zaozhuang Mining shall inject certain capital into Tengzhou Eastern Steel Cord Company Limited (“TESC”), an indirect wholly owned subsidiary of the Company (the “Proposed Capital Injection”).

After the completion of the Proposed Capital Injection, the Group and Zaozhuang Mining, each holds 50% of the enlarged registered capital of TESC. The capital injected by Zaozhuang Mining will be utilised to fund the phase II construction of TESC’s steel cord production facilities with an annual production capacity of 100,000 tonnes. Under the MOU, the Company and Zaozhuang Mining jointly expressed the intention to cooperate in the operation and management of TESC, and have the proposed strategic cooperation after completion of the Proposed Capital Injection.

As at the date of the report, no legally-binding agreement has been entered into in relation to the Proposed Capital Injection and the proposed strategic cooperation between the Group and Zaozhuang Mining and its subsidiaries.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Review of operations*

During the first half year of 2014, the economy of the PRC continued to maintain a stable year-on-year growth rate of 7.4%. However, the growth momentum of certain sectors weakened during the said period, particularly property development, fixed asset investments and industrial development, which brought a slower growth in automobile industry and in turn radial tyres market in the PRC during the period under review. The Steel cord segment achieved a solid growth in sales volume during the period. However, the selling price of steel cords continued to decline as the overcapacity situation in the steel cord industry had not relieved in the first half year. Nonetheless, the production and operating costs of Steel cord segment also decreased as compared to the same period last year that partially offset the impact on lowered average selling price. As such, the Steel cord segment recorded a slight increase in Adjusted EBITDA over the same period last year.

In respect of the Copper and brass products segment, revenue dropped in the first half year as compared to the same period last year as there was lower demand for commodity products under a weakened industrial environment that also drove down the prices of commodities, including copper. Albeit the decreased sales revenue, through strengthened sales and inventory management, this segment achieved an increase in gross profit and hence reduced operating loss as compared to the same period last year.

For the Group's results as a whole, the performance of both Steel cord and Copper and brass products segments improved during the first half year of 2014 as compared to the same period last year. As such, the Group also achieved a slight growth in Adjusted EBITDA over the same period last year. However, due to the depreciation of RMB exchange rate, the Group incurred significant exchange losses during the period. Attributable to this factor, the Group recorded an increase in loss of 28.0% over the same period last year to HK\$38,397,000 in the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord*

##### *Overall performance*

During the period under review, this segment continued to maintain a steady growth in sales volume; it achieved an increase in sales volume of steel cords of 8.9% over the same period last year. However, pricing pressure had not relieved during the period, attributable to the overcapacity situation of the steel cord industry in the PRC, the average selling price of steel cords dropped by 4.4% as compared to the same period last year. To counter such price cutting pressure, both our steel cord manufacturing plants accomplished lower unit production cost of steel cords as a result of the enhancement in production efficiency and higher production volume. Contributed by the increase in sales revenue and lowered production costs of steel cords, this segment achieved an increase in gross profit of 16.9% to HK\$83,960,000 (2013: HK\$71,839,000) over the same period last year.

EBITDA of this segment amounted to HK\$89,605,000 for the period, decreased by 4.4% as compared to HK\$93,717,000 for the same period last year, mainly as there were significant decrease in the amount of allowance for bad and doubtful debts reversed and increased research and development expenses during the period. Adjusted EBITDA (excluding allowance for bad and doubtful debts reversed and exchange losses) was HK\$89,911,000 for the period, increased by 1.4% over the same period last year.

Operating profit of this segment decreased by 41.6% as compared to the same period last year to HK\$11,806,000 (2013: HK\$20,223,000) for the period, mainly attributable to the significant decrease in the amount of allowance for bad and doubtful debts reversed as mentioned above.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### Steel cord (continued)

##### Revenue

This segment sold 56,200 tonnes of steel cords during the period, increased by 8.9% as compared to 51,629 tonnes in the same period last year. In respect of its sawing wire business, this segment sold an aggregate of 421 tonnes of half products and final products of sawing wires during the period, slightly dropped by 1.2% as compared to 426 tonnes for the same period last year. The analysis of sales volume of this segment is as follows:

	2014		2013		% change
	Sales volume (Tonne)	% of total sales volume of steel cords	Sales volume (Tonne)	% of total sales volume of steel cords	
Steel cords for:					
– truck tyres	43,667	77.7	37,337	72.3	+17.0
– off the road truck tyres	2,208	3.9	1,953	3.8	+13.1
– passenger car tyres	10,325	18.4	12,339	23.9	-16.3
<b>Total for steel cords</b>	<b>56,200</b>	<b>100.0</b>	51,629	100.0	<b>+8.9</b>
Sawing wires:					
– half product	198		332		-40.4
– final product	223		94		+137.2
<b>Total for sawing wires</b>	<b>421</b>		426		<b>-1.2</b>
Other steel wires	304		47		+546.8
<b>Total</b>	<b>56,925</b>		52,102		<b>+9.3</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### Steel cord (continued)

##### Revenue (continued)

There was no significant change in sales mix of steel cords during the period, steel cords for truck tyres remained the largest part of sales of steel cords, it accounted for 77.7% of sales volume of steel cords for the period, increased by 5.4 percentage points as compared to 72.3% for the same period last year.

In respect of sales of steel cords by region, the volume of export sales of steel cords amounted to 7,614 tonnes for the period, increased by 44.1% as compared to 5,284 tonnes in the same period last year. The volume of export sales represented 13.5% of total sales volume of steel cords for the period, increased by 3.3 percentage points as compared to 10.2% for the same period last year. The breakdown of sales volume of steel cords is as follows:

	Six months ended 30 June				
	2014	% of	2013		% change
	Sales volume (Tonne)	total sales volume of steel cords	Sales volume (Tonne)	% of total sales volume of steel cords	
PRC	<b>48,586</b>	<b>86.5</b>	46,345	89.8	<b>+4.8</b>
Other countries (mainly the United States, Japan and South Korea)	<b>7,614</b>	<b>13.5</b>	5,284	10.2	<b>+44.1</b>
<b>Total</b>	<b>56,200</b>	<b>100.0</b>	51,629	100.0	<b>+8.9</b>

The average selling price of steel cords dropped by 4.4% as compared to the same period last year, as the pricing pressure had not relieved during the period attributable to the overcapacity situation in the PRC.

In all, contributed by the increase in sales volume of steel cords, the revenue of this segment increased by 6.2% over the same period last year to HK\$710,670,000 (2013: HK\$669,149,000) for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord (continued)*

##### *Gross profit*

Gross profit of this segment amounted to HK\$83,960,000 for the period, increased by 16.9% as compared to HK\$71,839,000 for the same period last year. Gross profit margin moderately increased from 10.7% in the same period last year to 11.8% for the period.

In addition to the increase in sales revenue of 6.2% over the same period last year, the increase in gross profit was attributable to the lowered production costs of steel cords from improved production efficiency and increase in production volume.

##### *Investment and other income*

Investment and other income amounted to HK\$827,000 for the period, decreased by 70.9% as compared to HK\$2,841,000 for the same period last year, mainly as the amount of government grants decreased by 84.5% as compared to the same period last year to HK\$315,000 (2013: HK\$2,036,000) for the period.

##### *Reversal of allowance for bad and doubtful debts*

The amount of allowance for bad and doubtful debts reversed was HK\$86,000 for the period, significantly lowered by 99.1% as compared to HK\$9,269,000 for the same period last year.

##### *Distribution and selling expenses*

Distribution and selling expenses increased by 20.5% over the same period last year to HK\$23,849,000 (2013: HK\$19,789,000) for the period. Such higher increase as compared to revenue growth of 6.2% was mainly because of the increase in transportation expenses attributable to the higher increase in export sales during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord (continued)*

##### *Administrative expenses*

Administrative expenses amounted to HK\$19,316,000 for the period, lowered by 4.5% as compared to HK\$20,220,000 for the same period last year.

##### *Research and development expenses*

Research and development expenses significantly increased by 54.5% over the same period last year to HK\$29,587,000 (2013: HK\$19,150,000) for the period, as this segment adopted the strategy to deploy more resources with a view to procure long term sustainability development of the steel cord business since the second half of last year.

#### *Copper and brass products*

##### *Overall performance*

The economic growth in the PRC weakened during the period, while the economies in the United States and Europe exhibited a slow recovery, this segment therefore remained cautious on its business development. Sales volume remained at the similar level as compared to the same period last year. However, through strengthened sales and inventory management, this segment achieved a decrease in operating loss of 39.3% as compared to the same period last year to HK\$953,000 (2013: HK\$1,569,000) for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Copper and brass products (continued)*

##### *Revenue*

This segment sold 3,996 tonnes of copper and brass products during the period, slightly dropped by 0.3% as compared to 4,007 tonnes for the same period last year. The sales volume of both the PRC and Hong Kong and other countries recorded a slight drop as compared to the same period last year, therefore the respective percentage of sales volume of the PRC and Hong Kong and other countries to total sales volume remained the same level as the same period last year, as follows:

	Six months ended 30 June				
	2014		2013		% change
	Sales volume (Tonne)	% of total sales volume	Sales volume (Tonne)	% of total sales volume	
PRC	<b>2,894</b>	<b>72.4</b>	2,900	72.4	<b>-0.2</b>
Hong Kong and other countries	<b>1,102</b>	<b>27.6</b>	1,107	27.6	<b>-0.5</b>
<b>Total</b>	<b>3,996</b>	<b>100.0</b>	4,007	100.0	<b>-0.3</b>

Copper price continued to drop since the second half of last year, therefore the average selling price of this segment dropped from HK\$53,588 per tonne in the same period last year to HK\$50,030 per tonne for the period, representing a decrease of 6.6%. Attributable to the lowered average selling price, this segment recorded a decline in revenue of 6.9% as compared to the same period last year to HK\$199,895,000 (2013: HK\$214,723,000) for the period.

##### *Gross profit*

Despite the decrease in revenue of 6.9%, this segment achieved an increase in gross profit of 34.4% over the same period last year to HK\$3,907,000 (2013: HK\$2,908,000) for the period, being the results of strengthened sales and inventory management. Gross profit margin was 2.0% for the period, increased by 0.6 percentage point as compared to 1.4% in the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review

The Group reported net loss of HK\$38,397,000 for the period, increased by 28.0% as compared to HK\$30,005,000 for the same period last year. EBITDA was HK\$70,815,000 for the period, decreased by 21.3% as compared to HK\$90,016,000 for the same period last year. Such increase in loss for the period was mainly attributable to the significant decrease in the amount of allowance for bad and doubtful debts reversed; exchange losses incurred and lower amount of increase in fair value of investment properties during the period. When excluding these items, Adjusted EBITDA of the Group slightly increased by 1.7% as compared to the same period last year to HK\$76,553,000 (2013: HK\$75,279,000) for the period, as follows:

	Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000	% change
EBITDA	70,815	90,016	-21.3
Adjusted for:			
Allowance for bad and doubtful debts reversed, net	(86)	(9,269)	-99.1
Foreign exchange losses (gains), net	6,654	(2,041)	N/A
Increase in fair value of investment properties	(830)	(3,427)	-75.8
Adjusted EBITDA	76,553	75,279	+1.7

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Revenue

Revenue of the Group amounted to HK\$900,222,000 (2013: HK\$872,431,000) for the period, increased by 3.2% as compared to the same period last year. The breakdown of revenue is as follows:

	2014		2013		% change
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
Steel cord	710,670	78.9	669,149	76.7	+6.2
Copper and brass products	199,895	22.2	214,723	24.6	-6.9
Sub-total	910,565	101.1	883,872	101.3	+3.0
Elimination of sales by Copper and brass products to Steel cord	(11,211)	(1.2)	(12,101)	(1.4)	-7.4
Property rental	868	0.1	660	0.1	+31.5
Total	900,222	100.0	872,431	100.0	+3.2

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Gross profit

Gross profit of the Group increased by 17.7% over the same period last year to HK\$88,682,000 (2013: HK\$75,353,000) for the period. All business segments achieved increase in gross profit and improvement in gross profit margin as compared to the same period last year, therefore gross profit margin of the Group was 9.9% for the period, higher by 1.3 percentage points as compared to 8.6% of the same period last year. The breakdown of gross profit is as follows:

	Six months ended 30 June				
	2014 Gross profit margin HK\$'000 (%)	2013 Gross profit margin HK\$'000 (%)	% change		
Steel cord	83,960	11.8	71,839	10.7	+16.9
Copper and brass products	3,907	2.0	2,908	1.4	+34.4
Property rental	815	93.9	606	91.8	+34.5
<b>Total</b>	<b>88,682</b>	<b>9.9</b>	<b>75,353</b>	<b>8.6</b>	<b>+17.7</b>

#### Investment and other income

Investment and other income decreased by 47.2% as compared to the same period last year to HK\$1,650,000 (2013: HK\$3,124,000) for the period, mainly as the amount of government grants decreased by 84.5% to HK\$315,000 (2013: HK\$2,036,000) for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### *Other gains and losses*

The Group recorded net loss of HK\$5,661,000 for the period, as compared to net gain of HK\$14,562,000 for the same period last year. The breakdown of other gains and losses is as follows:

	Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000	% change
Foreign exchange (losses) gains, net (Note)	(6,654)	2,041	N/A
Increase in fair value of investment properties	830	3,427	-75.8
Allowance for bad and doubtful debts reversed, net	86	9,269	-99.1
Others	77	(175)	N/A
<b>Total</b>	<b>(5,661)</b>	<b>14,562</b>	<b>N/A</b>

Note: The Group recorded exchange losses of HK\$6,654,000 for the period as compared to exchange gains of HK\$2,041,000 for the same period last year, as the exchange rate of RMB recorded a decrease of approximately 1.0% against HKD over the period, whereas RMB had a corresponding increase of 1.8% over the same period last year. Attributable to the decrease in RMB exchange rate during the period, the Group recorded exchange losses on its HKD and USD denominated bank borrowings.

#### *Distribution and selling expenses and administrative expenses*

Distribution and selling expenses amounted to HK\$25,737,000 (2013: HK\$21,674,000) for the period, representing an increase of 18.7% over the same period last year. Such higher increase as compared to the revenue growth of 3.2% was mainly attributable to the increased transportation costs and export related costs resulted from higher growth in export sales of steel cords during the period.

Administrative expenses of the Group amounted to HK\$36,580,000 (2013: HK\$36,673,000) for the period, slightly dropped by 0.3% as compared to the same period last year. As the revenue of the Group increased by 3.2%, the ratio of administrative expenses to revenue decreased from 4.2% in the same period last year to 4.1% for the period.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Research and development expenses

Research and development expenses of the Group amounted to HK\$29,587,000 for the period, significantly increased by 54.5% as compared to HK\$19,150,000 for the same period last year. Such expenses were all incurred by Steel cord segment, which have been mentioned in "Steel cord" section above.

#### Segment results

The Group recorded profit of HK\$10,853,000 from its business segments during the period, decreased by 41.8% as compared to HK\$18,654,000 for the same period last year. The breakdown of the operating results of the Group's business segments for the period is as follows:

	Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000	% change
Steel cord	11,806	20,223	-41.6
Copper and brass products	(953)	(1,569)	-39.3
<b>Total</b>	<b>10,853</b>	<b>18,654</b>	<b>-41.8</b>

#### Finance costs

Finance costs amounted to HK\$32,443,000 for the period, decreased by 19.6% as compared to HK\$40,340,000 for the same period last year. Such decrease in interest expenses was mainly the results of the increase in proportion of bank borrowings in HKD and USD since the second half of last year, taking advantage of their lower borrowing rates as compared to RMB borrowings.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### *Income tax credit (expenses)*

The Group recorded income tax credit of HK\$1,279,000 for the period, as opposed to income tax expenses of HK\$5,207,000 for the same period last year. The change from income tax expenses in the same period last year to income tax credit for the period was mainly because the taxable profit of JESC dropped significantly as compared to the same period last year.

There was no change in applicable tax rates of the Company and its subsidiaries during the period. For the Company and subsidiaries operating in Hong Kong, they are subject to Hong Kong Profits Tax at a rate of 16.5% (2013: 16.5%) for the period. For subsidiaries operating in the PRC, pursuant to the Law of the PRC on Enterprise Income Tax (the "EIT Law"), the major subsidiaries operating in the PRC are subject to a tax rate of 25% (2013: 25%) for the period.

In addition, according to the EIT Law and Implementation Regulation of the EIT Law 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% (2013: 5%).

#### *Trade receivables*

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK\$659,440,000 at 30 June 2014, decreased by 7.1% as compared to HK\$710,189,000 at 31 December 2013. The overall quality of trade receivables is in manageable condition and HK\$86,000 of allowance for bad and doubtful debts were reversed during the period.

In respect of the balance of the allowance for bad and doubtful debts of HK\$33,324,000 still remaining at 30 June 2014, they mainly represented those made for receivables from sales of steel cords and sawing wire products (including half products and final products), we will continue to use our best endeavors to recover those receivables back, including the negotiation of payment by way of assets other than cash and/or instituting legal actions against those customers to claim our payment back.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Trade receivables (continued)

In respect of the trade receivables at 30 June 2014, approximately 33.7% has been subsequently settled by cash or bills receivable up to 27 August 2014, details are as follows:

Age	Amount at 30 June 2014 HK\$'000	% of subsequent settlement
0 – 90 days	460,991	24.1
91 – 180 days	125,896	64.2
Over 180 days	39,229	49.2
Total	626,116	33.7

### 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 risk. 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. Nonetheless, in light of the continual to our turnover, we moderately relaxed our gearing threshold since last year and yet, we believe such level remained healthy and manageable.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Share Capital, Liquidity and Financial Resources (continued)

There was no change in the share capital of the Company during the period, the issued share capital of the Company remained at 1,922,900,556 Shares at 30 June 2014. Net asset value of the Group was HK\$2,074,881,000 at 30 June 2014, decreased by 2.4% as compared to HK\$2,125,254,000 at 31 December 2013, attributable to the loss and the decrease in RMB exchange rate against HKD during the period. Net asset value per Share was HK\$1.079 at 30 June 2014, also decreased by 2.4% as compared to the end of 2013.

Although the Group reported loss of HK\$38,397,000 for the period, through strengthening credit control on sales and receivables, and improving raw materials procurement and inventory management, it generated net cash inflow from operating activities of HK\$76,221,000 for the period as follows:

	HK\$'000
Net cash from operating activities as per condensed consolidated statement of cash flows	24,636
Add: Bills receivable that has been discounted to banks and matured during the period	1,260
Add: Bills receivable endorsed to creditors of the Group at 31 December 2013 to settle payable for acquisition of property, plant and equipment and matured during the period	50,325
<hr/>	
Net cash inflow from operating activities for the period	<hr/> <hr/> 76,221

Furthermore, the Group incurred net cash outflow on investing activities of HK\$28,268,000, in which HK\$6,702,000 represented the capital expenditures mainly incurred by the Steel cord segment for enhancement of its production facilities.

The Group's total bank balances and cash amounted to HK\$315,916,000 at 30 June 2014, increased by 154.8% as compared to HK\$124,010,000 at 31 December 2013. Total bank borrowings of the Group were HK\$1,589,804,000 at 30 June 2014, increased by 11.8% as compared to HK\$1,421,972,000 at 31 December 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Share Capital, Liquidity and Financial Resources (continued)

At 30 June 2014, HK\$1,361,508,000 of bank borrowings were floating-rate borrowings, while HK\$228,296,000 of bank borrowings were collared at rates ranging from 2.41% to 6.90% per annum. The nature and maturing profile of the Group's bank borrowings at 30 June 2014, based on contracted repayment schedules were as follows:

	HK\$'000	% of total bank borrowings
Due in the second half year of 2014 or on demand:		
– Trust receipt loans	33,847	2.1
– Bank advances for discounted bills	8,929	0.6
– Working capital loans	293,267	18.4
– Current portion of medium term loans	300,788	18.9
	636,831	40.0
Medium term loans:		
– Due in 2015	805,472	50.7
– Due in 2016	150,000	9.4
	1,592,303	100.1
Unamortised loan arrangement and management fees	(2,499)	(0.1)
<b>Total</b>	<b>1,589,804</b>	<b>100.0</b>

Gearing ratio (calculated as total bank borrowings less total bank balances and cash divided by Shareholders' equity) of the Group slightly increased from 61.1% at 31 December 2013 to 61.4% at 30 June 2014. The current ratio (calculated as current assets divided by current liabilities) of the Group was 0.99 times at 30 June 2014, lower as compared to 1.16 times at 31 December 2013. Included in current liabilities at 30 June 2014 are bank borrowings that are due after one year but contain a repayment on demand clause totaling HK\$282,500,000 (31 December 2013: HK\$434,291,000). When these bank borrowings are excluded, current ratio of the Group would be 1.15 times at 30 June 2014, still lower as compared to 1.58 times at 31 December 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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 minimize the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavor to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. As such, the Group increased the proportion of borrowings in HKD and USD during the period to further reduce interest costs, therefore at 30 June 2014, the percentage of bank borrowings of the Group that are denominated in HKD and USD rose from 60.2% at 31 December 2013 to 67.6% at 30 June 2014. The respective currency composition of the Group's bank balances and cash and bank borrowings was as follows:

#### *Bank balances and cash*

	30 June 2014		31 December 2013	
	HK\$'000	% of total bank balances and cash	HK\$'000	% of total bank balances and cash
RMB	90,448	28.6	78,112	63.0
HKD	205,971	65.2	9,607	7.7
USD	15,935	5.1	35,926	29.0
Other currencies	3,562	1.1	365	0.3
<b>Total</b>	<b>315,916</b>	<b>100.0</b>	<b>124,010</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Foreign Currency and Interest Rate Exposures (continued)

#### *Bank borrowings*

	30 June 2014		31 December 2013	
	HK\$'000	% of total bank borrowings	HK\$'000	% of total bank borrowings
RMB	515,184	32.4	565,316	39.8
HKD	964,518	60.7	767,649	54.0
USD	110,102	6.9	89,007	6.2
Total	1,589,804	100.0	1,421,972	100.0

In respect of exposure to interest rate risk, even though the majority of the bank borrowings are at floating rate, the Group had not entered into any interest rate swaps to contain any upside risks on interest rate to the profit or loss and cash flows of the Group, as we were of the view that interest rate would sustain at a relatively low level for at least the remaining part of the year.

The Group had not entered into any derivative financial instruments to hedge against foreign currency or interest rate risk in the period under review. However, we would keep monitoring the currency and interest rate composition of the Group's bank borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

#### **Business Development Plan and Capital Commitments**

Capital expenditures incurred by the Group during the period amounted to HK\$4,488,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in the second half year of 2014 are estimated to be approximately HK\$23,780,000, which are also mainly to be incurred by Steel cord segment. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Employees, Remuneration Policies and Training Scheme of the Group

At 30 June 2014, the Group had a total of 2,148 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 as they are incurred. The amount charged to consolidated statement of profit or loss for the period amounted to approximately HK\$10,990,000.

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, no share options granted under the 2002 Scheme have been exercised while 1,000,000 share options were cancelled.

No share options were granted, exercised, cancelled or lapsed under the 2012 Scheme during the period under review.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Contingent Liabilities and Pledge of Assets

The Group had no contingent liabilities as at 30 June 2014.

At 30 June 2014, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK\$11,000,000;
2. Prepaid lease payments amounted to HK\$85,132,000;
3. Bank deposits amounted to HK\$21,656,000; and
4. Equity interests in certain subsidiaries of the Company.

### Business Outlook

Reductions in the pace of asset purchases measures are carried out by the United States Government continuously and it is expected that US economy will have a steady improvement as a result. However, European countries are still facing uncertainties. Although the PRC is expected to maintain GDP growth of around 7.5% in 2014, the overall economic condition of the PRC is anticipated to remain challenging with uncertainties on its control measures on the domestic fiscal and monetary policies. This global outlook might affect our results of Steel cord and Copper and brass products segments as a whole.

In addition to the above, in the PRC (our main market), the over production capacity of steel cord suppliers causes severe pressure on selling price cutting competition to strive for and maintain their respective market share, which bring forth negative impact on our steel cord businesses.

To this end the Group has to put more resources on research and development, which will enable the Group to deliver a wider range of advanced products and new products to suit the international customers' varying requirements and demands to achieve higher profit margin. Further, the Group should continue to strengthen quality control system of its plants, enhance their production efficiency and implement cost saving measures so as to decrease overall production costs.

With the above measures, we hope we can achieve a turnaround to our shareholders for the remaining part of year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Outlook (continued)

Last but not least, on 13 July 2014, the Company and 棗莊礦業(集團)有限責任公司 (Zaozhuang Mining (Group) Co., Ltd.\*) (“Zaozhuang Mining”) entered into a non-legally binding memorandum of understanding (the “MOU”) under which it is proposed that Zaozhuang Mining shall inject certain capital into TESC (the “Proposed Capital Injection”) so that upon completion thereof, the Group and Zaozhuang Mining will each own 50% of the enlarged registered capital of TESC. The capital injected by Zaozhuang Mining will be utilised to fund the phase II construction of TESC’s steel cord production facilities with an annual production capacity of 100,000 tonnes. Under the MOU, we and Zaozhuang Mining jointly expressed our intention to cooperate in the operation and management of TESC and have the proposed strategic cooperation after completion of the Proposed Capital Injection. If the Proposed Capital Injection is materialized, there will be a new chapter to the Group as it would enhance the capital base of and provide additional financial resources to TESC and the proposed strategic cooperation will enable the Group to further develop its steel cord production business by expanding the production capacity and establishing new synergistic partnership with Zaozhuang Mining group.

Despite the due diligence process by Zaozhuang Mining on TESC is currently underway, the Board wishes to emphasise that no legally-binding agreement in relation to the Proposed Capital Injection and the proposed strategic cooperation between the Group and Zaozhuang Mining group has been entered into as at the date of this report. The final terms of the Formal Agreement (including but not limited to the amount of capital to be injected by Zaozhuang Mining) and the CCT Agreements (as defined in the announcement dated 13 July 2014) have yet to be determined and finalised. As the Proposed Capital Injection may or may not proceed, Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

\* For identification purpose only

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

## 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 2014.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO

As at 30 June 2014, save for the interests of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

### Long position in Shares

#### (a) Ordinary Shares of the Company

Name of Director	Total number of Shares held	Approximate % of the issued share capital	Capacity in which interests are held
Li Shaofeng ("Mr. Li")	7,652,000	0.39	Beneficial owner
Yang Kaiyu ("Mr. Yang")	3,596,000	0.18	Family interest Note (i)
Leung Shun Sang, Tony ("Mr. Leung")	7,652,000	0.39	Beneficial owner
Tang Cornor Kwok Kau ("Mr. Tang")	10,000,000	0.52	Beneficial owner Note (ii)

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO (continued)

### Long position in Shares (continued)

#### (a) Ordinary Shares of the Company (continued)

Notes:

- (i) All those Shares were beneficially owned by Mr. Yang's wife.
- (ii) Those Shares were beneficially owned by Mr. Tang and in which of 200,000 Shares were also jointly owned by his wife.

#### (b) Share options

As at 30 June 2014, there were a total of 62,468,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarized in the following table:

Name of Director	Options to subscribe for Shares					Date of exercise	Date of grant (Note(i))	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed/cancelled during the period	Number of outstanding share options held at the end of the period						
Mr. Li	13,800,000	-	-	-	13,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.71	
Mr. Yang	5,400,000	-	-	-	5,400,000	13/7/2009	13/7/2009 to 12/7/2019	0.680			
	5,400,000	-	-	-	5,400,000	13/7/2009	1/1/2010 to 12/7/2019	0.680			
	7,200,000	-	-	-	7,200,000	13/7/2009	1/1/2011 to 12/7/2019	0.680			
	18,000,000	-	-	-	18,000,000				Beneficial owner	0.93	
Mr. Leung	12,000,000	-	-	-	12,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.62	

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO (continued)

### Long position in Shares (continued)

#### (b) Share options (continued)

Name of Director	Options to subscribe for Shares					Date of exercise	Date of grant <i>Note(f)</i>	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed/cancelled during the period	Number of outstanding share options held at the end of the period						
Mr. Tang	10,000,000	-	-	-	-	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.52
Zhang Zhong	2,000,000	-	-	-	-	2,000,000	14/12/2010	14/12/2010 to 13/12/2020	0.940	Beneficial owner	0.10
Yip Kin Man, Raymond	252,000	-	-	-	-	252,000	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	1,800,000	-	-	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	2,052,000	-	-	-	-	2,052,000				Beneficial owner	0.10
Law, Yui Lun	1,016,000	-	-	-	-	1,016,000	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	1,800,000	-	-	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	2,816,000	-	-	-	-	2,816,000				Beneficial owner	0.14
Chan Chung Chun	1,800,000	-	-	-	-	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.09
	62,468,000	-	-	-	-	62,468,000					



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO (continued)

### Long position in Shares (continued)

#### (b) Share options (continued)

Notes:

- (i) The vesting period of the share options is from the date of grant to the beginning of the exercise period except for the share options set out under *Note (ii)* below.
- (ii) 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010.

The above share options are unlisted cash settled options granted pursuant to 2002 Scheme. Upon exercise of the share options in accordance with 2002 Scheme, ordinary shares of the Company are issuable. The share options are personal to the respective Directors.

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 30 June 2014.

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES UNDER THE SFO

As at 30 June 2014, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

### Long position in Shares or underlying Shares

Name of Shareholder	Total number of Shares/ underlying Shares held	Approximate % of the issued share capital	Capacity in which interests are held
Richson	148,537,939	7.72	Beneficial owner
Fair Union	686,655,179	35.70	Beneficial owner and interests of controlled corporations <i>Note (1)</i>
Casula	402,395,304	20.92	Beneficial owner
Shougang International	686,655,179	35.70	Interests of controlled corporations <i>Note (2)</i>
Able Legend	126,984,000	6.60	Beneficial owner
Shougang HK	904,639,179	47.04	Beneficial owner and interests of controlled corporations <i>Note (3)</i>
Bekaert Combustion	250,000,000	13.00	Beneficial owner <i>Note (4)</i>
Bekaert	250,000,000	13.00	Interests of controlled corporations <i>Note (5)</i>
Li Ka Shing Foundation	100,000,000	5.20	Beneficial owner <i>Note (6)</i>



## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES UNDER THE SFO (continued)

### Long position in Shares or underlying Shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 Shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are its wholly owned subsidiaries.
- (2) By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Shougang HK is beneficially interested in 2,096,000 Shares and by virtue of the SFO, it is deemed to be interested in the 126,984,000 Shares and the 74,034,000 Shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 14,870,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as it is the controlling shareholder of Shougang International.
- (4) Bekaert Combustion is beneficially interested in 250,000,000 Shares.
- (5) By virtue of the SFO, Bekaert is deemed to be interested in 250,000,000 Shares held by Bekaert Combustion, which is a wholly owned subsidiary of Bekaert.
- (6) Li Ka Shing Foundation is beneficially interested in 100,000,000 Shares. By virtue of the terms of the constituent documents of Li Ka Shing Foundation, each of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of Li Ka Shing Foundation.





## SHARE OPTION SCHEME

2002 Scheme was adopted by the Shareholders at the annual general meeting held on 7 June 2002. Under 2002 Scheme, the Board shall, subject to and in accordance with the provisions of 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company. 2012 Scheme was adopted and 2002 Scheme was terminated by the Shareholders at the annual general meeting held on 25 May 2012.

2012 Scheme became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any shares falling to be issued and allotted upon the exercise of the share options granted. Unless otherwise cancelled or amended, 2012 Scheme will remain in force for a period of ten years from 29 May 2012.

The share options which have been granted and remained outstanding under 2002 Scheme remain valid and exercisable in accordance with their terms of issue.

The following table discloses details of the Company's share options granted under 2002 Scheme held by eligible participants and movements in such holdings in relation to 2002 Scheme during the six months ended 30 June 2014:

## SHARE OPTION SCHEME (continued)

### (a) 2002 Scheme

Save as disclosed in the above sub-section “Share options” under “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO”, and the details of the share options of employees and other eligible participants set out as below, no share option had been granted, exercised, cancelled or lapsed:

Category of participant	Options to subscribe for Shares			Date of grant Note (ii)	Exercise Period	Exercise price per Share HK\$
	Number of outstanding share options held at the beginning of the period	Number of share options cancelled during the period	Number of outstanding share options held at the end of the period			
Employees other than the Directors	34,200,000	(1,000,000) Note (i)	33,200,000	28/1/2008	28/1/2008 to 27/1/2018	0.864
	100,000	–	100,000 Note (iii)	28/1/2008	28/1/2011 to 27/1/2018	0.864
	1,350,000	–	1,350,000	13/7/2009	13/7/2009 to 12/7/2019	0.680
	1,350,000	–	1,350,000 Note (iv)	13/7/2009	1/1/2010 to 12/7/2019	0.680
	1,800,000	–	1,800,000 Note (iv)	13/7/2009	1/1/2011 to 12/7/2019	0.680
	38,800,000	(1,000,000)	37,800,000			
All other eligible participants	17,000,000	–	17,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864
<b>Total</b>	<b>55,800,000</b>	<b>(1,000,000)</b>	<b>54,800,000</b>			

## SHARE OPTION SCHEME (continued)

### (a) 2002 Scheme (continued)

Notes:

- (i) 1,000,000 share options at the exercise price of HK\$0.864 per Share were cancelled with effect from 1/4/2014 due to resignation of an employee.
- (ii) The vesting period of the share option is from the date of grant to the beginning of the exercise period except for the share options set out under *Notes (iii) and (iv)* below.
- (iii) 100,000 share options have a vesting period of three years from the date of grant.
- (iv) 1,350,000 share options have a vesting period from the date of grant to 31/12/2009 and 1,800,000 share options have a vesting period from the date of grant to 31/12/2010.

### (b) 2012 Scheme

No share options were granted, exercised, cancelled or lapsed under 2012 Scheme during the period.

The Board considers that it is not appropriate to state the value of all share options that can be granted under 2012 Scheme on the assumption that they had been granted at the date of this report. The Board believes that any statement regarding the value of the share options as at the date of the report will be based on a large number of speculative assumptions and would therefore not be meaningful to the Shareholders, taking into account the number of variables which are crucial for the calculation of the value of the share options which have not been determined. Such variables include the exercise price, the option period, any lock-up period, any performance targets that may be set and other relevant variables.

## DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information on Director are as follows:

Mr. Tang Cornor Kwok Kau, the Executive Director and Deputy Managing Director, was appointed with effect from 22 July 2014 as an independent non-executive director of Loco Hong Kong Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange on 5 August 2014.



## CORPORATE GOVERNANCE CODE

The Board is committed to practicing and achieving a high standard of corporate governance. It also recognizes that an effective internal control system is crucial to the long term development of the Company. Hence, the Board reviews from time to time the effectiveness of the system of 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 internal control system, and also to be in line with the relevant amendments to the law, rules and regulations.

### Measurable objectives of Board Diversity Policy

During the period under review, training to leaders (Directors) in Sound Recruitment Methods, including removal of gender bias has been delivered on 15 May 2014.

### Shareholders' Rights

In order to comply with the Companies Ordinance, Shareholders' Rights – "Procedures for members/shareholders to convene a general meeting", "Procedures for members/shareholders and other stakeholders to send enquires and concerns to the Board" and "Circulation of members'/shareholders' resolution/Procedures for members/shareholders to put forward proposals at annual general meetings" had been updated and posted on the website of the Company on 27 March 2014. Further to the amendments to memorandum and articles of association of the Company, Shareholders' Rights – "Procedures for members to propose a person for election as a director" had also been updated and posted on the website of the Company on 6 June 2014.

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

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 six months ended 30 June 2014, except for deviation from code provision D.1.4 of the Code. Due to the nomination of Mr. Zhang Zhong (the executive Director) as the representative of Bekaert in accordance with the subscription agreement dated 22 September 2006 entered into by the Company and Bekaert, Mr. Zhang does not have any formal letter of appointment setting out the key terms and conditions of his appointment as Director.

## Model code for securities transactions by directors

The Company has approved and adopted the SCCHL Code on terms no less exacting than the Model Code.

The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and SCCHL Code during the period under review.

## Audit committee

The Company's audit committee comprises of three independent non-executive Directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chan Chung Chun. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and meeting with the external auditors. The Company has engaged the external auditors to assist the audit committee to review the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014. During the meetings of the audit committee for the period under review, the audit committee members, amongst other things, had reviewed the accounting principles and practices adopted by the Group and discussed the financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2014.

## APPRECIATION

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank our colleagues for their valuable contribution to the Group and dedicated services throughout the period under review.

By order of the Board  
**Li Shaofeng**  
Chairman

Hong Kong, 28 August 2014

*This interim report can also be accessed through the internet at the Stock Exchange's website at <http://www.hkexnews.hk> and the Company's website at <http://www.shougangcentury.com.hk> or <http://www.irasia.com/listco/hk/sccentury/>.*

## DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meaning 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
“Able Legend”	Able Legend Investments Limited, a subsidiary of Shougang HK
“Bekaert”	NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder (as defined under the SFO) of the Company
“Bekaert Combustion”	Bekaert Combustion Technology B.V., a wholly owned subsidiary of Bekaert
“Board”	the board of Directors
“Board Diversity Policy”	Shougang Concord Century Holdings Limited Board Diversity Policy adopted on 26 August 2013 and revised from time to time thereafter
“Casula”	Casula Investments Limited, a subsidiary of Shougang International
“Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“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

## DEFINITIONS (continued)

“Copper and brass products”	processing and trading of copper and brass products
“Director(s)”	the director(s) of the Company
“Fair Union”	Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International
“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”	Jiaying Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“Li Ka Shing Foundation”	Li Ka Shing Foundation Limited, a “charitable body” within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder (as defined under the SFO) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan

## DEFINITIONS (continued)

“Richson”	Richson Limited, a subsidiary of Shougang International
“RMB”	Renminbi, the lawful currency of the PRC
“SCCHL Code”	Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter
“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)”	shareholder(s) of the Company
“Shareholders’ Rights”	Principal rights of Shareholders under the Articles of Association of the Company and the Companies Ordinance listed as required under the Code
“Shougang Grand”	Shougang Concord Grand (Group) Limited (Stock Code: 730), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Shougang HK”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial shareholder (as defined under the SFO) of the Company
“Shougang International”	Shougang Concord International Enterprises Company Limited (Stock Code: 697), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, a substantial shareholder (as defined under the SFO) of the Company



## DEFINITIONS (continued)

“Steel cord”	manufacturing of steel cords for radial tyres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 States of America
“%”	per cent.