

Interim Report **2017**



**SHOUGANG CONCORD CENTURY  
HOLDINGS LIMITED**

Stock Code : 103

## CONTENTS

	Pages
Corporate Profile	2
Corporate Information	3
Financial Highlights	5
Information for Investors	6
Business Contacts	7
Report on Review of Condensed Consolidated Financial Statements	8
Condensed Consolidated Statement of Profit or Loss	9
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Condensed Consolidated Statement of Financial Position	11
Condensed Consolidated Statement of Changes in Equity	13
Condensed Consolidated Statement of Cash Flows	15
Notes to the Condensed Consolidated Financial Statements	17
Management Discussion and Analysis	41
Interim Dividend	63
Purchase, Sale or Redemption of Listed Securities	64
Directors' Interests and Short Positions in Shares, Debentures or Underlying Shares under the SFO	64
Shareholders' Interests and Short Positions in Shares or Underlying Shares under the SFO	67
Share Option Scheme	69
Disclosure of Information on Directors	71
Corporate Governance Code	72
Appreciation	73
Definitions	74

## 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 Group Co., Ltd., 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 GOAL

- strive for a successful “Eastern” brand 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
- become a diversified metal product manufacturer capable of consistently purveying premium quality wire related products

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

## CORPORATE INFORMATION

As at 24 August 2017

### Board of Directors

#### Executive Directors

Li Shaofeng (*Chairman*)  
Yang Kaiyu (*Managing Director*)  
Su Fanrong (*Executive Deputy Managing Director*)  
Tang Cornor Kwok Kau (*Deputy Managing Director*)

#### Non-executive Directors

Leung Shun Sang, Tony  
Liao Jun

#### Independent

#### Non-executive Directors

Yip Kin Man, Raymond  
Law, Yui Lun  
Lam Yiu Kin

### Audit Committee

Yip Kin Man, Raymond (*Chairman*)  
Law, Yui Lun  
Lam Yiu Kin

### Remuneration Committee

Yip Kin Man, Raymond (*Chairman*)  
Li Shaofeng (*Vice Chairman*)  
Leung Shun Sang, Tony  
Law, Yui Lun  
Lam Yiu Kin

### Nomination Committee

Li Shaofeng (*Chairman*)  
Leung Shun Sang, Tony (*Vice Chairman*)  
Yip Kin Man, Raymond  
Law, Yui Lun  
Lam Yiu Kin

### Authorised Representatives

Tang Cornor Kwok Kau  
Chan Lai Yee

### Company Secretary

Chan Lai Yee

## **CORPORATE INFORMATION (continued)**

As at 24 August 2017

<b>Principal Bankers</b>	Agricultural Bank of China Bank of China Bank of China (Hong Kong) Limited China CITIC Bank China CITIC Bank International Limited China Minsheng Banking Corp. Ltd. Industrial and Commercial Bank of China
<b>Auditor</b>	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>
<b>Internal Auditor</b>	Moore Stephens Advisory Services Limited
<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		% Change
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	
<b>Operations</b>			
Revenue	<b>979,887</b>	776,156	<b>+26.2</b>
Gross profit	<b>124,988</b>	57,997	<b>+115.5</b>
EBITDA ( <i>Note</i> )	<b>114,649</b>	38,402	<b>+198.5</b>
Profit (loss) for the period	<b>24,372</b>	(46,682)	<b>N/A</b>
Basic earnings (loss) per Share (HK cents)	<b>1.27</b>	(2.43)	<b>N/A</b>

*Note:*

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

	30 June	31 December	% Change
	2017 (Unaudited) HK\$'000	2016 (Audited) HK\$'000	
<b>Financial position</b>			
Total assets	<b>3,153,637</b>	3,037,042	<b>+3.8</b>
Shareholders' equity	<b>1,403,502</b>	1,321,965	<b>+6.2</b>
Net asset value per Share (HK\$)	<b>0.730</b>	0.687	<b>+6.2</b>

## INFORMATION FOR INVESTORS

### Share Information

Board lot size:	2,000 Shares
Shares outstanding as at 30 June 2017:	1,922,900,556 Shares
Market capitalisation as at 30 June 2017:	HK\$480,725,139
Closing Share price as at 30 June 2017:	HK\$0.250
Basic earnings per Share for the six months ended 30 June 2017:	HK1.27 cents

### Key Date

Announcement of 2017 Interim Results:	24 August 2017
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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 1333
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



### 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)



### 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)



### 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

首長寶佳集團有限公司

*(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 40, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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-month period then ended, and certain explanatory notes. The 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 "HKICPA"). 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 HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 August 2017

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	3	<b>979,887</b>	776,156
Cost of sales		<b>(854,899)</b>	(718,159)
Gross profit		<b>124,988</b>	57,997
Investment and other income	4	<b>1,348</b>	849
Other gains and losses	5	<b>19,683</b>	(2,075)
Distribution and selling expenses		<b>(29,062)</b>	(23,136)
Administrative expenses		<b>(36,393)</b>	(35,241)
Research and development expenses		<b>(26,741)</b>	(22,809)
Finance costs	6	<b>(25,864)</b>	(22,953)
Profit (loss) before tax		<b>27,959</b>	(47,368)
Income tax (expense) credit	7	<b>(3,587)</b>	686
Profit (loss) for the period	8	<b>24,372</b>	(46,682)
Earnings (loss) per share Basic and diluted	9	<b>HK1.27 cents</b>	(HK2.43 cents)

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

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Profit (loss) for the period	<b>24,372</b>	(46,682)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation into presentation currency	<b>47,145</b>	(31,127)
Surplus on revaluation of properties	<b>11,416</b>	12,071
Recognition of deferred tax liability on revaluation of properties	<b>(1,396)</b>	(2,227)
Other comprehensive income (expense) for the period (net of tax)	<b>57,165</b>	(21,283)
Total comprehensive income (expense) for the period	<b>81,537</b>	(67,965)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	11	68,111	58,675
Property, plant and equipment	11	1,179,026	1,169,092
Prepaid lease payments		142,023	141,636
Pledged deposit on loan from a related company		8,065	7,825
Club memberships		725	714
Deposit paid for the acquisition of property, plant and equipment		4,013	336
		<b>1,401,963</b>	<b>1,378,278</b>
<b>Current assets</b>			
Inventories		333,522	233,121
Trade receivables	12	596,726	563,162
Bills receivable	12	668,541	479,206
Prepayments, deposits and other receivables		60,092	67,249
Prepaid lease payments		7,906	7,671
Pledged bank deposits		21,047	1,006
Bank balances and cash		63,840	307,349
		<b>1,751,674</b>	<b>1,658,764</b>
<b>Current liabilities</b>			
Trade and bills payables	13	611,220	440,608
Other payables and accruals	14	90,652	95,050
Tax payable		10,146	10,304
Loans from related companies	15	26,850	186,090
Bank borrowings	16	934,900	900,552
Financial liabilities designated as at fair value through profit or loss	17	639	–
		<b>1,674,407</b>	<b>1,632,604</b>
<b>Net current assets</b>		<b>77,267</b>	<b>26,160</b>
<b>Total assets less current liabilities</b>		<b>1,479,230</b>	<b>1,404,438</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2017

	NOTES	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Other payable		1,152	1,129
Loan from a related company	15	35,127	47,121
Deferred tax liabilities		39,449	34,223
		<b>75,728</b>	82,473
		<b>1,403,502</b>	1,321,965
<b>Capital and reserves</b>			
Share capital	18	1,191,798	1,191,798
Reserves		211,704	130,167
		<b>1,403,502</b>	1,321,965

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK\$'000	Capital reserve HK\$'000 (Note i)	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	PRC reserve funds HK\$'000 (Note ii)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2016 (Audited)	1,191,798	23,990	89,868	302,020	30,765	45,468	(288,039)	1,395,870
Loss for the period	-	-	-	-	-	-	(46,682)	(46,682)
Exchange differences arising on translation into presentation currency	-	-	-	(31,127)	-	-	-	(31,127)
Surplus on revaluation of properties	-	-	12,071	-	-	-	-	12,071
Recognition of deferred tax liability on revaluation of properties	-	-	(2,227)	-	-	-	-	(2,227)
Other comprehensive income (expense) for the period	-	-	9,844	(31,127)	-	-	-	(21,283)
Total comprehensive income (expense) for the period	-	-	9,844	(31,127)	-	-	(46,682)	(67,965)
Lapse of share options	-	-	-	-	(617)	-	617	-
At 30 June 2016 (Unaudited)	1,191,798	23,990	99,712	270,893	30,148	45,468	(334,104)	1,327,905
At 1 January 2017 (Audited)	<b>1,191,798</b>	<b>23,990</b>	<b>106,466</b>	<b>201,414</b>	<b>29,881</b>	<b>45,468</b>	<b>(277,052)</b>	<b>1,321,965</b>
Profit for the period	-	-	-	-	-	-	24,372	24,372
Exchange differences arising on translation into presentation currency	-	-	-	47,145	-	-	-	47,145
Surplus on revaluation of properties	-	-	11,416	-	-	-	-	11,416
Recognition of deferred tax liability on revaluation of properties	-	-	(1,396)	-	-	-	-	(1,396)
Other comprehensive income for the period	-	-	10,020	47,145	-	-	-	57,165
Total comprehensive income for the period	-	-	10,020	47,145	-	-	24,372	81,537
Lapse of share options	-	-	-	-	(987)	-	987	-
At 30 June 2017 (Unaudited)	<b>1,191,798</b>	<b>23,990</b>	<b>116,486</b>	<b>248,559</b>	<b>28,894</b>	<b>45,468</b>	<b>(251,693)</b>	<b>1,403,502</b>

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

For the six months ended 30 June 2017

*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 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	107,583	31,192
(Increase) decrease in inventories	(96,269)	16,254
Increase in trade receivables	(16,955)	(31,515)
Increase in bills receivable	(585,415)	(263,831)
Increase in trade and bills payable	443,601	307,637
Other operating cash flows	7,765	34,690
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(139,690)</b>	94,427
INVESTING ACTIVITIES		
Placement of pledged bank deposits	(24,054)	(2,807)
Purchase of property, plant and equipment	(6,528)	(3,888)
Deposit paid for the acquisition of property, plant and equipment	(4,050)	(234)
Withdrawal of pledged bank deposits	4,311	–
Proceeds from disposal of property, plant and equipment	86	1,497
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(30,235)</b>	(5,432)



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
FINANCING ACTIVITIES		
Repayment of bank loans	(275,350)	(396,678)
Repayment to related companies	(172,545)	(50,000)
Repayment of trust receipt loans	(27,988)	(37,061)
Interest paid	(24,731)	(22,456)
New bank loans raised	235,040	213,827
Bank advances for discounted bills	150,360	34,008
Trust receipt loans raised	32,246	36,892
NET CASH USED IN FINANCING ACTIVITIES	(82,968)	(221,468)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(252,893)	(132,473)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	307,349	209,889
Effect of foreign exchange rate changes	9,384	(4,057)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	63,840	73,359

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

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

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

For the six months ended 30 June 2017

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

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

The application of those amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

Also, in the current interim period, the Group has entered into foreign currency future contracts to minimise its exposure to the fluctuation of Renminbi ("RMB"). The foreign currency future contracts are classified as financial liabilities designated as at fair value through profit or loss ("FVTPL"), which is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 21.

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION

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

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

- i) The steel cord segment comprising the manufacturing of steel cords; and
- ii) The copper and brass products segment comprising the processing and trading of copper and brass products.

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 2017, the Group had no material change in segment assets and segment liabilities.

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

#### Six months ended 30 June 2017

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000
Segment revenue			
External sales	815,660	163,084	978,744
Inter-segment sales	–	–	–
<b>Total</b>	<b>815,660</b>	<b>163,084</b>	<b>978,744</b>
Segment results	49,636	131	49,767

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION (continued)

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

##### Reconciliation of revenue

	(Unaudited) HK\$'000
Total revenue for operating segments	978,744
Rental income	1,143
<hr/>	
Group revenue	979,887

##### Reconciliation of profit before tax

	(Unaudited) HK\$'000
Total profit for operating segments	49,767
Profit arising from property investment	8,833
Unallocated amounts	
Unallocated income	176
Unallocated foreign exchange gains, net	11,698
Unallocated expenses	(16,651)
Unallocated finance costs	(25,864)
<hr/>	
Profit before tax	27,959

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2016

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000
Segment revenue			
External sales	631,483	143,824	775,307
Inter-segment sales ( <i>Note</i> )	–	9,832	9,832
<b>Total</b>	<b>631,483</b>	<b>153,656</b>	<b>785,139</b>
Segment results	3,554	(59)	3,495

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

Reconciliation of revenue

	(Unaudited) HK\$'000
Total revenue for operating segments	785,139
Rental income	849
Elimination of inter-segment sales	(9,832)
<b>Group revenue</b>	<b>776,156</b>

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

For the six months ended 30 June 2017

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2016 (continued)

Reconciliation of loss before tax

	(Unaudited) HK\$'000
Total profit for operating segments	3,495
Profit arising from property investment	2,119
Unallocated amounts	
Unallocated income	282
Unallocated foreign exchange losses, net	(13,461)
Unallocated expenses	(16,850)
Unallocated finance costs	(22,953)
<b>Loss before tax</b>	<b>(47,368)</b>

Segment results represent the profit or 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, finance costs and other income. 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 2017

### 4. INVESTMENT AND OTHER INCOME

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>Investment income</b>		
Interest income on bank deposits	165	279
<b>Other income</b>		
Government grants ( <i>Note</i> )	51	135
Sales of scrap materials	555	260
Others	577	175
	1,183	570
	1,348	849

*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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Foreign exchange gains (losses), net	12,509	(10,121)
Increase in fair value of investment properties	7,891	1,519
Changes in fair value of financial liabilities designated as at FVTPL	(629)	–
(Loss) gain on disposal of property, plant and equipment, net	(88)	21
Allowance for bad and doubtful debts reversed, net	–	5,998
Bad debts recovered	–	508
	19,683	(2,075)



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

For the six months ended 30 June 2017

### 6. FINANCE COSTS

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest expenses on bank borrowings	20,610	19,749
Interest expenses on loans from related companies	3,034	370
Amortisation of loan transaction costs	2,220	2,834
	<b>25,864</b>	<b>22,953</b>

### 7. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	816	184
Overprovision in prior periods:		
PRC EIT	(645)	(647)
Deferred tax	3,416	(223)
	<b>3,587</b>	<b>(686)</b>

For the six months ended 30 June 2017 and 2016, 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 subsidiaries operating in the PRC are subject to a tax rate of 25%, except for Jiaying Eastern Steel Cord Co., Ltd. ("JESC"). JESC has been recognised as a state-encouraged high-new technology enterprise starting from 2014, and the status is valid for a period of three years. JESC is thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016, subject to annual review by the relevant tax authority in the PRC. The application of the renewal of high-new technology enterprise was submitted in July 2017. On the basis that JESC meets the relevant requirements of high-new technology enterprise under Working Guidance of Administrative Measures for Recognition of High and New Technology Enterprise (Guokefahuo 2016 No.195) (e.g. amount of revenue from high-new technology products, number of technical personnel and scope of research and development activities), hence in the opinion of the directors of the Company, JESC should be qualified as a state-encouraged high-new technology enterprise to enjoy the preferential tax rate of 15% in the whole year of 2017.

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

For the six months ended 30 June 2017

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

Profit (loss) for the period has been arrived at after charging:

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	56,944	58,736
Allowance for inventories recognised, net (included in "Cost of sales")	584	518
Amortisation of prepaid lease payments (included in "Cost of sales")	3,882	4,081

### 9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>Profit (loss)</b>		
Profit (loss) for the period for the purposes of calculation of basic and diluted earnings (loss) per share	24,372	(46,682)

	Six months ended 30 June	
	2017	2016
<b>Number of shares</b>		
Number of ordinary shares for the purposes of calculation of basic and diluted earnings (loss) per share	1,922,900,556	1,922,900,556

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

For the six months ended 30 June 2016, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

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

For the six months ended 30 June 2017

### **10. DIVIDEND**

The directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

During the six months ended 30 June 2017, the Group had additions of property, plant and equipment approximately HK\$14,471,000 (six months ended 30 June 2016: HK\$5,467,000) on the enhancement of production facilities of steel cord segment. In addition, the Group also acquired approximately HK\$231,000 (six months ended 30 June 2016: HK\$79,000) of other property, plant and equipment in the current interim period.

During the six months ended 30 June 2017, the Group disposed of certain machineries with an aggregate carrying amount of HK\$174,000 (six months ended 30 June 2016: HK\$1,476,000) for cash proceeds of HK\$86,000 (six months ended 30 June 2016: HK\$1,497,000), resulting in a loss on disposal of HK\$88,000 (six months ended 30 June 2016: a gain on disposal of HK\$21,000).

During the six months ended 30 June 2017 and 2016, the management conducted reviews on the recoverable amounts of the property, plant and equipment of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC"), an indirect wholly owned subsidiary of the Company, and determined that there was no impairment to the carrying amount of these property, plant and equipment. The recoverable amounts of the relevant assets of TESC as at 30 June 2017 and 2016 were determined based on value in use calculation and certain key assumptions. Value in use calculation used cash flow projections based on financial budgets approved by the management covering a four and a half year period. Discount rate used for the value in use calculation is at 11.60% (six months ended 30 June 2016: 10.97%). Cash flow beyond the four and a half year period was extrapolated using a zero growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which included gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

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

For the six months ended 30 June 2017

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

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\$7,891,000 (six months ended 30 June 2016: HK\$1,519,000) has been credited to profit or loss for the period.

In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use.

Market comparable approach has been adopted for valuing the Group's industrial property units in Hong Kong and residential property units in the PRC under investment properties. In determining the Group's industrial property units and residential property units value, adjusted market price per square foot/square meter, taking into account the differences in time, location and individual factors, such as floor and size, between the comparables and the corresponding properties, was ranged from HK\$4,900 to HK\$6,600 (31 December 2016: HK\$4,800 to HK\$5,300) per square foot and ranged from HK\$34,500 to HK\$45,800 (31 December 2016: HK\$25,000 to HK\$34,500) per square meter, respectively. An increase in the market price per square foot/square meter used would result in an increase in fair value measurement of the industrial property units and residential property units, and vice versa.

Fair values of the Group's investment properties are categorised as Level 3 measurement in the three-level fair value hierarchy. During the period, there were no transfers between levels within the fair value hierarchy.

The leasehold land and buildings of approximately HK\$347,330,000 (31 December 2016: HK\$342,325,000) 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 method at the end of the reporting period. The resulting surplus on revaluation of leasehold land and buildings has been credited to property revaluation reserve of approximately HK\$11,416,000 (six months ended 30 June 2016: HK\$12,071,000).

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

For the six months ended 30 June 2017

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

In estimating the fair value of the leasehold land and buildings, the highest and best use of the leasehold land and buildings is their current use.

Market comparable approach has been adopted for valuing the Group's industrial property units in Hong Kong and commercial property unit in the PRC under leasehold land and building. In determining the Group's industrial property units and commercial property unit value, adjusted market price per square foot/square meter, taking into account the differences in time, location and individual factors, such as floor and size, between comparables and the corresponding properties, was ranged from HK\$5,000 to HK\$5,200 (31 December 2016: HK\$4,800 to HK\$5,000) per square foot and was approximately HK\$20,700 (31 December 2016: HK\$20,100) per square meter, respectively. An increase in the price per square foot/square meter used would result in an increase in fair value measurement of the leasehold land and buildings, and vice versa.

Depreciated replacement cost approach has been adopted for valuing the Group's industrial property units in the PRC. Two of the key inputs used in valuing the Group's industrial property units were unit replacement cost and adopted depreciation rate, based on the valuer's professional judgement. The unit replacement cost, based on current cost of replacement (reproduction) of a property, was ranged from HK\$876 to HK\$1,947 (31 December 2016: HK\$847 to HK\$1,889) per square meter. If the unit replacement cost to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would increase/decrease by approximately HK\$16.7 million (31 December 2016: HK\$16.5 million). If the adopted depreciation rate to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would decrease/increase by approximately HK\$3.0 million (31 December 2016: HK\$2.8 million).

Fair values of the Group's leasehold land and buildings are categorised as Level 3 measurement in the three-level fair value hierarchy. During the period, there were no transfers between levels within the fair value hierarchy.

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

For the six months ended 30 June 2017

### 12. TRADE RECEIVABLES/BILLS RECEIVABLE

The Group normally allows credit periods 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 or on the date that titles of goods have passed, which approximated the respective revenue recognition dates, is as follows:

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
0 – 90 days	<b>433,927</b>	433,128
91 – 180 days	<b>148,797</b>	115,298
Over 180 days	<b>14,002</b>	14,736
	<b>596,726</b>	563,162

An aged analysis of bills receivable 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 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
0 – 90 days	<b>52,436</b>	22,036
91 – 180 days	<b>329,255</b>	134,139
Over 180 days	<b>286,850</b>	323,031
	<b>668,541</b>	479,206

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

For the six months ended 30 June 2017

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

Included in bills receivable as at 30 June 2017 was an amount of approximately HK\$148,828,000 (31 December 2016: HK\$92,411,000) and approximately HK\$427,516,000 (31 December 2016: HK\$300,418,000) that have been discounted to banks (note 16) and have been endorsed to certain creditors, respectively, on a full recourse basis.

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.

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
0 – 90 days	<b>149,804</b>	111,686
91 – 180 days	<b>2,599</b>	10,908
Over 180 days	<b>11,838</b>	11,113
	<b>164,241</b>	133,707

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

For the six months ended 30 June 2017

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

Movement in the allowance for bad and doubtful debts:

	HK\$'000
At 1 January 2016 (Audited)	51,028
Exchange realignment	(2,968)
Impairment losses recognised on receivables	658
Impairment losses reversed on receivables	(29,589)
<hr/>	
At 31 December 2016 (Audited)	19,129
Exchange realignment	586
Impairment losses recognised on receivables	220
Impairment losses reversed on receivables	(220)
<hr/>	
At 30 June 2017 (Unaudited)	19,715

During the six months ended 30 June 2016, HK\$508,000 (six months ended 30 June 2017: Nil) has been recovered from bad debts previously written off.

### 13. TRADE AND BILLS PAYABLES

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Trade payables	<b>557,331</b>	437,254
Bills payable	<b>53,889</b>	3,354
<hr/>		
	<b>611,220</b>	440,608

The bills payable are secured by pledged bank deposits.



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

For the six months ended 30 June 2017

### 13. TRADE AND BILLS PAYABLES (continued)

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
0 – 30 days	<b>111,134</b>	142,287
31 – 90 days	<b>216,982</b>	121,497
91 – 180 days	<b>181,650</b>	140,691
181 – 365 days	<b>38,080</b>	22,004
Over 1 year	<b>9,485</b>	10,775
	<b>557,331</b>	437,254

An aged analysis of bills payable at the end of the reporting period presented based on purchase invoice date is as follows:

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
0 – 30 days	<b>10,643</b>	–
31 – 90 days	<b>4,335</b>	3,354
91 – 180 days	<b>35,131</b>	–
181 – 365 days	<b>3,780</b>	–
	<b>53,889</b>	3,354

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

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

For the six months ended 30 June 2017

### 14. OTHER PAYABLES AND ACCRUALS

At 30 June 2017, included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK\$37,627,000 (31 December 2016: HK\$28,099,000).

### 15. LOANS FROM RELATED COMPANIES

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Loan from a related company ( <i>Note i</i> )	–	161,000
Loan from a related company ( <i>Note ii</i> )	<b>61,977</b>	72,211
	<b>61,977</b>	233,211
Less: Amount shown under current liabilities	<b>(26,850)</b>	(186,090)
Amount shown under non-current liabilities	<b>35,127</b>	47,121

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

For the six months ended 30 June 2017

### 15. LOANS FROM RELATED COMPANIES (continued)

*Notes:*

- i* At 31 December 2016, the amount represents the loan from and interest payable to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang HK"). The Company is an associate of Shougang HK. The loan is unsecured, bear interest at 6% per annum and repayable within one year. The loan was fully repaid during the six months ended 30 June 2017.
- ii* On 29 June 2016, TESC had entered into agreements (the "Agreement") with South China International Leasing Co., Ltd. ("South China Leasing") whereby TESC had drawn down a loan of RMB70,000,000 (equivalent to approximately HK\$81,159,000) from South China Leasing on 16 August 2016 which is to be repayable by 12 quarterly instalments plus interest at 5.13% per annum and obligated to pay lease handling fee of RMB2,100,000 (equivalent to approximately HK\$2,454,000). South China Leasing is an indirect 75% owned subsidiary of Shougang Concord Grand (Group) Limited, which is in turn held as to approximately 50.53% by Shougang HK. As such, Shougang HK is the controlling shareholder of South China Leasing.

As collaterals for the above financing,

- (a) TESC transferred the ownership title of certain machineries and equipment ("Machineries and Equipment") to South China Leasing;
- (b) TESC placed a pledged deposit of RMB7,000,000 (equivalent to approximately HK\$8,065,000) to South China Leasing; and
- (c) the Company entered into a guarantee agreement in favour of South China Leasing for the payment obligations of TESC under the Agreement.

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

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

For the six months ended 30 June 2017

### 16. BANK BORROWINGS

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Other bank loans	<b>773,306</b>	801,337
Less: loan transaction costs	<b>(1,571)</b>	(3,321)
	<b>771,735</b>	798,016
Trust receipt loans	<b>14,337</b>	10,125
Discounted bills with recourse	<b>148,828</b>	92,411
	<b>934,900</b>	900,552
Secured	<b>186,209</b>	101,070
Unsecured	<b>748,691</b>	799,482
	<b>934,900</b>	900,552

During the six months ended 30 June 2017, the Group obtained new bank borrowings of approximately HK\$417,646,000 (six months ended 30 June 2016: HK\$284,727,000) and repaid bank borrowings of approximately HK\$303,338,000 (six months ended 30 June 2016: HK\$433,739,000). At 30 June 2017, the Group's bank borrowings carry interest at market rates ranging from 2.96% to 6.40% per annum (31 December 2016: 2.81% to 5.79% per annum) and are repayable within one year (31 December 2016: repayable within one year).

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

For the six months ended 30 June 2017

### 17. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period, the Group entered into foreign currency future contracts to minimise its exposure to the fluctuation of RMB with an aggregate notional amount of USD3,000,000 and at future rates of RMB7.0621 to USD1, RMB7.0485 to USD1 and RMB7.0440 to USD1. The final settlement date of the foreign currency future contracts is on 20 December 2017 and these contracts are classified as financial liabilities designated as at FVTPL at 30 June 2017.

### 18. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
<b>Issued and fully paid</b>		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	1,922,901	1,191,798

### 19. SHARE-BASED PAYMENT TRANSACTIONS

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 number of issued shares 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 share options have been granted under the 2012 Scheme during the six months ended 30 June 2017 and 30 June 2016. The share options which have been granted and remained outstanding under the 2002 Scheme shall remain valid and exercisable in accordance with their terms of issue.

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

For the six months ended 30 June 2017

### 19. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

	<b>Number of share options</b>
Outstanding at 1 January 2016	114,268,000
Lapsed during the year	(3,300,000)
<hr/>	
Outstanding at 31 December 2016 and 1 January 2017	110,968,000
Lapsed during the period	(3,268,000)
<hr/>	
Outstanding at 30 June 2017	107,700,000

### 20. CAPITAL COMMITMENTS

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (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>61,945</b>	340
– authorised but not contracted for	<b>1,526</b>	–
<hr/>		
	<b>63,471</b>	340

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

For the six months ended 30 June 2017

### 21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial liability	Fair value as at		Fair value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable inputs to fair value
	30/06/2017	31/12/2016				
Foreign currency future contracts classified as financial liabilities designated as at FVTPL (see note 17)	<b>Liabilities:</b> <b>HK\$639,000</b>	N/A	Level 3	Quoted future exchange rates of the contracts.	Future exchange rate	The larger the extent between the future exchange rate and spot rate, the greater the fair value change

There were no transfers into or out of Level 3 during the period.

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

For the six months ended 30 June 2017

### 22. RELATED PARTY TRANSACTIONS/BALANCES

The Company is an associate of Shougang HK, which is a wholly owned subsidiary of Shougang Group Co., Ltd., a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission. Shougang Group Co., Ltd., 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.

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

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

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	480	480
Rental expenses paid to Shougang HK Group	1,620	1,620
Loans repaid to Shougang HK Group	172,545	50,000
Interest expenses on loans from Shougang HK Group	3,034	370

##### (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, these transactions are considered as individually insignificant to the operation of the Group during the reporting period.



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

For the six months ended 30 June 2017

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

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

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

#### **(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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Director fees	–	–
Salaries and other benefits	3,393	3,392
Retirement benefit scheme contributions	125	125
	<b>3,518</b>	<b>3,517</b>

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.

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

In July 2017, the Company has entered into a general banking facilities agreement with a bank for a term loan of HK\$300,000,000. The term loan carries interest at Hong Kong Inter-bank Offered Rate plus 3% per annum and is repayable within 42 months from the date of first drawdown, i.e. 13 July 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Review of operations*

The PRC recorded a stable economic growth of 6.9% in the first half year, which was mainly contributed by the increase in domestic demand, fixed assets investments, property development and infrastructure and construction. The sentiment of industrial sectors also improved during the first half year, these brought along the solid recovery in the demand for radial tyres from the automobile and transportation sectors that boosted the growth in demand for steel cord. Compared with the weak sales in the same period last year, the Steel cord segment achieved growth in both sales volume and selling price during the period under review. This segment achieved a significant increase in operating profit from HK\$3,554,000 in same period last year to HK\$49,636,000 during the period.

In respect of Copper and brass products segment, sales volume declined during the period in both the PRC and Hong Kong. However, revenue had a moderate increase that was attributable to the double-digit increase in copper price. Management continued to adopt strict operating cost control, and this segment had a slight turnaround from operating loss of HK\$59,000 in same period last year to operating profit of HK\$131,000 during the period.

For the Group as a whole, contributed by the encouraging improvements in operating performance of Steel cord segment and foreign exchange gain arising from RMB appreciation, the Group accomplished turnaround from substantial loss of HK\$46,682,000 in the previous period to profit of HK\$24,372,000 during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord*

##### *Overall performance*

This segment achieved a growth in sales volume of 9.3% over the same period last year, which was driven by the increase in demand for radial tyres and reflected the result of our strategy to expand our coverage on large-scale and multinational tyre manufacturers and the fine-tuning of sales mix to flexibly meet our customers' requirements. In respect of selling price of steel cord, the average selling price also significantly increased by 21.8% due to the recovery of steel cord market principally attributable to stable economic performance and traversing towards equilibrium in the market dynamics together with the introduction of new products and expansion of exports.

As a result of the increase in both sales volume and selling price, this segment achieved a marked increase in gross profit as compared to the same period last year. Gross profit amounted to HK\$120,561,000 for the period, sharply increased by 1.3 times as compared to HK\$52,591,000 for the same period last year.

Henceforth the discernible increase in gross profit, EBITDA also increased significantly from last period of HK\$65,788,000 to HK\$110,016,000 in current period. This segment recorded operating profit of HK\$49,636,000 for the period, as compared to operating profit of HK\$3,554,000 for same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### Steel cord (continued)

##### Revenue

This segment sold 77,700 tonnes of steel cord during the period, noticeably increased by 9.3% as compared to 71,089 tonnes in the same period last year. In respect of its other steel wires business, this segment sold an aggregate of 2,913 tonnes of wire products during the period, significantly increased by 82.2 times as compared to 35 tonnes for the same period last year. The sales volume of this segment for the period is analysed as follows:

	2017		2016		% 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	51,371	66.1	46,066	64.8	+11.5
– off the road truck tyres	1,959	2.5	1,496	2.1	+30.9
– passenger car tyres	24,370	31.4	23,527	33.1	+3.6
<b>Total for steel cords</b>	<b>77,700</b>	<b>100.0</b>	71,089	100.0	<b>+9.3</b>
Sawing wire products	246		233		+5.6
Other steel wires	2,913		35		+8222.9
<b>Total</b>	<b>80,859</b>		71,357		<b>+13.3</b>

The sales volume of steel cord for all aforesaid types of tyres recorded growth. In respect of sales mix, there was no significant change during the period, the proportion of sales of steel cord for truck tyres accounted for 66.1% of total sales volume of steel cord for the period, increased by 1.3 percentage points as compared to the same period last year, remained the largest share of sales of steel cord of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### Steel cord (continued)

#### Revenue (continued)

In respect of sales of steel cord by region, the volume of export sales of steel cord amounted to 15,404 tonnes for the period, increased by 33.3% as compared to 11,553 tonnes for the same period last year. The volume of export sales represented 19.8% of total sales volume of steel cord for the period, increased by 3.6 percentage points as compared to 16.2% for the same period last year. The breakdown of sales volume of steel cord for the period by geographical location is as follows:

	2017		2016		% change
	Sales volume (Tonne)	% of total sales volume of steel cords	Sales volume (Tonne)	% of total sales volume of steel cords	
PRC	62,296	80.2	59,536	83.8	+4.6
Export sales:					
Asia (other than PRC)	9,837	12.7	7,630	10.7	+28.9
EMEA (Europe, Middle East and Africa)	3,688	4.7	2,646	3.7	+39.4
North America	1,143	1.5	1,111	1.6	+2.9
South America	736	0.9	166	0.2	+343.4
Total export sales	15,404	19.8	11,553	16.2	+33.3
Total	77,700	100.0	71,089	100.0	+9.3

In respect of selling price, we were able to raise selling price in a widespread aspect, due to the rebound in steel prices and the relief in overcapacity situation of steel cord industry together with the introduction of new products and expansion of exports during the period. The average selling price of steel cord for the period increased by approximately 21.8% as compared to same period last year.

The sales volume growth of 9.3% in steel cord and the increase in average selling price of 21.8% caused the revenue of this segment to increase by 29.2% over the same period last year to HK\$815,660,000 (2016: HK\$631,483,000) for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord (continued)*

##### *Cost of sales*

Cost of sales of this segment increased by 20.1% to HK\$695,099,000 (2016: HK\$578,892,000) for the period, which was gratifyingly lower than the revenue growth of 29.2%.

Cost of major raw materials, wire rod, increased significantly for the period, and was partly offset by lower average unit cost of production driven by the higher capacity utilization of and painstaking cost reduction measures by our two manufacturing plants. The average unit cost of production of steel cord increased by approximately 14.6% as compared to same period last year.

##### *Gross profit*

Gross profit of this segment sharply increased by 1.3 times over the same period last year to HK\$120,561,000 (2016: HK\$52,591,000) for the period. Gross profit margin significantly improved from 8.3% in the same period last year to 14.8% for the period.

##### *Investment and other income*

Investment and other income amounted to HK\$1,158,000 for the period, increased by 1.6 times as compared to HK\$450,000 for the same period last year, mainly as sales of scrap materials increased during the period.

##### *Allowance for bad and doubtful debts reversed, net and bad debts recovered (written off)*

This segment continued to enhance credit control on sales and collection of trade receivables and simultaneously, incessantly pursue on the collection of long overdue trade receivables since previous years. An allowance for bad and doubtful debts of HK\$6,654,000 was reversed for same period last year, while no discernible results achieved and as such no allowance for bad and doubtful debts were reversed in the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Steel cord (continued)*

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

The operating performance of this segment improved significantly during the period, as demonstrated by the growth in sales volume, average selling price and gross profit margin. Based on the performance of this segment in the first half year and same period last year, we are of the view that no further impairment loss is required to be recognised in respect of property, plant and equipment of both JESC and TESC.

##### *Distribution and selling expenses*

Distribution and selling expenses increased by 29.7% over the same period last year to HK\$27,928,000 (2016: HK\$21,535,000) for the period commensurable to the 29.2% growth in revenue over the same period last year.

##### *Administrative expenses*

Administrative expenses amounted to HK\$18,036,000 for the period, increased by 15.7% as compared to HK\$15,594,000 for the same period last year, which is deemed linear to the revenue growth over the same period last year.

##### *Research and development expenses*

Research and development expenses amounted to HK\$26,741,000 (2016: HK\$22,809,000) for the period, increased by 17.2% as compared to same period last year. These expenses accounted for 3.3% of revenue for the period, decreased by 0.3 percentage points as compared to 3.6% for the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

#### *Copper and brass products*

##### *Overall performance*

The sales volume of this segment decreased by 11.2% as compared to the same period last year, while revenue of this segment increased by 6.1% due to higher average selling price. Management continued to adopt strict operating cost control, and this segment has turnaround from operating loss of HK\$59,000 in same period last year to operating profit of HK\$131,000 during the period. In view of lackluster demand and cost considerations, we had downsized our Hong Kong operation during the period and shifted the focus to mainland China.

##### *Revenue*

This segment sold 3,733 tonnes of copper and brass products during the period, decreased by 11.2% as compared to 4,202 tonnes for the same period last year. The sales to customers in the PRC decreased by 8.6%, and sales to customers in Hong Kong declined by 19.6% as compared to the same period last year. The breakdown of sales volume of this segment for the period by geographical regions is as follows:

	Six months ended 30 June					% change
	2017		2016			
	Sales volume (Tonne)	% of total sales volume	Sales volume (Tonne)	% of total sales volume		
PRC	2,939	78.7	3,214	76.5	-8.6	
Hong Kong	794	21.3	988	23.5	-19.6	
Total	3,733	100.0	4,202	100.0	-11.2	



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

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

##### *Revenue (continued)*

Copper price recorded a rebound during the first half year, in which the 3-month copper price as quoted by the London Metals Exchange recorded an increase of approximately 6.0% throughout the period under review. The average selling price of this segment for the period recorded a year-on-year increase of 19.5% as compared to the same period last year. The contribution from increased selling price was partly offset by the decrease in sales volume. Therefore, this segment recorded an increase in revenue of 6.1% as compared to the same period last year to HK\$163,084,000 (2016: HK\$153,656,000) for the period.

##### *Gross profit*

Despite revenue increased by 6.1% as compared to the same period last year, gross profit recorded a decrease of 27.1% as compared to the same period last year to HK\$3,365,000 (2016: HK\$4,613,000) for the period. Gross profit margin dropped by 0.9 percentage point from 3.0% of the same period last year to 2.1% for the period.

##### *Allowance for bad and doubtful debts*

An allowance for bad and doubtful debts of HK\$656,000 has been made for a trade receivable aged over one year in same period last year, while nil for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review

The Group reported profit of HK\$24,372,000 for the period, a significant turnaround as compared to loss of HK\$46,682,000 for same period last year. The operation performance and key financial information of the Group for the period is analysed as follows:

	Six months ended 30 June		Change
	2017 HK\$'000	2016 HK\$'000	
<b>OPERATING PERFORMANCE</b>			
Revenue	<b>979,887</b>	776,156	<b>+26.2%</b>
Gross profit margin	<b>12.8%</b>	7.5%	<b>+5.3pp</b>
EBITDA	<b>114,649</b>	38,402	<b>+198.5%</b>
EBITDA margin	<b>11.7%</b>	4.9%	<b>+6.8pp</b>
Profit (loss) for the period	<b>24,372</b>	(46,682)	<b>N/A</b>
Net profit (loss) margin	<b>2.5%</b>	-6.0%	<b>+8.5pp</b>
Basic earnings (loss) per Share (HK cents)	<b>1.27</b>	(2.43)	<b>N/A</b>
<hr/>			
	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000	Change
<b>KEY FINANCIAL INFORMATION</b>			
Total assets	<b>3,153,637</b>	3,037,042	<b>+3.8%</b>
Total liabilities	<b>1,750,135</b>	1,715,077	<b>+2.0%</b>
Equity attributable to equity holders of the Company	<b>1,403,502</b>	1,321,965	<b>+6.2%</b>
Net current assets	<b>77,267</b>	26,160	<b>+195.4%</b>
Bank balances and cash (including pledged deposits)	<b>84,887</b>	308,355	<b>-72.5%</b>
Total interest bearing borrowings	<b>996,877</b>	1,133,763	<b>-12.1%</b>
Net interest bearing borrowings	<b>911,990</b>	825,408	<b>+10.5%</b>
<hr/>			
Current ratio (times)	<b>1.05</b>	1.02	
Gearing ratio (%)	<b>65.0%</b>	62.4%	<b>+2.6pp</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Revenue

Revenue of the Group amounted to HK\$979,887,000 (2016: HK\$776,156,000) for the period, increased by 26.2% over the same period last year. The breakdown of revenue of the Group for the period is as follows:

	2017		2016		% change
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
Steel cord	815,660	83.2	631,483	81.4	+29.2
Copper and brass products	163,084	16.7	153,656	19.8	+6.1
Sub-total	978,744	99.9	785,139	101.2	+24.7
Elimination of sales by Copper and brass products segment to Steel cord segment	–	–	(9,832)	(1.3)	N/A
Property rental	1,143	0.1	849	0.1	+34.6
Total	979,887	100.0	776,156	100.0	+26.2

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Gross profit

Gross profit of the Group sharply increased by 115.5% over the same period last year to HK\$124,988,000 (2016: HK\$57,997,000) for the period, which was mainly contributed by the substantial improvement in gross profit of Steel cord segment. Gross profit margin of the Group also increased by 5.3 percentage points as compared to the same period last year to 12.8% for the period. The breakdown of gross profit of the Group for the period is as follows:

	Six months ended 30 June				
	2017		2016		% change
	HK\$'000	Gross profit margin (%)	HK\$'000	Gross profit margin (%)	
Steel cord	120,561	14.8	52,591	8.3	+129.2
Copper and brass products	3,365	2.1	4,613	3.0	-27.1
Property rental	1,062	92.9	793	93.4	+33.9
<b>Total</b>	<b>124,988</b>	<b>12.8</b>	<b>57,997</b>	<b>7.5</b>	<b>+115.5</b>

#### Investment and other income

Investment and other income increased by 58.8% over the same period last year to HK\$1,348,000 (2016: HK\$849,000) for the period, primarily as sales of scrap materials increased as compared to the same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Other gains and losses

The Group recorded net gain of HK\$19,683,000 on other gains and losses for the period, as compared to net loss of HK\$2,075,000 for the same period last year. The breakdown of other gains and losses for the period is as follows:

	Notes	Six months ended 30 June		% change
		2017 HK\$'000	2016 HK\$'000	
Foreign exchange gain (losses), net	1	12,509	(10,121)	N/A
Increase in fair value of investment properties		7,891	1,519	+419.5
Fair value change in financial liabilities through FVTPL	2	(629)	–	N/A
(Loss) gain on disposal of property, plant and equipment, net		(88)	21	N/A
Allowance for bad and doubtful debts reversed, net		–	5,998	–100.0
Bad debts recovered		–	508	–100.0
<b>Total</b>		<b>19,683</b>	<b>(2,075)</b>	<b>N/A</b>

#### Notes:

1. The exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") recorded an increase of approximately 3.2% against HKD over the first half year, against a decrease of 2.0% in the same period last year. Attributable to the increase in the official RMB exchange rate during the period, the Group recorded foreign exchange gain of HK\$12,509,000 (2016: foreign exchange loss of HK\$10,121,000) on its HKD and USD denominated interest bearing borrowings during the period.
2. Please refer to the section "**Foreign Currency And Interest Rate Exposures**" for details.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### *Distribution and selling expenses*

Distribution and selling expenses amounted to HK\$29,062,000 (2016: HK\$23,136,000) for the period, increased by 25.6% over the same period last year, as the revenue of Steel cord and Copper and brass products segments increased by 29.2% and 6.1% respectively over the same period last year.

#### *Administrative expenses*

Administrative expenses amounted to HK\$36,393,000 (2016: HK\$35,241,000) for the period, increased by 3.3% as compared to the same period last year. As the revenue of the Group increased by 26.2% as compared to the same period last year, the ratio of administrative expenses to revenue therefore lowered from 4.5% in the same period last year to 3.7% for the period.

#### *Research and development expenses*

Research and development expenses of the Group amounted to HK\$26,741,000 for the period, increased by 17.2% as compared to HK\$22,809,000 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\$49,767,000 from its business segments for the period, representing a significant improvement as compared to profit of HK\$3,495,000 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		
	2017 HK\$'000	2016 HK\$'000	% change
Steel cord	49,636	3,554	+1296.6
Copper and brass products	131	(59)	N/A
<b>Total</b>	<b>49,767</b>	<b>3,495</b>	<b>+1323.9</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### *Finance costs*

Finance costs amounted to HK\$25,864,000 for the period, increased by 12.7% as compared to HK\$22,953,000 for the same period last year. The increase was mainly attributable to the incurred interest expenses on loans from related companies. The average amount of loans from related companies was HK\$147,594,000 for the period, increased by 464.9% as compared to HK\$26,126,000 for the same period last year.

#### *Income tax expenses*

Income tax expenses amounted to HK\$3,587,000 for the period, as compared to income tax credit of HK\$686,000 in same period last year. The Group recorded deferred tax expenses of HK\$3,416,000 for the period (2016: deferred tax credit of HK\$223,000), which was mainly attributable to revaluation of properties.

In respect of income tax rates, JESC has been recognised as a state-encouraged high-new technology enterprise starting since 2014 and thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016. The application of the renewal of high-new technology enterprise was submitted in July 2017. In the opinion of the Directors, JESC should be qualified as a state-encouraged high-new technology enterprise to enjoy the preferential tax rate of 15% in the whole year of 2017. For the Company and subsidiaries operating in Hong Kong, they are subject to Hong Kong Profits Tax at a rate of 16.5% (2016: 16.5%) for the period. For subsidiaries operating in the PRC (other than JESC), pursuant to the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law (the "Implementation Regulation"), the subsidiaries operating in the PRC, are subject to a tax rate of 25% (2016: 25%) for the period.

In addition, according to the EIT Law and Implementation Regulation and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Group is subject to withholding tax on dividends paid by subsidiaries in the PRC to holding companies in Hong Kong at a rate of 5% (2016: 5%).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Trade receivables

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK\$616,441,000 as at 30 June 2017, increased by 5.9% as compared to HK\$582,291,000 as at 31 December 2016, as revenue increased during the period. The amount of allowance for bad and doubtful debts amounted to HK\$19,715,000, increased by 3.1% as compared to HK\$19,129,000 as at 31 December 2016. The trade receivables (after allowance for bad and doubtful debts) amounted to HK\$596,726,000 as at 30 June 2017, increased by 6.0% as compared to HK\$563,162,000 as at 31 December 2016.

The aged analysis of trade receivables (after allowance for bad and doubtful debts) as at 30 June 2017 and the comparison with the end of 2016 are as follows:

Age	30 June 2017		31 December 2016		% change
	HK\$'000	%	HK\$'000	%	
0 – 90 days	<b>433,927</b>	<b>72.7</b>	433,128	76.9	<b>+0.2</b>
91 – 180 days	<b>148,797</b>	<b>24.9</b>	115,298	20.5	<b>+29.1</b>
Over 180 days	<b>14,002</b>	<b>2.4</b>	14,736	2.6	<b>-5.0</b>
Total	<b>596,726</b>	<b>100.0</b>	563,162	100.0	<b>+6.0</b>

The overall quality of trade receivables remained healthy and in manageable condition, as trade receivables aged within 180 days accounted for 97.6% of total trade receivables as at 30 June 2017, slightly increased by 0.2 percentage point as compared to 97.4% at the end of 2016. The percentage of trade receivables which are past due but not impaired to total trade receivables was 27.5% as at 30 June 2017, increased by 3.8 percentage point as compared to 23.7% at the end of 2016.

Regarding the balance of the allowance for bad and doubtful debts of HK\$19,715,000 as at 30 June 2017, they mainly represented those made for receivables from sales of steel cord and sawing wire products. We will continue to use our best endeavors to recover those receivables that are still outstanding, including the negotiation of payment by way of assets other than cash and/or instituting legal actions against those customers to claim our payment.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Financial Review (continued)

#### Trade receivables (continued)

In respect of the trade receivables as at 30 June 2017, approximately 43.0% has been subsequently settled by cash or bills receivable up to 24 August 2017. The details of subsequent settlement of trade receivables of the Group and from top five customers of the Group for the period are as follows:

Age	Total trade receivables of the Group		Trade receivables from top five customers of the Group	
	Amount as at 30 June 2017 HK\$'000	% of subsequent settlement	Amount as at 30 June 2017 HK\$'000	% of subsequent settlement
0-90 days	433,927	32.8	180,978	32.7
91-180 days	148,797	74.1	55,214	82.1
Over 180 days	14,002	27.1	451	96.3
Total	<b>596,726</b>	<b>43.0</b>	<b>236,643</b>	<b>44.3</b>

#### Treasury and Funding Policies

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

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

#### Share Capital, Liquidity and Financial Resources

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

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

There was no change in the total number of issued shares of the Company during the period. The total number of issued shares of the Company remained at 1,922,900,556 Shares as at 30 June 2017. Net asset value of the Group was HK\$1,403,502,000 as at 30 June 2017, increased by 6.2% as compared to HK\$1,321,965,000 as at 31 December 2016, attributable to the profit and the positive impact on appreciation of RMB exchange rate against HKD of approximately 3.2% during the period. Net asset value per Share was HK\$0.730 as at 30 June 2017, also increased by 6.2% as compared to HK\$0.687 as at 31 December 2016.

#### *Cash flows*

The Group generated net cash operating outflow of HK\$139,690,000 for the period as follows:

	<b>HK\$'000</b>
Net cash used in operating activities as per condensed consolidated statement of cash flows	(139,690)
Add: Operating cash inflows not reflected in condensed consolidated statement of cash flows (non-cash transactions):	
Bills receivable that has been discounted to banks and matured during the period	96,546
Bills receivable endorsed to creditors of the Group at 31 December 2016 to settle payable for acquisition of property, plant and equipment and matured during the period	14,008
<b>Net operating activities cash outflow for the period</b>	<b>(29,136)</b>

In respect of cash flows on other activities:

1. The Group incurred net cash outflow on investing activities of HK\$30,235,000 during the period, in which HK\$10,578,000 incurred mainly on the capital expenditures incurred by Steel cord segment; and
2. The Group incurred net cash outflow on financing activities of HK\$82,968,000 during the period. When bank advances for discounted bills of HK\$96,546,000 have been repaid upon maturity of those bills during the period were included, the Group incurred net cash outflow of HK\$179,514,000 on financing activities during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

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

The Group's bank balances and cash (including pledged bank deposits) amounted to HK\$84,887,000 as at 30 June 2017, decreased by 72.5% as compared to HK\$308,355,000 as at 31 December 2016. Total interest bearing borrowings of the Group (comprised of loans from related companies and bank borrowings) were HK\$996,877,000 as at 30 June 2017, decreased by 12.1% as compared to HK\$1,133,763,000 as at 31 December 2016.

As at 30 June 2017, HK\$444,516,000 of these interest bearing borrowings were floating-rate borrowings, while HK\$552,361,000 of interest bearing borrowings were collared at rate ranging from 2.96% to 6.40% per annum. The nature and maturing profile of the Group's bank borrowings as at 30 June 2017, based on contracted repayment schedules were as follows:

	HK\$'000	% of total interest bearing borrowings
Due in the second half year of 2017 or on demand:		
– Trust receipt loans	14,337	1.4
– Short term bank loans	569,370	57.2
– Bank advances for discounted bills	148,828	14.9
<b>Total due in second half year of 2017</b>	<b>732,535</b>	<b>73.5</b>
Due in first half year of 2018:		
– Short term bank loans	203,936	20.5
Loan from a related company:		
– Due in second half year of 2017	13,425	1.3
– Due in first half year of 2018	13,425	1.3
– Due after first half year of 2018 and 2019	35,127	3.6
	61,977	6.2
Unamortised loan arrangement fees	998,448 (1,571)	100.2 (0.2)
<b>Total</b>	<b>996,877</b>	<b>100.0</b>

The Group planned to service the interest bearing borrowings due in the second half year of 2017 by cash flow generated from its operations and refinancing from banks.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### *Debt and liquidity ratios*

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash (including pledged bank deposits) divided by Shareholders' equity) of the Group increased from 62.4% as at 31 December 2016 to 65.0% as at 30 June 2017. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.05 times as at 30 June 2017, as compared to 1.02 times as at 31 December 2016.

#### 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 interest bearing borrowings. The respective currency composition of the Group's bank balances and cash (including pledged bank deposits) and interest bearing borrowings was as follows:

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

	30 June 2017		31 December 2016	
	HK\$'000	% of total bank balances and cash (including pledged bank deposits)	HK\$'000	% of total bank balances and cash (including pledged bank deposits)
RMB	70,697	83.3	90,941	29.5
HKD	3,890	4.6	184,735	59.9
USD	8,294	9.8	26,733	8.7
Other currencies	2,006	2.3	5,946	1.9
<b>Total</b>	<b>84,887</b>	<b>100.0</b>	<b>308,355</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### *Interest bearing borrowings*

	30 June 2017		31 December 2016	
	HK\$'000	% of total interest bearing borrowings	HK\$'000	% of total interest bearing borrowings
RMB	584,111	58.6	565,959	49.9
HKD	412,766	41.4	566,338	50.0
USD	-	0.0	1,466	0.1
<b>Total</b>	<b>996,877</b>	<b>100.0</b>	<b>1,133,763</b>	<b>100.0</b>

In respect of exposure to interest rate risk, even though the majority of the interest bearing borrowings as at 30 June 2017 are at floating rate, the Group has not entered into any interest rate swaps to contain any upside risks on interest rate to the results and cash flows of the Group, as all of these floating rate borrowings are for a term of less than one year at the end of reporting period. While the interest rate of USD is expected to rise, we do not anticipate an aggregate level of magnitude arisen in the second half of 2017.

During the period under review, the exchange rate of RMB has appreciated by approximately 3.2% against HKD. The appreciation of RMB exchange rate will have positive impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD and USD. The Group has entered into derivative financial instruments to hedge against foreign currency risk for the period. The Group has recorded losses of HK\$629,000 from change in fair value of derivative financial instruments due to appreciation of RMB during the period. We will review and adjust, when necessary, the currency composition of our interest bearing borrowings from time to time to minimize our risks on exchange and interest rate in respect of our interest bearing borrowings. In any event, we will keep monitoring the currency and interest rate composition of the Group's interest bearing borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

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

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

Capital expenditures incurred by the Group during the period amounted to HK\$14,702,000, 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 2017 are estimated to be approximately HK\$73,538,000, which are to be incurred by Steel cord segment mainly for enhancement of production efficiency of the two manufacturing plants. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

Further, the Steel cord segment will continue to invest in research and development expenses for development of new specifications of steel cord and sawing wire products; and development of new customers, especially international customers. The research and development expenses to be incurred in the second half year of 2017 are estimated to be maintained at a similar level to the period under review, i.e. within the range of 3% to 4% of total revenue of Steel cord segment.

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

At 30 June 2017, the Group had a total of 2,007 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\$13,491,000.

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

### **Employees, Remuneration Policies and Training Scheme of the Group (continued)**

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

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

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

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

During the period under review, no options were granted, exercised, cancelled and lapsed under the 2012 Scheme while 3,268,000 share options lapsed under the 2002 Scheme.

### **Contingent Liabilities and Pledge of Assets**

The Group has no contingent liabilities as at 30 June 2017.

As at 30 June 2017, the following assets had been pledged to the Group's bankers and a related company for banking facilities and bills payable issued and to secure loan from a related company granted to the Group:

1. Leasehold land and buildings and investment property with an aggregate net book value of HK\$215,690,000 and HK\$7,700,000 respectively;
2. Plant and machinery with an aggregate amount of HK\$97,482,000;

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

### **Contingent Liabilities and Pledge of Assets (continued)**

3. Bank deposits of HK\$21,047,000;
4. Pledged deposits amounting to HK\$8,065,000; and
5. Prepaid lease payments amounting to HK\$68,258,000.

### **Business Outlook**

Riding on the gradual and stable progress on the market dynamics reaching toward a sustainable equilibrium on the steel cord market in the PRC, we are sanguine on the profitability of the Group in 2017. The 13th Five-Year Plan and the One-Belt-One-Road Initiative will open many opportunities for the transport/logistic and automotive industries in the years to come. We have seen a great first quarter in 2017 whilst the latter half of the second quarter had been relatively prosaic, we remain steadfast on our commitment towards operational excellence. We believe there is a noticeable recovery on the amount of orders from our customers, domestic and overseas alike for the rest of the year albeit competitive pricing suffices. Nonetheless, we have maintained our expectation and will continue to strive towards our goals for this year and under the 13th Five-Year Plan. To attain such goals, we will persist to add production capacity within our investment criteria and financial wherewithal, strengthen operating cash inflow, monitor operating or financial risk exposure, implement cost saving measures, and exert further effort to penetrate large scale tyre manufacturers with quality and advanced steel cord products.

The second half of 2017 continues to pose challenges on our operating and export environment. On the one hand, we see stable economic growth in the transport/logistic sectors in the PRC and strong export markets. On the other hand, we are cautious on the movement of the RMB, the timing and magnitude of the regression on the quantitative measures and probable trade protectionism which affect the general economic conditions in the various markets we operate in. Given our core strengths in the recognition of the “Eastern” brand, noticeable cost reduction results, continuous investment in research and development, we are hopeful in achieving satisfactory results for the rest of the year.

### **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: 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 2017.

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

As at 30 June 2017, 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

Name of Director	Total number of Shares held	Approximate % of the total number of issued Shares	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 <i>Note (i)</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 <i>Note (ii)</i>

#### 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.

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

### Long position in Shares (continued)

#### (b) Share options

As at 30 June 2017 there were a total of 57,400,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarised in the following table:

Name of Director	Options to subscribe for Shares					Number of outstanding share options held at the end of the period	Date of grant <i>Note (i)</i>	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the total number of issued Shares
	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	Date of exercise						
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
Mr. Tang	10,000,000	-	-	-	-	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.52
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	-	-	(252,000)	-	1,800,000				Beneficial owner	0.09

## 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 (i)</i>	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the total number of issued Shares
	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						
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	-	-	(1,016,000)	-	1,800,000				Beneficial owner	0.09
	58,668,000	-	-	(1,268,000)	-	57,400,000					

#### 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.
- (iii) A total of 1,268,000 share options at the exercise price of HK\$0.656 lapsed during the period.

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 2017.

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

As at 30 June 2017, 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 total number of issued Shares	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 holding company 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 (other than Directors) and movements in such holdings in relation to 2002 Scheme during the six months ended 30 June 2017:

## 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 <i>Note (i)</i>	Exercise Period	Exercise price per Share HK\$
	Number of outstanding share options held at the beginning of the period	Number of share options lapsed/ cancelled during the period	Number of outstanding share options held at the end of the period			
Employees other than the Directors	30,700,000	(2,000,000) <i>Note (iv)</i>	28,700,000	28/1/2008	28/1/2008 to 27/1/2018	0.864
	100,000	–	100,000 <i>Note (ii)</i>	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 <i>Note (iii)</i>	13/7/2009	1/1/2010 to 12/7/2019	0.680
	1,800,000	–	1,800,000 <i>Note (iii)</i>	13/7/2009	1/1/2011 to 12/7/2019	0.680
	35,300,000	(2,000,000)	33,300,000			
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>52,300,000</b>	<b>(2,000,000)</b>	<b>50,300,000</b>			

## SHARE OPTION SCHEME (continued)

### (a) 2002 Scheme (continued)

*Notes:*

- (i) 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 (ii)* and *(iii)* below.
- (ii) 100,000 share options have a vesting period of three years from the date of grant.
- (iii) 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.
- (iv) 2,000,000 share options at the exercise price of HK\$0.864 lapsed during the period due to the resignation and retirement of certain employees.

### (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 Directors are as follows:

Mr. Li Shaofeng ceased to be the chairman and the executive director of Shougang Grand and Global Digital Creations Holdings Limited with effect from 14 June 2017.

Mr. Law, Yui Lun was appointed as an independent non-executive director of CBK Holdings Limited with effect from 20 January 2017.

Mr. Lam Yiu Kin ceased to be an independent non-executive director of Mason Group Holdings Limited (formerly known as "Mason Financial Holdings Limited") with effect from 24 May 2017. In addition, Mr. Lam was appointed as an independent non-executive director of CITIC Telecom International Holdings Limited with effect from 1 June 2017.



## **CORPORATE GOVERNANCE CODE**

The Board is committed to practicing and achieving a high standard of corporate governance. The Board also recognises that effective risk management and internal control systems are crucial to the long term development of the Company. In order to maintain sound and effective risk management and internal control systems, the Board periodically reviews the daily corporate governance practices and procedures of the Company and its subsidiaries and procure the Company and its subsidiaries have strictly complied with the relevant laws and regulations, and the rules and guidelines of regulatory bodies. The Group issued its Environmental, Social and Governance (ESG) report for the year 2016 in accordance with the requirements under the Listing Rules and certain international standards for the purpose of providing comprehensive and comparative non-financial information to our investors and stakeholders.

### **Risk Management and Internal Control Systems**

The Company has engaged and reappointed Moore Stephens Advisory Services Limited, as the internal auditor of the Company on 16 December 2015 and 16 December 2016 in relation to the provision of internal audit services to the Company throughout the years of 2016 and 2017. The Board also determined that the audit committee takes the responsibility of the review of the risk management and internal control systems, the effectiveness and adequacy of the Company's risk management and internal audit function and its other duties under the Code.

### **Deviation from code provision D.1.4 of 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 2017, except for a deviation from the code provision D.1.4 of the Code.

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

### **Model code for securities transactions by Directors**

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

## CORPORATE GOVERNANCE CODE (continued)

### 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. Lam Yiu Kin. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task including but not limited to monitoring the financial reporting procedures, reviewing internal control and risk management systems of the Group and monitoring the independence of the external auditor. The Company has engaged the external auditor to assist the audit committee to review the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017. 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; discussed the financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2017.

The Company has also engaged the internal auditor regarding provision of internal audit services. During the period, the audit committee members had meetings with the representatives of the internal auditor to (i) review the internal audit services including preparation of preliminary internal audit report, performed by the internal auditor regarding the effectiveness of risk management and internal control systems of the Group during 2016 and corresponding findings and the respective management's response to the findings; (ii) recap of the internal audit report after conducting an internal control review on connected transactions, including continuing connected transactions of the Group during 2016; and (iii) review of the internal audit plan prepared by the internal auditor for 2017.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation of the support and confidence from our customers, suppliers and shareholders. I would also like to thank all the Board members for their commitment and valuable input and the management and colleagues for their dedication and hard work to the Group throughout the period under review.

By order of the Board

**Li Shaofeng**

*Chairman*

Hong Kong, 24 August 2017

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)
“Bekaert Combustion”	Bekaert Combustion Technology B.V., a wholly owned subsidiary of Bekaert, a substantial Shareholder (as defined under the SFO)
“Board”	the board of Directors
“Casula”	Casula Investments Limited, a subsidiary of Shougang International
“Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”/ “Shougang Century”	Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“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

## DEFINITIONS (continued)

“HKD/HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internal Control Manual”	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter
“JESC”	Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“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
“Richson”	Richson Limited, a subsidiary of Shougang International
“RMB”	Renminbi, the lawful currency of the PRC
“SCCCHL 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

## DEFINITIONS (continued)

“SCCHL Corporate Governance Code”	Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“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)
“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)
“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.