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**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**

**首長寶佳集團有限公司**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 103)

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014**

| <b>HIGHLIGHTS</b>   | <b>Six months ended 30 June</b>                      |  | <b>%<br/>Change</b> |
|---|--|--|---------------------|
|   | <b>2014<br/>(Unaudited)<br/>HK\$'000</b>             | <b>2013<br/>(Unaudited)<br/>HK\$'000</b>               |                     |
| <b>Operations</b>   |  |  |                     |
| Revenue   | <b>900,222</b>                                       | 872,431  | <b>+3.2</b>         |
| Gross profit  | <b>88,682</b>  | 75,353   | <b>+17.7</b>        |
| EBITDA (Note 1)   | <b>70,815</b>  | 90,016   | <b>-21.3</b>        |
| Adjusted EBITDA (Note 2)  | <b>76,553</b>  | 75,279   | <b>+1.7</b>         |
| Loss for the period   | <b>(38,397)</b>                                      | (30,005)   | <b>+28.0</b>        |
| Loss per Share (basic) (HK cents)   | <b>(2.00)</b>  | (1.56)   | <b>+28.2</b>        |
| <i>Notes:</i>   |  |  |                     |
| 1. EBITDA represents earnings before finance costs, income tax, depreciation and amortisation.  |  |  |                     |
| 2. Adjusted EBITDA ("Adjusted EBITDA") represents EBITDA before (i) allowance for bad and doubtful debts reversed of HK\$86,000 (2013: HK\$9,269,000); (ii) foreign exchange losses of HK\$6,654,000 (2013: foreign exchange gains of HK\$2,041,000); and (iii) increase in fair value of investment properties of HK\$830,000 (2013: HK\$3,427,000). |  |  |                     |
|   | <b>30 June<br/>2014<br/>(Unaudited)<br/>HK\$'000</b> | <b>31 December<br/>2013<br/>(Audited)<br/>HK\$'000</b> | <b>%<br/>Change</b> |
| <b>Financial position</b>   |  |  |                     |
| Total assets  | <b>4,143,005</b>                                     | 4,123,008  | <b>+0.5</b>         |
| Shareholders' equity  | <b>2,074,881</b>                                     | 2,125,254  | <b>-2.4</b>         |
| Net asset value per Share (HK\$)  | <b>1.079</b>   | 1.105  | <b>-2.4</b>         |

The Board presents the unaudited consolidated interim results of the Group for the six months ended 30 June 2014. The interim results have been reviewed by the Company's Audit Committee and its Auditors.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2014*

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

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

*For the six months ended 30 June 2014*

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

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

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

*Notes:*

**1. BASIS OF PREPARATION**

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

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

**2. PRINCIPAL ACCOUNTING POLICIES**

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

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

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

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

### 3. SEGMENT INFORMATION

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

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

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

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

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

#### Six months ended 30 June 2014

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

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

**Reconciliation of revenue**

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

**Reconciliation of loss before tax**

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

Six months ended 30 June 2013

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

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



Reconciliation of revenue

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

Reconciliation of loss before tax

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

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

#### 4. INVESTMENT AND OTHER INCOME

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

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

#### 5. OTHER GAINS AND LOSSES

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

## 6. FINANCE COSTS

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

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

## 7. INCOME TAX (CREDIT) EXPENSES

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

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

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

**8. LOSS FOR THE PERIOD**

Loss for the period has been arrived at after charging:

|  | <b>Six months ended 30 June</b> |                      |
|--|---------------------------------|----------------------|
|  | <b>2014</b>                     | 2013                 |
|  | <b>(Unaudited)</b>              | (Unaudited)          |
|  | <b>HK\$'000</b>                 | HK\$'000             |
| Depreciation of property, plant and equipment                        | <b>73,713</b>                   | 70,209               |
| Allowance for inventories recognised (included in "Cost of sales")   | <b>750</b>                      | –                    |
| Amortisation of prepaid lease payments (included in "Cost of sales") | <b>4,335</b>                    | 4,265                |
|  | <u><u><b>78,808</b></u></u>     | <u><u>74,474</u></u> |

**9. LOSS PER SHARE**

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

|  | <b>Six months ended 30 June</b>    |                             |
|--|------------------------------------|-----------------------------|
|  | <b>2014</b>                        | 2013                        |
|  | <b>(Unaudited)</b>                 | (Unaudited)                 |
|  | <b>HK\$'000</b>                    | HK\$'000                    |
| <b>Loss</b>  |                                    |                             |
| Loss for the period for the purposes of<br>calculation of basic and diluted loss per share       | <u><u><b>(38,397)</b></u></u>      | <u><u>(30,005)</u></u>      |
|  |                                    |                             |
|  | <b>Six months ended 30 June</b>    |                             |
|  | <b>2014</b>                        | 2013                        |
| <b>Number of shares</b>  |                                    |                             |
| Number of ordinary shares for the purposes of<br>calculation of basic and diluted loss per share | <u><u><b>1,922,900,556</b></u></u> | <u><u>1,922,900,556</u></u> |

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

**10. DIVIDEND**

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

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

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

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

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

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

## 12. TRADE RECEIVABLES/BILLS RECEIVABLE

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

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

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

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

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

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

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.

### 13. TRADE PAYABLES

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

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

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

#### 14. OTHER PAYABLES AND ACCRUALS

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

#### 15. BANK BORROWINGS

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

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

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

## 16. SHARE CAPITAL

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

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

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



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

#### **Review of operations**

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

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

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

## **Steel cord**

### *Overall performance*

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

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

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

### Revenue

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

|                            | Six months ended 30 June   |   |                            |   | % change      |
|----------------------------|----------------------------|---|----------------------------|---|---------------|
|                            | 2014                       |   | 2013                       |   |               |
|                            | Sales<br>volume<br>(Tonne) | % of<br>total sales<br>volume of<br>steel cords | Sales<br>volume<br>(Tonne) | % of<br>total sales<br>volume of<br>steel cords |               |
| Steel cords for:           |                            |   |                            |   |               |
| – truck tyres              | <b>43,667</b>              | <b>77.7</b>                                     | 37,337                     | 72.3  | <b>+17.0</b>  |
| – off the road truck tyres | <b>2,208</b>               | <b>3.9</b>                                      | 1,953                      | 3.8   | <b>+13.1</b>  |
| – passenger car tyres      | <b>10,325</b>              | <b>18.4</b>                                     | 12,339                     | 23.9  | <b>-16.3</b>  |
| Total for steel cords      | <b>56,200</b>              | <b>100.0</b>                                    | 51,629                     | 100.0   | <b>+8.9</b>   |
| Sawing wires:              |                            |   |                            |   |               |
| – half product             | <b>198</b>                 |   | 332                        |   | <b>-40.4</b>  |
| – final product            | <b>223</b>                 |   | 94                         |   | <b>+137.2</b> |
| Total for sawing wires     | <b>421</b>                 |   | 426                        |   | <b>-1.2</b>   |
| Other steel wires          | <b>304</b>                 |   | 47                         |   | <b>+546.8</b> |
| Total                      | <b>56,925</b>              |   | 52,102                     |   | <b>+9.3</b>   |

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

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

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

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

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

#### *Gross profit*

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

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

#### *Investment and other income*

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

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

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

#### *Distribution and selling expenses*

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

#### *Administrative expenses*

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

#### *Research and development expenses*

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

### **Copper and brass products**

#### *Overall performance*

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

### *Revenue*

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

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

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

### *Gross profit*

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

## FINANCIAL REVIEW

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

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

## Revenue

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

|   | Six months ended 30 June |                    |                 |                    |              |
|---|--------------------------|--------------------|-----------------|--------------------|--------------|
|   | 2014                     |                    | 2013            |                    | % change     |
|   | <i>HK\$'000</i>          | % of total revenue | <i>HK\$'000</i> | % of total revenue |              |
| Steel cord  | <b>710,670</b>           | <b>78.9</b>        | 669,149         | 76.7               |              |
| Copper and brass products   | <b>199,895</b>           | <b>22.2</b>        | 214,723         | 24.6               | <b>-6.9</b>  |
| Sub-total   | <b>910,565</b>           | <b>101.1</b>       | 883,872         | 101.3              | <b>+3.0</b>  |
| Elimination of sales<br>by Copper and brass<br>products to Steel cord | <b>(11,211)</b>          | <b>(1.2)</b>       | (12,101)        | (1.4)              | <b>-7.4</b>  |
| Property rental   | <b>868</b>               | <b>0.1</b>         | 660             | 0.1                | <b>+31.5</b> |
| Total   | <b>900,222</b>           | <b>100.0</b>       | 872,431         | 100.0              | <b>+3.2</b>  |

## Gross profit

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

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



### Investment and other income

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

### Other gains and losses

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

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

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

### Distribution and selling expenses and administrative expenses

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

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

### Research and development expenses

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

### Segment results

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

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

### Finance costs

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

**Income tax credit (expenses)**

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

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

In addition, according to the EIT Law and Implementation Regulation of the EIT Law and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Group is subject to withholding tax on dividends paid by subsidiaries in the PRC to holding companies in Hong Kong at a rate of 5% (2013: 5%).

**Trade receivables**

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

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

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

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

### **TREASURY AND FUNDING POLICIES**

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

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

### **SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES**

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long-term reasonable return to its Shareholders. Nonetheless, in light of the continual to our turnover, we moderately relaxed our gearing threshold since last year and yet, we believe such level remained healthy and manageable.

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

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

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

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

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

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

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

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

## FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

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

### Bank balances and cash

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

### Bank borrowings

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

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

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

### **BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS**

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

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

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

At 30 June 2014, the Group had a total of 2,148 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to consolidated statement of profit or loss for the period amounted to approximately HK\$10,990,000.

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

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



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

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

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

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

## **CONTINGENT LIABILITIES AND PLEDGE OF ASSETS**

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

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

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

## **BUSINESS OUTLOOK**

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

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

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

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

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

\* For identification purpose only

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

#### **INTERIM DIVIDEND**

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

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

#### **CORPORATE GOVERNANCE CODE**

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

#### **Measurable objectives of Board Diversity Policy**

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

## **Shareholders' Rights**

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

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

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code and also the SCCHL Corporate Governance Code throughout the six months ended 30 June 2014, except for deviation from code provision D.1.4 of the Code. Due to the nomination of Mr. Zhang Zhong (the executive Director) as the representative of NV Bekaert SA (“Bekaert”) (a substantial Shareholder) in accordance with the subscription agreement dated 22 September 2006 entered into by the Company and Bekaert, Mr. Zhang does not have any formal letter of appointment setting out the key terms and conditions of his appointment as Director.

## **ACKNOWLEDGEMENTS**

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

## **DEFINITIONS**

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

|               |  |
|---------------|--|
| “2002 Scheme” | A share option scheme adopted and terminated by the Shareholders at the annual general meetings held on 7 June 2002 and 25 May 2012 respectively |
| “2012 Scheme” | A share option scheme adopted by the Shareholders at the annual general meeting held on 25 May 2012 and became effective on 29 May 2012          |
| “Board”       | the board of Directors   |

|                                   |  |
|-----------------------------------|--|
| “Code”                            | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules   |
| “Companies Ordinance”             | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)   |
| “Company”                         | Shougang 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   |
| “Group”                           | the Company and its subsidiaries   |
| “HKD/HK\$”                        | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                       | the Hong Kong Special Administrative Region of the PRC   |
| “Internal Control Manual”         | an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter  |
| “JESC”                            | Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company                                    |
| “Listing Rules”                   | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “PRC”                             | the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Macau and Taiwan   |
| “RMB”                             | Renminbi, the lawful currency of the PRC   |
| “SCCHL Corporate Governance Code” | Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time)   |
| “Share(s)”                        | ordinary share(s) of the Company   |

|                        |   |
|------------------------|---|
| “Shareholder(s)”       | shareholder(s) of the Company   |
| “Shareholders’ Rights” | Principal rights of Shareholders under the Articles of Association of the Company and the Companies Ordinance listed as required under the Code |
| “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.   |

By order of the Board  
**Shougang Concord Century Holdings Limited**  
**Li Shaofeng**  
*Chairman*

Hong Kong, 28 August 2014

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

*Mr. Li Shaofeng (Chairman), Mr. Yang Kaiyu (Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Zhang Wenhui (Non-executive Director), Mr. Tang Cornor Kwok Kau (Deputy Managing Director), Mr. Zhang Zhong (Executive Director), Mr. Yip Kin Man, Raymond (Independent Non-executive Director), Mr. Law, Yui Lun (Independent Non-executive Director) and Mr. Chan Chung Chun (Independent Non-executive Director).*

*This interim results announcement is published on the websites of the Company at <http://www.irasia.com/listco/hk/sccentury/> and the Stock Exchange at <http://www.hkexnews.hk>. The 2014 Interim Report will be despatched to Shareholders and made available on the above websites in due course.*