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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)

# FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

| **HIGHLIGHTS** | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2016** | 2015 | **Change** |
| | ***HK$'000*** | *HK$'000* | **%** |
| **Operations** | | | |
| Revenue | **1,703,255** | 1,480,507 | **+15.0** |
| Gross profit | **215,414** | 19,034 | **+1,031.7** |
| E(L)BITDA *(Note 1)* | **175,264** | (187,719) | **N/A** |
| Adjusted EBITDA *(Note 2)* | **171,487** | 4,923 | **+3,383.4** |
| Profit (loss) for the year | **10,103** | (376,985) | **N/A** |
| Basic earnings (loss) per Share *(HK cents)* | **0.53** | (19.61) | **N/A** |

*Notes:*

*1.* E(L)BITDA represents earnings (loss) before finance costs, income tax, depreciation and amortisation.

*2.* Adjusted EBITDA represents EBITDA before (i) allowance for inventories recognised of HK$1,024,000 (2015: HK$13,511,000); (ii) allowance for bad and doubtful debts reversed, net of HK$28,931,000 (2015: recognised, net of HK$4,511,000); (iii) bad debts recovered of HK$508,000 (2015: written off of HK$4,007,000); (iv) no impairment loss recognised in respect of property, plant and equipment (2015: HK$93,000,000); (v) no impairment loss recognised in respect of goodwill (2015: HK$41,672,000); (vi) increase in fair value of investment properties of HK$2,890,000 (2015: HK$3,253,000); and (vii) foreign exchange losses of HK$27,528,000 (2015: HK$39,194,000).

| | **At 31 December** | | |
|---|---|---|---|
| | **2016** | 2015 | **Change** |
| | ***HK$'000*** | *HK$'000* | **%** |
| **Financial position** | | | |
| Total assets | **3,037,042** | 3,006,147 | **+1.0** |
| Shareholders' equity | **1,321,965** | 1,395,870 | **-5.3** |
| Net asset value per Share *(HK$)* | **0.687** | 0.726 | **-5.3** |

The Board announces that the audited consolidated results of the Group for the year ended 31 December 2016 and that final results were reviewed by the Audit Committee of the Company.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2016*

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **1,703,255** | 1,480,507 |
| Cost of sales | | **(1,487,841)** | (1,461,473) |
| Gross profit | | **215,414** | 19,034 |
| Investment and other income | 5 | **1,694** | 1,546 |
| Other gains and losses | 6 | **4,491** | (178,683) |
| Distribution and selling expenses | | **(49,877)** | (45,602) |
| Administrative expenses | | **(71,899)** | (73,803) |
| Research and development expenses | | **(47,998)** | (47,687) |
| Finance costs | 7 | **(45,888)** | (52,767) |
| Profit (loss) before tax | | **5,937** | (377,962) |
| Income tax credit | 8 | **4,166** | 977 |
| Profit (loss) for the year | 9 | **10,103** | (376,985) |
| Earnings (loss) per share | 11 | | |
| Basic and diluted | | **HK0.53 cents** | (HK19.61 cents) |

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

*For the year ended 31 December 2016*

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the year | **10,103** | (376,985) |
| Other comprehensive (expense) income | | |
| Items that will not be reclassified to profit or loss | | |
| Exchange differences arising on translation into presentation currency | **(100,606)** | (106,709) |
| Surplus on revaluation upon transfer of property, plant and equipment to investment property | **887** | – |
| Surplus on revaluation of properties | **19,337** | 21,541 |
| Recognition of deferred tax liability on revaluation of properties | **(3,626)** | (3,859) |
| Other comprehensive expense for the year (net of tax) | **(84,008)** | (89,027) |
| Total comprehensive expense for the year | **(73,905)** | (466,012) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | *12* | **58,675** | 50,727 |
| Property, plant and equipment | *12* | **1,169,092** | 1,357,961 |
| Prepaid lease payments | | **141,636** | 159,417 |
| Pledged deposit on loan from a related company | | **7,825** | – |
| Club memberships | | **714** | 738 |
| Deposits paid for the acquisition of property, plant and equipment | | **336** | 956 |
| | | **1,378,278** | 1,569,799 |
| **Current assets** | | | |
| Inventories | | **233,121** | 239,709 |
| Trade receivables | *14* | **563,162** | 463,061 |
| Bills receivable | *14* | **479,206** | 411,547 |
| Prepayments, deposits and other receivables | | **67,249** | 103,951 |
| Prepaid lease payments | | **7,671** | 8,191 |
| Pledged bank deposit | | **1,006** | – |
| Bank balances and cash | | **307,349** | 209,889 |
| | | **1,658,764** | 1,436,348 |
| **Current liabilities** | | | |
| Trade and bills payables | *15* | **440,608** | 334,033 |
| Other payables and accruals | *15* | **95,050** | 107,933 |
| Tax payable | | **10,304** | 18,236 |
| Loans from related companies | *16* | **186,090** | 52,252 |
| Bank borrowings – due within one year | *17* | **900,552** | 866,867 |
| | | **1,632,604** | 1,379,321 |
| **Net current assets** | | **26,160** | 57,027 |
| **Total assets less current liabilities** | | **1,404,438** | 1,626,826 |

| | Notes | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current liabilities** | | | |
| Bank borrowings – due after one year | *17* | **–** | 199,000 |
| Other payable | | **1,129** | 1,118 |
| Loan from a related company | *16* | **47,121** | – |
| Deferred tax liabilities | | **34,223** | 30,838 |
| | | **82,473** | 230,956 |
| | | **1,321,965** | 1,395,870 |
| **Capital and reserves** | | | |
| Share capital | *18* | **1,191,798** | 1,191,798 |
| Reserves | | **130,167** | 204,072 |
| | | **1,321,965** | 1,395,870 |

*Notes:*

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's substantial shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the PRC.

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate. For the convenience of financial statements users, the financial statements are presented in Hong Kong dollars ("HKD").

## 2. BASIS OF PREPARATION AND APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the CO and will deliver the financial statements for the year ended 31 December 2016 in due course.

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

***Amendments to HKFRSs that are mandatorily effective for the current year***

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interest in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***New and amendments to HKFRSs issued but not yet effective***

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

**HKFRS 9** ***Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group is:

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the measurement of the Group's financial assets. The expected credit loss model may result in early adoption of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

**HKFRS 15** ***Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective report periods.

**HKFRS 16** ***Leases***

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$12,452,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The directors of the Company do not anticipate that the application of other new and amendments to HKFRSs will have a material impact on the Group's consolidated financial statements.

3. **REVENUE**

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns, trade discounts and sales related taxes, and gross rental income during the year.

An analysis of the Group's revenue is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Sales of goods | | |
| Manufacturing of steel cords | **1,405,483** | 1,164,609 |
| Processing and trading of copper and brass products | **295,982** | 314,163 |
| | **1,701,465** | 1,478,772 |
| Rental income | **1,790** | 1,735 |
| | **1,703,255** | 1,480,507 |

4. **SEGMENT INFORMATION**

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

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

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

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

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

**For the year ended 31 December 2016**

| | Steel cord *HK$'000* | Copper and brass products *HK$'000* | Segment total *HK$'000* |
|---|---|---|---|
| Segment revenue | | | |
| External sales | **1,405,483** | **295,982** | **1,701,465** |
| Inter-segment sales *(Note)* | **–** | **22,452** | **22,452** |
| Total | **1,405,483** | **318,434** | **1,723,917** |
| Segment results | **110,191** | **1,990** | **112,181** |

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

**Reconciliation of revenue**

| | *HK$'000* |
|---|---|
| Total revenue for operating segments | **1,723,917** |
| Rental income | **1,790** |
| Elimination of inter-segment sales | **(22,452)** |
| Group revenue | **1,703,255** |

**Reconciliation of profit before tax**

| | *HK$'000* |
|---|---|
| Total profit for operating segments | **112,181** |
| Profit arising from property investment | **4,166** |
| Unallocated amounts | |
| Unallocated income | **500** |
| Unallocated foreign exchange losses, net | **(31,592)** |
| Unallocated expenses | **(33,430)** |
| Unallocated finance costs | **(45,888)** |
| Profit before tax | **5,937** |

For the year ended 31 December 2015

| | Steel cord | Copper and brass products | Segment total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue | | | |
| External sales | 1,164,609 | 314,163 | 1,478,772 |
| Inter-segment sales *(Note)* | – | 18,853 | 18,853 |
| Total | 1,164,609 | 333,016 | 1,497,625 |
| Segment results | (213,802) | 334 | (213,468) |

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

**Reconciliation of revenue**

| | *HK$'000* |
|---|---|
| Total revenue for operating segments | 1,497,625 |
| Rental income | 1,735 |
| Elimination of inter-segment sales | (18,853) |
| Group revenue | 1,480,507 |

**Reconciliation of loss before tax**

| | *HK$'000* |
|---|---|
| Total loss for operating segments | (213,468) |
| Profit arising from property investment | 4,494 |
| Unallocated amounts | |
| Unallocated income | 600 |
| Unallocated foreign exchange losses, net | (45,009) |
| Unallocated expenses | (71,812) |
| Unallocated finance costs | (52,767) |
| Loss before tax | (377,962) |

The accounting policies of the operating segments are the same as the Group's accounting policies. 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.

## 5. INVESTMENT AND OTHER INCOME

| | 2016<br>*HK$'000* | 2015<br>*HK$'000* |
|---|---|---|
| **Investment income** | | |
| Interest income on bank deposits | **492** | 596 |
| **Other income** | | |
| Government grants *(Note)* | **1,059** | 729 |
| Sales of scrap materials | **143** | 221 |
| | **1,202** | 950 |
| | **1,694** | 1,546 |

*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.

## 6. OTHER GAINS AND LOSSES

| | 2016<br>*HK$'000* | 2015<br>*HK$'000* |
|---|---|---|
| Allowance for bad and doubtful debts reversed (recognised), net | **28,931** | (4,511) |
| Changes in fair value of investment properties | **2,890** | 3,253 |
| Bad debts recovered (written off) | **508** | (4,007) |
| Foreign exchange losses, net | **(27,528)** | (39,194) |
| Loss on disposal of property, plant and equipment, net | **(20)** | (139) |
| Impairment loss recognised in respect of property, plant and equipment | **–** | (93,000) |
| Impairment loss recognised in respect of goodwill | **–** | (41,672) |
| Others | **(290)** | 587 |
| | **4,491** | (178,683) |

## 7. FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on bank borrowings | **37,970** | 46,316 |
| Interest expenses on loans from related companies | **3,007** | 2,757 |
| Amortisation of loan transaction costs | **4,911** | 3,694 |
| | **45,888** | 52,767 |

## 8. INCOME TAX CREDIT

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **691** | 767 |
| Overprovision in prior years: | | |
| PRC EIT | **(5,506)** | (772) |
| Deferred tax | **649** | (972) |
| | **(4,166)** | (977) |

No provision for Hong Kong Profits Tax for the years ended 31 December 2016 and 2015 as there is no assessable profit subject to Hong Kong Profits Tax for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Jiaxing Eastern Steel Cord Co., Ltd. ("JESC"), an indirect wholly-owned subsidiary of the Company, 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. As such the EIT rate for JESC is 15% for the years ended 31 December 2016 and 2015.

According to the EIT Law and Implementation Regulation of the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to 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 withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise. Deferred tax has been provided in the consolidated statement of profit or loss in respect of the temporary differences attributable to such incomes based on the applicable tax rates.

## 9. PROFIT (LOSS) FOR THE YEAR

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit (loss) for the year has been arrived at after charging: | | |
| Cost of inventories recognised as an expense (including allowance for inventories recognised of approximately HK$1,024,000 (2015: HK$13,511,000)) | **1,469,312** | 1,441,577 |
| Depreciation of property, plant and equipment | **115,415** | 128,930 |
| Auditor's remuneration | | |
| – Audit services | **1,450** | 1,360 |
| – Non-audit services | **417** | 591 |
| Amortisation of prepaid lease payments (included in "Cost of sales") | **8,024** | 8,546 |

## 10. DIVIDENDS

No interim or final dividend was paid or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

## 11. 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:

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit (loss)** | | |
| Profit (loss) for the purposes of calculation of basic and diluted earnings (loss) per share | **10,103** | (376,985) |

| | 2016 | 2015 |
|---|---|---|
| **Number of shares** | | |
| 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 year ended 31 December 2016, the computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares in 2016. For the year ended 31 December 2015, 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.

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

During the year ended 31 December 2016, the Group incurred approximately HK$10,868,000 (2015: HK$1,316,000) on the enhancement of production facilities of Steel cord segment. In addition, the Group also acquired approximately HK$187,000 (2015: HK$688,000) of other property, plant and equipment in the current year.

During the year ended 31 December 2016, the Group disposed of certain machineries with an aggregate carrying amount of HK$1,627,000 (2015: HK$914,000) for cash proceeds of HK$1,607,000 (2015: HK$775,000), resulting in a loss on disposal of HK$20,000 (2015: HK$139,000).

The fair values of the Group's investment properties as at 31 December 2016 and 2015 have been arrived at on the basis of valuations 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 and there has been no change from the valuation technique used in the prior year. The resulting increase in fair value of investment properties of approximately HK$2,890,000 (2015: HK$3,253,000) has been credited to profit or loss for the year.

As at 31 December 2016 and 2015, the leasehold land and buildings of the Group were valued by Grant Sherman. The fair value of the leasehold land and buildings was determined based on either: (i) an open market value basis by reference to recent market transactions for comparable properties or (ii) on basis of depreciated replacement costs for certain properties in the absence of a known market based on comparable sales method. The resulting increase in fair value of leasehold land and buildings has been credited to property revaluation reserve of approximately HK$20,224,000 (2015: HK$21,541,000).

During the year ended 31 December 2016, the management conducted reviews on the recoverable amounts of the property, plant and equipment of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC") and JESC, indirect wholly owned subsidiaries of the Company, and determined that there was no impairment to the carrying amounts of these property, plant and equipment. The recoverable amounts of the relevant assets as at 31 December 2016 were determined based on value in use calculation and certain key assumptions. Value in use calculations used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value in use calculations is at 10.94% and 10.45%, respectively. Cash flows beyond the five-year period were extrapolated using a zero growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

Impairment loss recognised during the year ended 31 December 2015:

As a result of the unfavourable performance of TESC and due to unexpected significant decline in average selling price of steel cords during the year ended 31 December 2015, the management conducted impairment assessments of the property, plant and equipment of TESC individually. Since it is not possible to estimate the recoverable amount of the property, plant and equipment individually, the management determines the recoverable amount of the CGU to which the property, plant and equipment belongs. The management considers that the recoverable amount of the individual property, plant and equipment cannot be determined if (i) the value in use of the asset cannot be estimated to be close to its fair value less costs to sell, and (ii) the asset does not generate cash inflows that are largely independent of those from other assets. TESC is considered as a CGU for the purpose of the impairment assessment. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

The recoverable amount of TESC as at 31 December 2015 was 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 five-year period. Discount rate used for the value in use calculations is at 10.86%. Cash flow beyond the five-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 include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2015, an impairment loss of HK$93,000,000 was recognised in the profit or loss of which (i) HK$91,770,000 was allocated to plant and machinery; (ii) HK$382,000 was allocated to furniture, fixtures and equipment; (iii) HK$152,000 was allocated to motor vehicles; and (iv) HK$696,000 was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. The impairment loss has been included in other gains and losses in profit or loss.

## 13. GOODWILL

| | *HK$'000* |
|---|---|
| **COST** | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 41,672 |
| **IMPAIRMENT** | |
| At 1 January 2015 | – |
| Impairment loss recognised in profit or loss | 41,672 |
| At 31 December 2015 and 31 December 2016 | 41,672 |
| **CARRYING VALUE** | |
| At 31 December 2015 and 31 December 2016 | – |

For the purposes of impairment assessment, goodwill had been allocated to one CGU, comprising a subsidiary in the steel cord segment, JESC. A CGU was considered to be impaired when its recoverable amount declines below its carrying amount. The carrying amounts of goodwill associated with the CGU as at 31 December 2016 and 2015 had been fully impaired.

The recoverable amount is the higher of value in use and fair value less costs to sell. The recoverable amount of the CGU was 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 management covering a five-year period, and a discount rate of 10.38% (2016: Nil). The cash flow of the CGU beyond the five-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 include budgeted revenue, gross margin and other direct costs. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2015, due to decline in average selling price of steel cords as price competition associated with overcapacity situation in the steel cord industry which resulted in an unexpected unfavourable performance of JESC, an impairment loss of HK$41,672,000 (2016: Nil) was recognised for the goodwill associated with CGU. The impairment loss fully impaired the carrying amount of goodwill, but no other class of asset other than goodwill was impaired.

## 14. TRADE RECEIVABLES/BILLS RECEIVABLE

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **582,291** | 514,089 |
| Less: allowance for bad and doubtful debts | **(19,129)** | (51,028) |
| | **563,162** | 463,061 |
| Bills receivable | **479,206** | 411,547 |
| | **1,042,368** | 874,608 |

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, which approximated the respective revenue recognition dates, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 90 days | **422,191** | 332,284 |
| 91 – 180 days | **117,659** | 115,770 |
| Over 180 days | **23,312** | 15,007 |
| | **563,162** | 463,061 |

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:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 90 days | **22,036** | 35,534 |
| 91 – 180 days | **134,139** | 240,893 |
| Over 180 days | **323,031** | 135,120 |
| | **479,206** | 411,547 |

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

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | **437,254** | 334,033 |
| Bills payable | **3,354** | – |
| | **440,608** | 334,033 |

The bills payable are secured by a pledged bank deposit.

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

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 – 30 days | **142,287** | 70,985 |
| 31 – 90 days | **121,497** | 128,768 |
| 91 – 180 days | **140,691** | 98,029 |
| 181 – 365 days | **22,004** | 27,043 |
| Over 1 year | **10,775** | 9,208 |
| | **437,254** | 334,033 |

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

Included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK$28,099,000 (2015: HK$51,114,000).

## 16. LOANS FROM RELATED COMPANIES

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loan from a related company *(Note i)* | **161,000** | 52,252 |
| Loan from a related company *(Note ii)* | **72,211** | – |
| | **233,211** | 52,252 |
| Less: Amount shown under current liabilities | **(186,090)** | (52,252) |
| Amount shown under non-current liabilities | **47,121** | – |

*Notes:*

*i.* The amount represents the loan from and interest payable to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of 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 (2015: unsecured, bear interest at 6% per annum and repayable within one year).

*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,

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

(ii) TESC placed a security deposit of RMB7,000,000 (equivalent to approximately HK$7,825,000) to South China Leasing; and

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

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

## 17. BANK BORROWINGS

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other bank loans | **801,337** | 1,030,249 |
| Less: loan transaction costs | **(3,321)** | (4,936) |
| | **798,016** | 1,025,313 |
| Trust receipt loans | **10,125** | 22,649 |
| Discounted bills with recourse | **92,411** | 17,905 |
| | **900,552** | 1,065,867 |
| Secured | **101,070** | 33,333 |
| Unsecured | **799,482** | 1,032,534 |
| | **900,552** | 1,065,867 |

## 18. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | *'000* | *HK$'000* |
| **Issued and fully paid** | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 1,922,901 | 1,191,798 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Business model and strategy

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

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

### Review of operations

During the year under review, the PRC recorded solid economic growth of 6.7% over the previous year which was backed by the increase in domestic demand, fixed assets investments and property development. The sentiment of industrial sectors also showed improvements, as evidenced by the rising manufacturing purchasing managers index (PMI) and producer price index (PPI) since August and September 2016 respectively. These brought along the solid recovery in the demand for radial tyres in the second half of 2016 from the automobile and transportation sectors that then boosted the growth in demand for steel cord. Compared with the weak sales in the previous year, the Steel cord segment recorded significant growth in sales volume in particular for TESC during the year under review. Benefit from the improved operating environment and rising commodity prices, the downward pressure on selling price of steel cord relieved during the year; while our steel cord manufacturing plants achieved lower unit production costs from increased utilization of production capacity. This segment therefore achieved turnaround from operating loss to profit during the year.

In respect of Copper and brass products segment, sales volume recorded stable growth during the year which was driven by the increased sales in the PRC. However, revenue had a moderate decrease attributable to the decline in average copper price. Albeit revenue dropped, this segment achieved increase in gross profit which was the result of our risk-averse sales mentality, inventory management strategy and downsizing of our Hong Kong operation. Contributed by the increase in gross profit, this segment achieved significantly increase in operating profit during the year.

For the Group as a whole, contributed by the encouraging improvements in operating performance of Steel cord segment, the Group accomplished turnaround from substantial loss of HK$376,985,000 in the previous year to profit of HK$10,103,000 for the year under review.

**Steel cord**

*Overall performance*

The automobile industry in the PRC regained momentum during the year under review. According to the information from China Association of Automobile Manufacturers, the production of new vehicles amounted to 28.12 million units in 2016, represented an annual growth of 14.5% over that of the previous year, as compared to a 3.3% growth in 2014/2015. The production volume of passenger cars increased by 15.5%; whereas the production volume of commercial vehicles increased by 8.0% over the previous year. Such stronger growth in production volume of new vehicles spurred the increase in demand for radial tyres. Based on the information from the Tyre Branch of China Rubber Industry Association, the production of radial tyres amounted to approximately 565 million units in 2016, increased by 9.7% as compared to 515 million produced in the previous year.

This segment achieved a robust growth in sales volume of steel cord of 30.7% over the previous year. Such discernible growth was driven by the increase in demand for radial tyres as mentioned above; and also reflected the result of our strategy to increase focus on large scale and reputable tyre manufacturers and the fine-tuning of sales mix to flexibly meet our customers' requirements. In respect of selling price, the downward pressure on selling price of steel cord largely relieved during the year, resulted from the de-capacitation in the steel cord industry and surging steel price during the year. The average selling price of steel cord for the year recorded a slight decline of 1.6% as compared to the previous year but a rebound was seen from the second quarter of 2016 onwards. The increase in sales volume of steel cord therefore contributed to the increase in revenue of this segment by 20.7% over the previous year.

The unit cost of production of steel cord declined substantially as compared to the previous year, which was the result of the increase in capacity utilization of our two manufacturing plants, JESC and TESC and cost savings from improved operating efficiencies. Attributable to the reduction in unit production cost, notwithstanding the year-on-year increase in sales volume of steel cord of 30.7%, cost of sales of this segment for the year merely increased by 4.0% over the previous year.

As a result of the remarkable increase in revenue and the reduction in unit cost of sales of steel cord particularly in the second half of the year, this segment achieved tremendous increase in gross profit as compared to the previous year. Gross profit amounted to HK$203,587,000, sharply increased by 21.4 times as compared to HK$9,084,000 for the previous year.

Further to the tremendous increase in gross profit, this segment recovered net amount of HK$29,587,000 of bad and doubtful debts during the year due to persistent effort exerting on collecting outstanding receivables; and there were no impairment loss recognised in respect of property, plant and equipment and goodwill as both TESC and JESC recorded profits during the year. Attributable to these factors, this segment achieved turnaround from LBITDA of HK$77,352,000 in the previous year to EBITDA of HK$232,489,000 for the year. Adjusted EBITDA (excluding allowance for inventories recognised; allowance for bad and doubtful debts reversed (recognised), net; bad debts recovered (written off); impairment loss recognised in respect of property, plant and equipment; and foreign exchange gains/ losses) was HK$199,586,000 for the year, significantly increased by 536.3% as compared to HK$31,367,000 for the previous year.

On the back of returning to the black, this segment also turned around in operating results. This segment recorded operating profit of HK$110,191,000 for the year, as compared to operating loss of HK$213,802,000 for previous year.

*Revenue*

This segment sold 150,990 tonnes of steel cord during the year, a marked increase of 30.7% as compared to 115,564 tonnes for the previous year. In respect of the sawing wire business, this segment sold an aggregate of 491 tonnes of sawing wire products during the year, significantly increased by 62.6% as compared to 302 tonnes for the previous year. The analysis of sales volume of this segment for the year is as follows:

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | **Sales volume *(Tonne)*** | **% of total sales volume of steel cord** | Sales volume *(Tonne)* | % of total sales volume of steel cord | **% change** |
| Steel cords for | | | | | |
| – truck tyres | **99,372** | **65.8** | 80,663 | 69.8 | **+23.2** |
| – off the road truck tyres | **3,324** | **2.2** | 3,362 | 2.9 | **-1.1** |
| – passenger car tyres | **48,294** | **32.0** | 31,539 | 27.3 | **+53.1** |
| Total for steel cords | **150,990** | **100.0** | 115,564 | 100.0 | **+30.7** |
| Sawing wire products | **491** | | 302 | | **+62.6** |
| Other steel wires | **104** | | 405 | | **-74.3** |
| Total | **151,585** | | 116,271 | | **+30.4** |

The sales volume of steel cord for both truck tyres and passenger car tyres recorded remarkable growth while those for off the road truck tyres slightly declined by 1.1% as compared to the previous year. This partly reflected the lowered demand due to the slowdown in the mining sector, albeit it started to recover during the second half year. There was no significant change in sales mix during the year, the proportion of sales of steel cord for truck tyres accounted for 65.8% of total sales volume of steel cord for the year, decreased by 4.0 percentage points as compared to the previous year, but still remained as the largest share of sales of steel cord of the Group for the year.

The volume of export sales of steel cord increased by 22.8% over the previous year to 23,873 tonnes for the year, and represented 15.8% of total sales volume of steel cord for the year vis-à-vis 16.8% for the previous year. The breakdown of sales volume of steel cords for the year by geographical location is as follows:

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | **Sales volume** ***(Tonne)*** | **% of total sales volume of steel cords** | Sales volume *(Tonne)* | % of total sales volume of steel cords | **% change** |
| PRC | **127,117** | **84.2** | 96,126 | 83.2 | **+32.2** |
| Export sales: | | | | | |
| Asia (other than PRC) | **15,412** | **10.2** | 11,587 | 10.0 | **+33.0** |
| EMEA (Europe, Middle East and Africa) | **5,463** | **3.6** | 4,505 | 3.9 | **+21.3** |
| North America | **1,904** | **1.3** | 2,236 | 1.9 | **-14.8** |
| Latin America | **1,094** | **0.7** | 1,110 | 1.0 | **-1.4** |
| Total export sales | **23,873** | **15.8** | 19,438 | 16.8 | **+22.8** |
| Total | **150,990** | **100.0** | 115,564 | 100.0 | **+30.7** |

In respect of selling price, although the average selling price of steel cords for the year recorded a slight decline of 1.6% as compared to the previous year, it bottomed out and started to rebound since the second quarter of the year was attributable largely to the easing of the oversupply situation of the steel cord industry and the surging steel prices especially during the second half year.

The sales volume growth of 30.7% in steel cord contributed principally to the increase in revenue of this segment by 20.7% over the previous year to HK$1,405,483,000 (2015: HK$1,164,609,000) for the year.

*Cost of sales*

Cost of sales of this segment increased by 4.0% to HK$1,201,897,000 (2015: HK$1,155,525,000) for the year, which was lower than the revenue growth of 20.7%. The lesser extent of increase in cost of sales was contributed by the lower unit cost of production of steel cord driven down by the higher capacity utilization of our two manufacturing plants, JESC and TESC, cost savings from enhanced production and operating efficiency. These brought along the decrease in unit cost of sales of steel cord (excluding allowance for inventories recognised) by approximately 12.0% as compared to the previous year.

*Gross profit*

Contributed by the increase in sales volume and lowered unit cost of sales, gross profit of this segment sharply increased by 21.4 times over the previous year to HK$203,587,000 (2015: HK$9,084,000) for the year. Gross profit margin significantly improved from 0.8% in the previous year to 14.5% for the year.

*Investment and other income*

Investment and other income amounted to HK$1,050,000 for the year, increased by 37.3% as compared to HK$765,000 for the previous year, mainly because of the amount of government grants rose by 66.4% over the previous year to HK$907,000 (2015: HK$545,000) for the year.

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

We continued to exert tight credit control on sales and vigorous collection of trade receivables and simultaneously, incessantly pursue on the collection of long overdue trade receivables since the previous year. Remarkable progress in respect of the recovery of long overdue debts was achieved that brought along the net reversal of allowance for bad debts of HK$29,587,000 during the year; whilst there was net allowance for bad and doubtful debts of HK$4,511,000 recognised in the previous year. Furthermore, out of the HK$4,007,000 of bad debts written off during the previous year, HK$508,000 of such was recovered during the year.

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

The operating performance of this segment improved significantly during the year, as demonstrated by the strong growth in sales volume and reduction in costs, it recorded turnaround from loss to profit in respect of both EBITDA and operating results. Based on the performance of this segment for the year, and after conducting an impairment assessment on the carrying value of the property, plant and equipment of both TESC and JESC which was based on value in use calculation, we are of the view that no impairment loss is required to be recognised in respect of property, plant and equipment of both TESC and JESC respectively. While in the previous year, the impairment loss of HK$93,000,000 and HK$41,672,000 were recognised in respect of the property, plant and equipment of TESC and goodwill of JESC respectively.

*Distribution and selling expenses*
Distribution and selling expenses increased by 10.6% over the same period last year to HK$46,986,000 (2015: HK$42,476,000) for the year, mainly as the total sales volume of this segment increased by 30.4% over the previous year.

*Administrative expenses*
Administrative expenses amounted to HK$32,919,000 for the year, decreased by 13.4% as compared to HK$38,028,000 for the previous year, being the results of consistent implementation of cost control measures.

*Research and development expenses*
Research and development expenses amounted to HK$47,998,000 (2015: HK$47,687,000) for the year, slightly increased by 0.7% over the previous year. These expenses accounted for 3.4% of revenue of this segment for the year (2015: 4.1% of revenue).

**Copper and brass products**
*Overall performance*
The sentiment of the industrial sector in the PRC improved during the year that brought along the recovery of demand for commodity products including copper. This segment recorded an increase in sales volume of 10.2% over the previous year; however, revenue recorded a decrease of 4.4% attributable to the decline in average copper price. Albeit the decrease in revenue, gross profit increased as compared to the previous year, as this segment continued to adopt risk-averse sales and inventory management strategies to react to the volatile copper price movements in recent years. In addition, we also downsized our Hong Kong operation in view of lackluster demand and cost considerations. Contributed by the higher gross profit, this segment achieved significant increase in operating profits of 495.8% over the previous year to HK$1,990,000 (2015: HK$334,000) for the year.

*Revenue*

This segment sold 8,482 tonnes of copper and brass products during the year, increased by 10.2% as compared to 7,696 tonnes for the previous year. The sales to customers in the PRC increased year-on-year by 19.8%; while sales to customers in Hong Kong declined by 14.4%, as this segment started to shift its weight to the PRC market since the second half year. The breakdown of sales volume of this segment for the year by geographical regions is as follows:

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | **Sales volume *(Tonne)*** | **% of total sales volume** | Sales volume *(Tonne)* | % of total sales volume | **% change** |
| PRC | **6,641** | **78.3** | 5,545 | 72.1 | **+19.8** |
| Hong Kong | **1,841** | **21.7** | 2,151 | 27.9 | **-14.4** |
| Total | **8,482** | **100.0** | 7,696 | 100.0 | **+10.2** |

Copper price rebounded during the year, in which the 3-month copper price as quoted by the London Metals Exchange recorded an increase of approximately 17.4% throughout the year. Albeit the rebound in copper price, the average price for the year still declined by 11.3% as compared to the previous year. Hence, the average selling price of this segment for the year recorded a year-on-year decline of 13.2%. The contribution from increased sales volume was fully offset by the impact of decline in average selling price. Therefore, this segment recorded a decrease in revenue of 4.4% as compared to the previous year to HK$318,434,000 (2015: HK$333,016,000) for the year.

*Gross profit*

Despite revenue had a year-on-year decline of 4.4%, gross profit recorded a remarkable increase of 22.9% over the previous year to HK$10,238,000 (2015: HK$8,329,000) for the year. Gross profit margin improved by 0.7 percentage point from 2.5% of the previous year to 3.2% for the year.

*Allowance for bad and doubtful debts*

An allowance for bad and doubtful debts of HK$656,000 was made for a trade receivable aged over one year during the year. Legal action has been taken against this customer and we will use our endeavor to recover such payment.

**Relationship with key customers and suppliers**

The revenue from sales to top five customers of the Group accounted for 43.4% (2015: 44.7%) of total revenue of the Group for the year, while the revenue from sales to the largest customer accounted for 13.4% (2015: 11.4%) of the Group for the year.

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

The Group had concentration risk of reliance on major customers as the percentage of sales to top five customers accounted for 43.4% of total revenue of the Group (2015: 44.7%) for the year. Any changes in the business operations, financial conditions or purchasing patterns of these customers that result to the termination of business with our Steel cord segment may have material impact to the results of the Group. Total revenue from these customers amounted to HK$739 million. Hence, the management of the Group values the long term relationships with these customers. We will mitigate these risks by monitoring their respective financial position and purchasing pattern, and the delivery of high and persistent stable quality products and keeping pace with these customers' new products development through our ongoing research and development activities. We will also exert more efforts on development of new customers and/or ripening the product mix to other customers to reduce the reliance to these major customers. In addition, we will look for and/or development any opportunity to diversify our business in related industry.

Regarding suppliers, the purchases from the Group's five largest suppliers accounted for approximately 39.9% (2015: 38.9%) of total purchases of the Group for the year, while the purchases from the largest supplier accounted for 13.8% (2015: 9.1%) of total purchases of the Group for the year.

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

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

**FINANCIAL REVIEW**

The Group reported a profit of HK$10,103,000 for the year, a significant turnaround as compared to loss of HK$376,985,000 for the previous year. The key financial information which the management of the Group is of the opinion that can best measure the performance in respect of profitability, operating cashflow and financial position of the Group for the year is analysed as follows:

| | **2016** | 2015 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **Change** |
| **OPERATING PERFORMANCE** | | | |
| Revenue | **1,703,255** | 1,480,507 | **+15.0%** |
| Gross profit margin *(%)* | **12.6** | 1.3 | **+11.3pp** |
| E(L)BITDA | **175,264** | (187,719) | **N/A** |
| E(L)BITDA margin *(%)* | **10.3** | -12.7 | **+23.0pp** |
| Adjusted EBITDA | **171,487** | 4,923 | **+3,383.4%** |
| Adjusted EBITDA margin *(%)* | **10.1** | 0.3 | **+9.8pp** |
| Profit (loss) for the year | **10,103** | (376,985) | **N/A** |
| Net profit (loss) margin *(%)* | **0.6** | -25.5 | **+26.1pp** |
| Basic earnings (loss) per share *(HK cents)* | **0.53** | (19.61) | **N/A** |

| | At 31 December | | |
|---|---|---|---|
| | **2016** | 2015 | |
| | ***HK$'000*** | *HK$'000* | **Change** |
| **KEY FINANCIAL INFORMATION** | | | |
| Total assets | **3,037,042** | 3,006,147 | **+1.0%** |
| Total liabilities | **1,715,077** | 1,610,277 | **+6.5%** |
| Equity attributable to equity holders of the Company | **1,321,965** | 1,395,870 | **-5.3%** |
| Net current assets | **26,160** | 57,027 | **-54.1%** |
| Bank balances and cash (including pledged deposits) | **308,355** | 209,889 | **+46.9%** |
| Total interest bearing borrowings | **1,133,763** | 1,118,119 | **+1.4%** |
| Net interest bearing borrowings | **825,408** | 908,230 | **-9.1%** |
| Current ratio *(times)* | **1.02** | 1.04 | **N/A** |
| Gearing ratio (%) | **62.4** | 65.1 | **-2.7pp** |

The Group recorded EBITDA of HK$175,264,000 for the year, significant improvement as compared to LBITDA of HK$187,719,000 for the previous year. Adjusted EBITDA of the Group sharply increased by 3,383.4% over the previous year to HK$171,487,000 (2015: HK$4,923,000) for the year, as shown below:

| | **2016** | 2015 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **% change** |
| E(L)BITDA | **175,264** | (187,719) | **N/A** |
| Adjusted for: | | | |
| Allowance for bad and doubtful debts (reversed) recognised, net | **(28,931)** | 4,511 | **N/A** |
| Bad debts (recovered) written off | **(508)** | 4,007 | **N/A** |
| Foreign exchange losses, net | **27,528** | 39,194 | **-29.8** |
| Increase in fair value of investment properties | **(2,890)** | (3,253) | **-11.2** |
| Impairment loss recognised in respect of property, plant and equipment | **–** | 93,000 | **-100.0** |
| Impairment loss recognised in respect of goodwill | **–** | 41,672 | **-100.0** |
| Allowance for inventories recognised | **1,024** | 13,511 | **-92.4** |
| Adjusted EBITDA | **171,487** | 4,923 | **+3,383.4** |

**Revenue**

Revenue of the Group amounted to HK$1,703,255,000 (2015: HK$1,480,507,000) for the year, increased by 15.0% over the previous year. The breakdown of revenue of the Group for the year is as follows:

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | ***HK$'000*** | **% of total revenue** | *HK$'000* | % of total revenue | **% change** |
| Steel cord | **1,405,483** | **82.5** | 1,164,609 | 78.7 | **+20.7** |
| Copper and brass products | **318,434** | **18.7** | 333,016 | 22.5 | **-4.4** |
| Sub-total | **1,723,917** | **101.2** | 1,497,625 | 101.2 | **+15.1** |
| Elimination of sales by Copper and brass products segment to Steel cord segment | **(22,452)** | **(1.3)** | (18,853) | (1.3) | **+19.1** |
| Property rental | **1,790** | **0.1** | 1,735 | 0.1 | **+3.2** |
| Total | **1,703,255** | **100.0** | 1,480,507 | 100.0 | **+15.0** |

**Allowance for inventories recognised**

The allowance for inventories recognised for the year was HK$1,024,000, which was significantly decreased as compared to HK$13,511,000 of allowance for inventories recognised in 2015 due to rising average selling price of steel cord and implementation of inventory management strategies.

**Gross profit**

Gross profit of the Group sharply increased by 1,031.7% over the previous year to HK$215,414,000 (2015: HK$19,034,000) for the year, such huge increase in gross profit was mainly contributed by the substantial improvement in gross profit of Steel cord segment. The Group's gross profit margin also remarkably increased by 11.3 percentage points over the previous year to 12.6% for the year. The breakdown of gross profit of the Group for the year is as follows:

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | ***HK$'000*** | **Gross profit margin (%)** | *HK$'000* | Gross profit margin (%) | **% change** |
| Steel cord | **203,587** | **14.5** | 9,084 | 0.8 | **+2,141.1** |
| Copper and brass products | **10,238** | **3.2** | 8,329 | 2.5 | **+22.9** |
| Property rental | **1,589** | **88.8** | 1,621 | 93.4 | **-2.0** |
| Total | **215,414** | **12.6** | 19,034 | 1.3 | **+1,031.7** |

**Investment and other income**

Investment and other income increased by 9.6% over the same period last year to HK$1,694,000 (2015: HK$1,546,000) for the year, mainly because of the amount of government grants increased by 45.3% over the previous year to HK$1,059,000 (2015: HK$729,000) for the year.

**Other gains and losses**

The Group recorded net gain of HK$4,491,000 on other gains and losses for the year, as compared to net loss of HK$178,683,000 for the previous year. The breakdown of other gains and losses for the year is as follows:

| | *Notes* | **2016**<br>***HK$'000*** | 2015<br>*HK$'000* | **% change** |
|---|---|---|---|---|
| Foreign exchange losses, net | *1* | **(27,528)** | (39,194) | **-29.8** |
| Increase in fair value of investment properties | | **2,890** | 3,253 | **-11.2** |
| Impairment loss recognised in respect of property, plant and equipment | *2* | **–** | (93,000) | **-100.0** |
| Impairment loss recognised in respect of goodwill | *3* | **–** | (41,672) | **-100.0** |
| Allowance for bad and doubtful debts reversed (recognised), net and bad debts recovered (written off) | | **29,439** | (8,518) | **N/A** |
| Others | | **(310)** | 448 | **N/A** |
| Total | | **4,491** | (178,683) | **N/A** |

*Notes:*

*1.* The Group recorded decrease in foreign exchange loss of 29.8% as compared to the previous year. The exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") continued to decline by approximately 6.3% against HKD throughout the year, which was higher as compared to a decrease of 5.8% in the previous year. Attributable to the decrease in the official RMB exchange rate during the year, the Group continued to incur foreign exchange loss on its HKD and USD denominated bank borrowings during the year. However, the amount decreased as we reduced our HKD and USD denominated bank borrowings to minimise our foreign loss.

*2.* This represented impairment loss recognised in respect of property, plant and equipment of TESC during the previous year.

*3.* This represented impairment loss recognised in respect of the full amount of goodwill in relation to JESC during the previous year.

**Distribution and selling expenses**

Distribution and selling expenses amounted to HK$49,877,000 (2015: HK$45,602,000) for the year, increased by 9.4% over the previous year, as the sales volume of Steel cord and Copper and brass products segment increased by 30.4% and 10.2% respectively over the previous year.

**Administrative expenses**

Administrative expenses amounted to HK$71,899,000 (2015: HK$73,803,000) for the year, decreased by 2.6% as compared to the previous year. As the revenue of the Group increased by 15.0% over the previous year, the ratio of administrative expenses to revenue therefore lowered from 5.0% in the previous year to 4.2% for the year.

**Research and development expenses**

Research and development expenses of the Group amounted to HK$47,998,000 (2015: HK$47,687,000) for the year, slightly increased by 0.7% over the previous 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$112,181,000 from its business segments for the year, significant improvement as compared to loss of HK$213,468,000 for the previous year. The breakdown of the operating results of the Group's business segments for the year is as follows:

| | **2016** | 2015 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | **% change** |
| Steel cord | **110,191** | (213,802) | **N/A** |
| Copper and brass products | **1,990** | 334 | **+495.8** |
| Total | **112,181** | (213,468) | **N/A** |

**Finance costs**

Finance costs amounted to HK$45,888,000 for the year, decreased by 13.0% as compared to HK$52,767,000 for the previous year, mainly the result of the decrease in the amount of interest bearing borrowings. The average interest bearing borrowings was HK$1,125,941,000 for the year, lowered by 6.6% as compared to HK$1,205,978,000 for the previous year.

**Income tax credit**

Income tax credit amounted to HK$4,166,000 for the year, significantly increased by 326.4% as compared to HK$977,000 for the previous year. Despite our two business segments reported profit for the year, most of the taxable profit is absorbed by tax losses brought forward from prior years and a reversal of overprovision tax payable.

In respect of income tax rates, other than JESC, which has been recognised as a state-encouraged high-new technology enterprise starting from 2014 and thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016, there was no change in applicable tax rates of the Company and its subsidiaries during the year. For the Company and subsidiaries operating in Hong Kong, they are subject to Hong Kong Profits Tax at a rate of 16.5% (2015: 16.5%) for the year. 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"), are subject to a tax rate of 25% (2015: 25%) for the year.

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% (2015: 5%).

**Trade receivables**

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK$582,291,000 at 31 December 2016, increased by 13.3% as compared to HK$514,089,000 at the end of 2015. The increase was in line with the revenue growth of 15.0% during the year. The amount of allowance for bad and doubtful debts decreased as certain long overdue outstanding receivables were recovered during the year that resulted in a net reversal of allowance for bad and doubtful debts of HK$28,931,000 during the year. Furthermore, the balance of allowance for bad and doubtful debts was reduced by HK$2,968,000 due to the depreciation of RMB exchange rate of approximately 6.3% over the year, the amount of allowance for bad and doubtful debts therefore reduced from HK$51,028,000 at the end of 2015 to HK$19,129,000 at 31 December 2016.

The aged analysis of trade receivables (after allowance for bad and doubtful debts) of the Group as at 31 December 2016 and the comparison with the end of 2015 is as follows:

| Age | **31 December 2016** | | 31 December 2015 | | |
|---|---|---|---|---|---|
| | ***HK$'000*** | **%** | *HK$'000* | % | **% change** |
| 0 – 90 days | **422,191** | **75.0** | 332,284 | 71.8 | **+27.1** |
| 91 – 180 days | **117,659** | **20.9** | 115,770 | 25.0 | **+1.6** |
| Over 180 days | **23,312** | **4.1** | 15,007 | 3.2 | **+55.3** |
| Total | **563,162** | **100.0** | 463,061 | 100.0 | **+21.6** |

The overall quality of trade receivables remained healthy and in manageable condition, as trade receivables aged within 180 days accounted for 95.9% of total trade receivables at 31 December 2016, slightly decreased by 0.9 percentage point as compared to 96.8% at the end of 2015. Further, the percentage of trade receivables which are past due but not impaired to total trade receivables decreased from 39.1% at the end of 2015 to 23.7% at 31 December 2016.

Regarding the balance of the allowance for bad and doubtful debts of HK$19,129,000 at 31 December 2016, they mainly represented those made for receivables from sales of steel cord 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.

In respect of the trade receivables at 31 December 2016, approximately 57.1% has been subsequently settled by cash or bills receivable up to 23 March 2017. The details of subsequent settlement of trade receivables of the Group and from top five customers of the Group for the year are as follows:

| | **Total trade receivables of the Group** | | **Trade receivables from top five customers of the Group** | |
|---|---|---|---|---|
| **Age** | **Amount at 31 December 2016** | **% of subsequent settlement** | **Amount at 31 December 2016** | **% of subsequent settlement** |
| | *HK$'000* | | *HK$'000* | |
| 0 – 90 days | **422,191** | **51.3** | **170,546** | **44.4** |
| 91 – 180 days | **117,659** | **80.4** | **76,701** | **77.0** |
| Over 180 days | **23,312** | **43.9** | **9,511** | **87.6** |
| Total | **563,162** | **57.1** | **256,758** | **55.7** |

## TREASURY AND FUNDING POLICIES

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

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

## SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

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

There was no change in the total number of issued shares of the Company during the year. The total number of issued shares of the Company remained at 1,922,900,556 Shares at 31 December 2016. Net asset value of the Group was HK$1,321,965,000 at 31 December 2016, decreased by 5.3% as compared to HK$1,395,870,000 at 31 December 2015. The decrease in net asset value was attributable to the negative impact on depreciation of RMB exchange rate against HKD of approximately 6.3% throughout the year. Net asset value per Share was HK$0.687 at 31 December 2016, also decreased by 5.3% as compared to HK$0.726 at 31 December 2015.

**Cash flows**

The Group generated net cash operating inflow of HK$153,964,000 for the year as follows:

| | *HK$'000* |
|---|---|
| Net cash from operating activities as per condensed consolidated statement of cash flows | 73,115 |
| 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 year | 63,064 |
| Bills receivable endorsed to creditors of the Group at 31 December 2015 to settle payable for acquisition of property, plant and equipment and matured during the year | 17,785 |
| Net operating cash inflow for the year | 153,964 |

In respect of cash flows on other activities:

1. The Group incurred net cash outflow on investing activities of HK$24,886,000 during the year, in which HK$7,500,000 incurred mainly on the capital expenditures incurred by Steel cord segment; and

2. The Group recorded net cash inflow on financing activities of HK$62,249,000 during the year. When bank advances for discounted bills of HK$141,872,000 (in which HK$63,064,000 have been repaid upon maturity of those bills during the year) were excluded, the Group incurred net cash outflow of HK$79,623,000 on financing activities during the year, that represented net reduction of interest bearing borrowings during the year.

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

The Group's bank balances and cash (including pledged bank deposits) amounted to HK$308,355,000 at 31 December 2016, increased by 46.9% as compared to HK$209,889,000 at 31 December 2015. Total interest bearing borrowings of the Group (comprised of loans from related companies and bank borrowings) were HK$1,133,763,000 at 31 December 2016, slightly increased by 1.4% as compared to HK$1,118,119,000 at 31 December 2015. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash (including pledged bank deposits)) therefore decreased from HK$908,230,000 at 31 December 2015 to HK$825,408,000 at 31 December 2016.

At 31 December 2016, HK$430,217,000 of these interest bearing borrowings were floating-rate borrowings, while HK$703,546,000 of interest bearing borrowings were collared at rates ranging from 2.81% to 6.00% per annum. The nature and maturing profile of the Group's interest bearing borrowings at 31 December 2016, based on contracted repayment schedules were as follows:

| | *HK$'000* | **% of total interest bearing borrowings** |
|---|---|---|
| Due in 2017 or on demand: | | |
| – Trust receipt loans | 10,125 | 0.9 |
| – Short term bank loans | 801,337 | 70.7 |
| – Bank advances for discounted bills | 92,411 | 8.2 |
| – Loans from related companies | 186,090 | 16.4 |
| | 1,089,963 | 96.2 |
| Loan from a related company: | | |
| – Due in 2018 | 26,404 | 2.3 |
| – Due in 2019 | 20,717 | 1.8 |
| Total | 1,137,084 | 100.3 |
| Unamortised loan arrangement fees | (3,321) | (0.3) |
| Total | 1,133,763 | 100.0 |

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

**Debt and liquidity ratios**

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash divided by Shareholders' equity) of the Group lowered from 65.1% at 31 December 2015 to 62.4% at 31 December 2016. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.02 times at 31 December 2016 as compared to 1.04 times at 31 December 2015.

## FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

Both the Group's sources of revenue and purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimise the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavor to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. However, in anticipation of the depreciation of RMB exchange rate since the year of 2014, the Group planned to gradually increase the proportion of borrowings in RMB to minimize the impact on the depreciation of RMB exchange rate on the Group's results. The proportion of interest bearing borrowings of the Group that are denominated in RMB therefore increased from 28.5% at 31 December 2015 to 49.6% at 31 December 2016. The respective currency composition of the Group's bank balances and cash (including pledged bank deposits) and interest bearing borrowings was as follows:

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

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | ***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 | **90,941** | **29.5** | 103,137 | 49.1 |
| HKD | **184,735** | **59.9** | 29,354 | 14.0 |
| USD | **26,733** | **8.7** | 67,894 | 32.4 |
| Other currencies | **5,946** | **1.9** | 9,504 | 4.5 |
| Total | **308,355** | **100.0** | 209,889 | 100.0 |

**Interest bearing borrowings**

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | *HK$'000* | **% of total interest bearing borrowings** | *HK$'000* | % of total interest bearing borrowings |
| RMB | **565,959** | **49.9** | 318,699 | 28.5 |
| HKD | **566,338** | **50.0** | 766,779 | 68.6 |
| USD | **1,466** | **0.1** | 32,641 | 2.9 |
| Total | **1,133,763** | **100.0** | 1,118,119 | 100.0 |

In respect of exposure to interest rate risk, even though the Group had HK$430,217,000 of interest bearing borrowings at 31 December 2016 which are at floating rates, the Group had 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 increase three to four times in 2017, we do not anticipate an aggregate level of magnitude arisen from these rounds of movements.

During the year under review, the exchange rate of RMB continued to depreciate by approximately 6.3% against HKD. The depreciation of RMB exchange rate will have negative impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD and USD, and the Group had not entered into any derivative financial instruments to hedge against foreign currency risk. We are now ready and preparing to hedge the foreign currency, or RMB, if needed. Furthermore, we will also 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 would keep monitoring the currency and interest rate composition of the Group's interest bearing borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

## BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Capital expenditures incurred by the Group during the year amounted to HK$11,055,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in 2017 are estimated to be approximately HK$176,631,000, which are to be incurred by Steel cord segment mainly for enhancement of production capacity and 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 2017 are estimated to be maintained at a similar level to the year under review, i.e. within the range of 3% to 4% of total revenue of Steel cord segment for the year 2017.

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

At 31 December 2016, the Group had a total of 1,924 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 year amounted to approximately HK$22,139,000.

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

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

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

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

During the year under review, no options were granted, exercised and cancelled and lapsed under the 2012 Scheme while only 3,300,000 share options lapsed under the 2002 Scheme.

**CONTINGENT LIABILITIES AND PLEDGE OF ASSETS**

The Group had no contingent liabilities at 31 December 2016.

At 31 December 2016, the following assets had been pledged to secure certain bank borrowings, loan from a related company and bills payable:

1. Leasehold land and buildings and investment property with an aggregate net book value of HK$7,500,000 and HK$6,200,000 respectively;

2. Plant and machinery with an aggregate amount of HK$96,178,000;

3. Bank deposits of HK$1,006,000; and

4. Pledged deposit amounting to HK$7,825,000.

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

On 30 June 2016, the Company and Zaozhuang Mining entered into a second supplemental memorandum of understanding (the "Second Supplemental MOU") pursuant to which the parties agreed to, among other things, further extend the long stop date to the effect that the formal agreement shall be entered into within 4 years from the date of the memorandum of understanding dated 13 July 2014 (the "MOU"), that is, by 12 July 2018 (or such other later date as agreed by the parties) because of the challenging market conditions in the steel cord and tyre markets. Both parties agreed to allow more time to observe the macroeconomic conditions and will proceed when circumstances warrant and are opportune. Save and except the amendments under the Second Supplemental MOU, all the terms and conditions of the MOU and the supplemental memorandum of understanding dated 30 June 2015 (the "Supplemental MOU") remain unchanged and continue in full force and effect.

As at the date of this announcement, no legally-binding agreement has been entered into in relation to the proposed capital injection and the proposed strategic cooperation between the Group and Zaozhuang Mining and its subsidiaries.

Details regarding the MOU, the Supplemental MOU and the Second Supplemental MOU can be referred to announcements of the Company dated 13 July 2014, 30 June 2015 and 30 June 2016 respectively.

**FINANCE LEASE ARRANGEMENT**

On 29 June 2016, TESC and South China International Leasing Co., Ltd ("South China Leasing"), an indirect 75% owned subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand"), entered into the finance lease arrangement (the "Finance Lease Arrangement") comprising, among others, (i) the Sale and Purchase Agreement and (ii) the Finance Lease Agreement, whereby TESC, being the owner of certain machineries and equipment primarily used by TESC for manufacturing of steel cord (the "Machineries and Equipment"), agreed to sell the Machineries and Equipment to South China Leasing at the amount of RMB70,000,000 ("Purchase Consideration") and South China Leasing agreed to lease back the Machineries and Equipment to TESC for a lease consideration of approximately RMB78,158,000, comprising the rental principal of RMB70,000,000, the lease interest of approximately RMB6,058,000 which is calculated based on the fixed interest rate of 5.13% per annum and the lease handling fee of RMB2,100,000, for a term of thirty-six (36) months. Also, the Company entered into the guarantee agreement in favour of South China Leasing as security for the payment obligations of TESC under the Finance Lease Agreement. TESC shall pay South China Leasing RMB7,000,000 representing 10% of the rental principal of RMB70,000,000 as the security deposit in respect of its obligation under the Finance Lease Agreement prior to the commencement of the lease term. At the end of the lease term, TESC shall have the right to purchase the Machineries and Equipment at a nominal purchase price of RMB1,000 which shall be payable together with the last instalment of the rental principal and lease interest. The purposes of the Finance Lease Arrangement are (i) enhancing the working capital position of TESC; (ii) allowing TESC as well as the Group to optimise its asset and debt structure through increasing the percentage of medium-term financing, which would also improve the liquidity position of the Group; (iii) increasing the ratio of RMB denominated borrowings of the Group to minimise exchange risk on potential depreciation of RMB exchange rate in the foreseeable future; and (iv) diversifying the financing source of the Group. The Purchase Consideration received by TESC is used to supplement the general working capital and repay HK$ denominated bank borrowings of the Group.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the transactions contemplated under the Finance Lease Arrangement is/are more than 5% but less than 25%, the Finance Lease Arrangement constitutes a disclosable transaction of the Company under the Listing Rules. In addition, South China Leasing is an indirect 75% owned subsidiary of Shougang Grand, which is in turn held as to approximately 50.53% by Shougang HK. As such, South China Leasing is an associate of Shougang HK and is also a connected person (at the issuer level) of the Company. The Finance Lease Arrangement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirements. Details of the Finance Lease Arrangement were disclosed in the announcement of the Company dated 29 June 2016 and in the circular of the Company dated 21 July 2016. The Finance Lease Arrangement and the transactions contemplated thereunder were approved, confirmed and ratified by the independent shareholders of the Company on 10 August 2016.

**BUSINESS OUTLOOK**

We experienced a bumpy 2016 with a frigid first quarter from which the market had gotten increasingly robust in the second half of the year fuelled by extraordinary demand in the Chinese tyre market. Our continual effort in turning around TESC had fructified and added another profit engine to our Steel cord segment. We are encouraged by returning to profitability in 2016.

The global market sentiments will be jittery in 2017 in light of the rise of populism and trade protectionism, US interest rate normalization, election in various cornerstone countries in the European Union let alone Brexit and the national debt default scenario of Greece to name a few. Nonetheless, the Group is sanguine, but not complacent, with its future under these dynamic economical and geopolitical forces by adopting the following measures: ·

- Maintaining strong operating cashflow;

- Investing in additional capacity in the Steel Cord segment in response to our customers' demand;

- Monitoring currency and interest rate fluctuations and execute appropriate hedging measures to reduce our exposure;

- Pursuing operational excellence with continual cost reduction while elevating the quality of our steel cord products; and

- Explore and develop new opportunities as to take advantage of the 13th Five-Year Plan and One-Belt-One-Road Initiative.

## FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2016.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 22 May 2017 to Friday, 26 May 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting which is scheduled to be held on Friday, 26 May 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. (Hong Kong time) on Friday, 19 May 2017.

## CORPORATE GOVERNANCE CODE

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

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code and also the SCCHL Corporate Governance Code throughout the year ended 31 December 2016, except for a deviation from code provisions as below:

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

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

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss statement, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this preliminary announcement.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our sincere gratitude to our stakeholders for their confidence placed on us and their support and also would like to thank the Board members, management and colleagues of the Group for their persistent efforts, support and loyal services.

## FORWARD LOOKING STATEMENTS

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

## DEFINITIONS

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

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| "2002 Scheme" | A share option scheme adopted and terminated by the Shareholders at the annual general meetings held on 7 June 2002 and 25 May 2012 respectively |
| "2012 scheme" | A share option scheme adopted by the Shareholders at the annual general meeting held on 25 May 2012 and became effective on 29 May 2012 |
| "Bekaert" | NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder (as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) of the Company |
| "Board" | the board of Directors |
| "Code" | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| "Company" | Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange |
| "Copper and brass products" | processing and trading of copper and brass products |
| "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 |

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| "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)" | holder(s) of the Shares |
| "Steel cord" | manufacturing of steel cord 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, 23 March 2017

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

*Mr. Li Shaofeng (Chairman), Mr. Yang Kaiyu (Managing Director), Mr. Su Fanrong (Executive Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Tang Cornor Kwok Kau (Deputy Managing Director), Mr. Liao Jun (Non-executive Director), Mr. Yip Kin Man, Raymond (Independent Non-executive Director), Mr. Law, Yui Lun (Independent Non-executive Director) and Mr. Lam Yiu Kin (Independent Non-executive Director).*

*This final results announcement is published on the websites of the Company at http://www.irasia.com/listco/hk/sccentury/ and the Stock Exchange at http://www.hkexnews.hk. The Annual Report 2016 will be despatched to Shareholders and made available on the above websites in due course.*

* *For identification purpose only*