

# SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

Annual Report  
**2014**

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# CORPORATE PROFILE

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

The Group is primarily involved in the following activities:

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

## CORPORATE’S VISION AND MISSION

*Shougang Century’s Vision is to:*

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

*Shougang Century’s Mission is to:*

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

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Li Shaofeng (*Chairman*)

Yang Kaiyu (*Managing Director*)

Tang Cornor Kwok Kau (*Deputy Managing Director*)

### Non-executive Directors

Leung Shun Sang, Tony

Zhang Wenhui

Liao Jun

### Independent Non-executive Directors

Yip Kin Man, Raymond

Law, Yui Lun

Chan Chung Chun

## AUDIT COMMITTEE

Yip Kin Man, Raymond (*Chairman*)

Law, Yui Lun

Chan Chung Chun

## REMUNERATION COMMITTEE

Yip Kin Man, Raymond (*Chairman*)

Li Shaofeng (*Vice Chairman*)

Leung Shun Sang, Tony

Law, Yui Lun

Chan Chung Chun

## NOMINATION COMMITTEE

Li Shaofeng (*Chairman*)

Leung Shun Sang, Tony (*Vice Chairman*)

Yip Kin Man, Raymond

Law, Yui Lun

Chan Chung Chun

## AUTHORISED REPRESENTATIVES

Tang Cornor Kwok Kau

Chan Lai Yee

## COMPANY SECRETARY

Chan Lai Yee

## QUALIFIED ACCOUNTANT

Wu Siu Man

## PRINCIPAL BANKERS

Agricultural Bank of China

Bank of China

Bank of China (Hong Kong) Limited

China CITIC Bank International Limited

Hang Seng Bank Limited

Industrial and Commercial Bank of China

Industrial and Commercial Bank of China (Asia) Limited

## AUDITOR

Deloitte Touche Tohmatsu

*Certified Public Accountants*

## SHARE REGISTRAR

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## REGISTERED OFFICE

5th Floor, Bank of East Asia Harbour View Centre

51-57 Gloucester Road

Wanchai

Hong Kong

## COMPANY'S WEBSITE

<http://www.shougangcentury.com.hk>

## WEBSITE FOR PUBLISHING LISTING RULES RELATED ANNOUNCEMENTS AND OTHER DOCUMENTS

<http://www.irasia.com/listco/hk/sccentury/>

## HKEx STOCK CODE

103

## LISTING DATE

9 April 1992

# FINANCIAL HIGHLIGHTS

	For the year ended		
	31 December		
	2014	2013	%
	HK\$'000	HK\$'000	Change
<b>Operations</b>			
Revenue	1,787,444	1,857,665	-3.8
Gross profit	133,785	214,413	-37.6
(L)EBITDA (Note 1)	(52,241)	221,230	N/A
Adjusted EBITDA (Note 2)	116,923	198,203	-41.0
Loss for the year	(275,774)	(16,590)	+1562.3
Loss per Share (basic) (HK cents)	(14.34)	(0.86)	+1567.4

Notes:

- (L)EBITDA represents (loss) earnings before finance costs, income tax, depreciation and amortisation.
- Adjusted EBITDA represents EBITDA before (i) allowance for inventories recognised of HK\$5,275,000 (2013: HK\$1,462,000); (ii) allowance for bad and doubtful debts recognised of HK\$16,830,000 (2013: reversed of HK\$12,763,000); (iii) impairment loss recognised in respect of property, plant and equipment of HK\$147,000,000 (2013: Nil); (iv) increase in fair value of investment properties of HK\$1,699,000 (2013: HK\$4,465,000); and (v) foreign exchange losses of HK\$1,758,000 (2013: gains of HK\$7,261,000).

	At 31 December		
	2014	2013	%
	HK\$'000	HK\$'000	Change
<b>Financial position</b>			
Total assets	3,610,120	4,123,008	-12.4
Shareholders' equity	1,861,882	2,125,254	-12.4
Net asset value per Share (HK\$)	0.968	1.105	-12.4



# INFORMATION FOR INVESTORS

## SHARE INFORMATION

Board lot size:	2,000 Shares
Shares outstanding as at the last trading day of 2014:	1,922,900,556 Shares
Market capitalization as at the last trading day of 2014:	HK\$605,713,675
Closing share price as at the last trading day of 2014:	HK\$0.315
Loss per Share (basic) for 2014:	
Interim	: (HK2.00 cents)
Final	: (HK14.34 cents)

## KEY DATE

2015 Annual General Meeting:	22 May 2015
Closure of Register of Members for 2015 Annual General Meeting:	21 to 22 May 2015
Announcement of 2014 Final Results:	26 March 2015

## INVESTOR RELATIONS CONTACT

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

## SHAREHOLDER ENQUIRIES

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

### Tricor Tengis Limited

Address	:	Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone	:	(852) 2980 1333
Fax	:	(852) 2810 8185
E-mail address	:	is-enquiries@hk.tricorglobal.com
Website	:	<a href="http://www.tricoris.com">http://www.tricoris.com</a>

# BUSINESS CONTACTS



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

Address: 1 Dong Fang Road, Jiaxing Economic Development Zone  
Zhejiang Province, PRC

Postal code: 314003

Telephone: (86) 573 8222 2790

Fax: (86) 573 8221 3500

Website: <http://www.jesc.com.cn>

E-mail address: [jesc@jesc.com.cn](mailto:jesc@jesc.com.cn)



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

Address: 1 Dong Fang Road, Tengzhou Economic Development Zone  
Shandong Province, PRC

Postal code: 277500

Telephone: (86) 632 525 2100

Fax: (86) 632 525 2111

Website: <http://www.tesc.com.cn>

E-mail address: [tesc@tesc.com.cn](mailto:tesc@tesc.com.cn)



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

Address: Unit 2-3, G/F., TCL Tower, 8 Tai Chung Road  
Tsuen Wan, Hong Kong

Telephone: (852) 2498 7800

Fax: (852) 2498 7912

E-mail address: [hingcheong\\_m@ctimail.com](mailto:hingcheong_m@ctimail.com)



## **東莞興銅五金有限公司**

Address: San Zhong Jinlong Industrial Zone, Qingxi, Dongguan  
Guangdong Province, PRC

Postal code: 523660

Telephone: (86) 769 8709 1818

Fax: (86) 769 8709 1810

Website: <http://www.dgxtong.com>



## **首長寶佳(上海)管理有限公司**

Address: 16F., Shartex Plaza, No. 88 Zunyi Nan Road  
Shanghai, PRC

Postal code: 200336

Telephone: (86) 21 6291 8806

Fax: (86) 21 6291 8805

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Li Shaofeng**, aged 48, Mr. Li holds a Bachelor Degree in Automation from University of Science and Technology Beijing. He joined Shougang Corporation in 1989. Mr. Li joined the Group in March 2000 and was appointed as deputy managing Director. He was subsequently appointed as the managing Director and deputy managing director of Shougang HK, a wholly owned subsidiary of Shougang Corporation, in September 2003 and September 2007 respectively. At present, he holds directorship in a wholly owned subsidiary of the Company. Besides, Mr. Li acts as the chairman and vice-chairman of the nomination committee and remuneration committee of the Company respectively.

Mr. Li has become the chairman of the Company and the chairman and executive director of each of Shougang Technology (co-chairman with effect from 24 October 2013, re-designated as non-executive chairman on 17 March 2014 and resigned on 31 December 2014), Shougang Grand, Global Digital, the managing director of Shougang International and deputy managing director of China Shougang International Trade and Engineering Corporation and also re-designated as the vice chairman and managing director of Shougang HK since 10 May 2010.

Mr. Li was appointed as the chairman and executive director of Shougang Fushan on 20 October 2011. He also became a non-executive director of Mount Gibson Iron Limited (“MGIL”), a company listed on the Australian Securities Exchange on 23 February 2012 (Mr. Li previously acted an alternate director to an ex-director of MGIL with effect from 7 November 2011). On 27 January 2014, he was appointed as an executive director of BeijingWest Industries. In addition to the above, he also is a non-executive director of China Dynamics (Holdings) Limited (“China Dynamics”), a company listed in Hong Kong. In all, Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

Other than his directorship disclosed above, Mr. Li does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 7,652,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 13,800,000 underlying Shares attached to the share options granted by the Company. Mr. Li is entitled to receive a HK\$250,000 monthly salary at present under his service contract with the Company but he has waived to receive his salaries since 2013. The service contract may be terminated by either party by giving to other party not less than three months’ notice without payment of any compensation (other than statutory compensation). There is no specified or proposed length of service for Mr. Li with the Company. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The emoluments of Directors are determined by reference to the Company’s performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.



## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Yang Kaiyu**, aged 53, was appointed as the deputy general manager of the Company on 15 July 2008 and re-designated as the deputy managing Director and managing Director on 10 May 2010 and 1 April 2011 respectively. At present, he holds directorship in certain wholly owned subsidiaries of the Company. He holds a Bachelor Diploma in Engineering Mechanics from Shanghai Jiao Tong University and a Master Degree in Industry Management and Engineering from The Katholieke Universiteit Leuven in Belgium. He also had attended the General Management Development and Operation Management Programs organised by INSEAD, France and Creative Leadership Development Programme organised by CCL Institute, the United States. Mr. Yang has over 15 years of experience in operation management and worldwide procurement in steel wire and steel cord industries. Prior to joining the Company, he held various positions in Bekaert group since 1993.

Other than his directorship disclosed above, Mr. Yang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, Mr. Yang's spouse beneficially owns 3,596,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 18,000,000 underlying Shares attached to the share options granted by the Company. A service contract was entered into between Mr. Yang and the Company for a term of three years commencing from 1 January 2013. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). However, he is also subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Yang is entitled to receive a HK\$220,000 monthly salary at present under his service contract with the Company. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Leung Shun Sang, Tony**, aged 72, was appointed as a non-executive Director in 1995. He also serves as the vice-chairman of the nomination committee and a member of the remuneration committee of the Company. He is also a non-executive director of each of Shougang International, Shougang Technology, Shougang Grand, Global Digital and Shougang Fushan. Mr. Leung holds a Bachelor Degree of Commerce from the Chinese University of Hong Kong and a Master Degree in Business Administration from New York State University. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

Other than his directorship disclosed above, he has not previously held any position with the Group and does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. Leung does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 7,652,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 12,000,000 underlying Shares attached to the share options granted by the Company. A service contract was entered into between Mr. Leung and the Company for a term of three years commencing from 1 January 2014. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK\$190,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Zhang Wenhui**, aged 59, Mr. Zhang graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed as a non-executive Director on 21 December 2012. He is an executive director and the deputy managing director of Shougang International. He is also the deputy managing director of Shougang HK. Mr. Zhang acted as the non-executive director of Shougang Fushan during the period from 10 May 2010 to 19 December 2012. He joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. Mr. Zhang has extensive experience in management and company operations.

Other than his directorship disclosed above, he has not previously held any position with the Group. Mr. Zhang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Zhang and the Company for a term of one year commencing from 1 January 2015 and ending on 31 December 2015. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Zhang is entitled to receive a director's fee of HK\$190,000 per annum under his service contract with the Company but he has waived to receive his director's fee since 1 September 2014. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Tang Cornor Kwok Kau**, aged 54, Mr. Tang joined the Group in 1998 and was appointed as the deputy managing Director in March 2000. At present, he also holds directorship in certain wholly owned subsidiaries of the Company. Mr. Tang was appointed with effect from 22 July 2014 as an independent non-executive director of Loco Hong Kong Holdings Limited (“Loco Hong Kong”), a company listed on the Growth Enterprise Market of the Stock Exchange on 5 August 2014. He holds a Bachelor and a Master Degrees in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years’ experience in corporate and investment banking.

Other than his directorship disclosed above, Mr. Tang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 10,000,000 Shares and in which of 200,000 Shares are jointly owned by his wife within the meaning of Part XV of the SFO. In addition, he has a personal interest of 10,000,000 underlying Shares attached to the share options granted by the Company. Mr. Tang is entitled to receive a HK\$165,000 monthly salary at present under his service contract with the Company. The service contract may be terminated by either party by giving to other party not less than three months’ notice without payment of any compensation (other than statutory compensation). There is no specified or proposed length of service for Mr. Tang with the Company. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The emoluments of Directors are determined by reference to the Company’s performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Liao Jun**, aged 52, was appointed a non-executive Director on 25 February 2015. Mr. Liao holds a Bachelor of Science and a Master of Science in Physical Metallurgy from Central South Metallurgy Institute and Central South University of Technology respectively in China. He further achieved his Doctor of Philosophy in Materials Science in College of Engineering, University of Michigan and Master of Business Administration in University of Michigan-Ann Arbor, Ross School of Business Management.

Mr. Liao is currently the Senior Vice President of rubber reinforcement North Asia in Bekaert. Prior to joining Bekaert group, he had held various management positions of several reputable multinational corporations such as Dow Corning and Solvay. In all, Mr. Liao has over 6 years of experience in sales and management in industrial chemicals and polymers businesses.

Other than his directorship disclosed above, he has not previously held any position with the Group and does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. Liao does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. There is no service contract between Mr. Liao and the Company since he was nominated by Bekaert as a non-executive Director according to the subscription agreement entered into by the Company and Bekaert dated 22 September 2006 and further agreement between Bekaert and the Company on 24 February 2015. He will hold office until the next following general meeting of the Company, at which he will be eligible for re-election in accordance to the Articles and thereafter will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK\$150,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.



## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Yip Kin Man, Raymond**, aged 68, was appointed as the independent non-executive Director in 1993. He serves as the chairman of each of the audit committee and remuneration committee and a member of the nomination committee of the Company. Mr. Yip has also acted as the independent non-executive director of Shougang Grand since January 2007. On 27 January 2014, he was appointed as an independent non-executive director of BeijingWest Industries. Mr. Yip is a practising solicitor, notary public, China-Appointed Attesting Officer.

Other than the directorship disclosed above, Mr. Yip has not previously held any position with the Group, and is independent of and not connected with the directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 2,052,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Yip and the Company for a term of three years commencing from 1 January 2014. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK\$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Law, Yui Lun**, aged 52, Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (“HKICPA”). He is also an associate member of each of the HKICPA and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in April 2005. At present, Mr. Law is a Certified Public Accountant (Practicing) in Hong Kong. Prior to setting up his own practice, Mr. Law had worked for the audit department of KPMG and the China Division of the Hong Kong office of Ernst & Young for a total of 8 years. He had also been a partner in a medium-sized local accounting firm in Hong Kong for over 3 years. In all, Mr. Law has substantial professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management.

Other than the directorship disclosed above, Mr. Law has not previously held any position with the Group, and is independent of and not connected with the directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 2,816,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Law and the Company for a term of three years commencing from 1 January 2014. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director’s fee as the Company may determine from time to time. At present, he receives a director’s fee of HK\$240,000 per annum. The emoluments of Directors are determined by reference to the Company’s performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## BIOGRAPHICAL DETAILS OF DIRECTORS

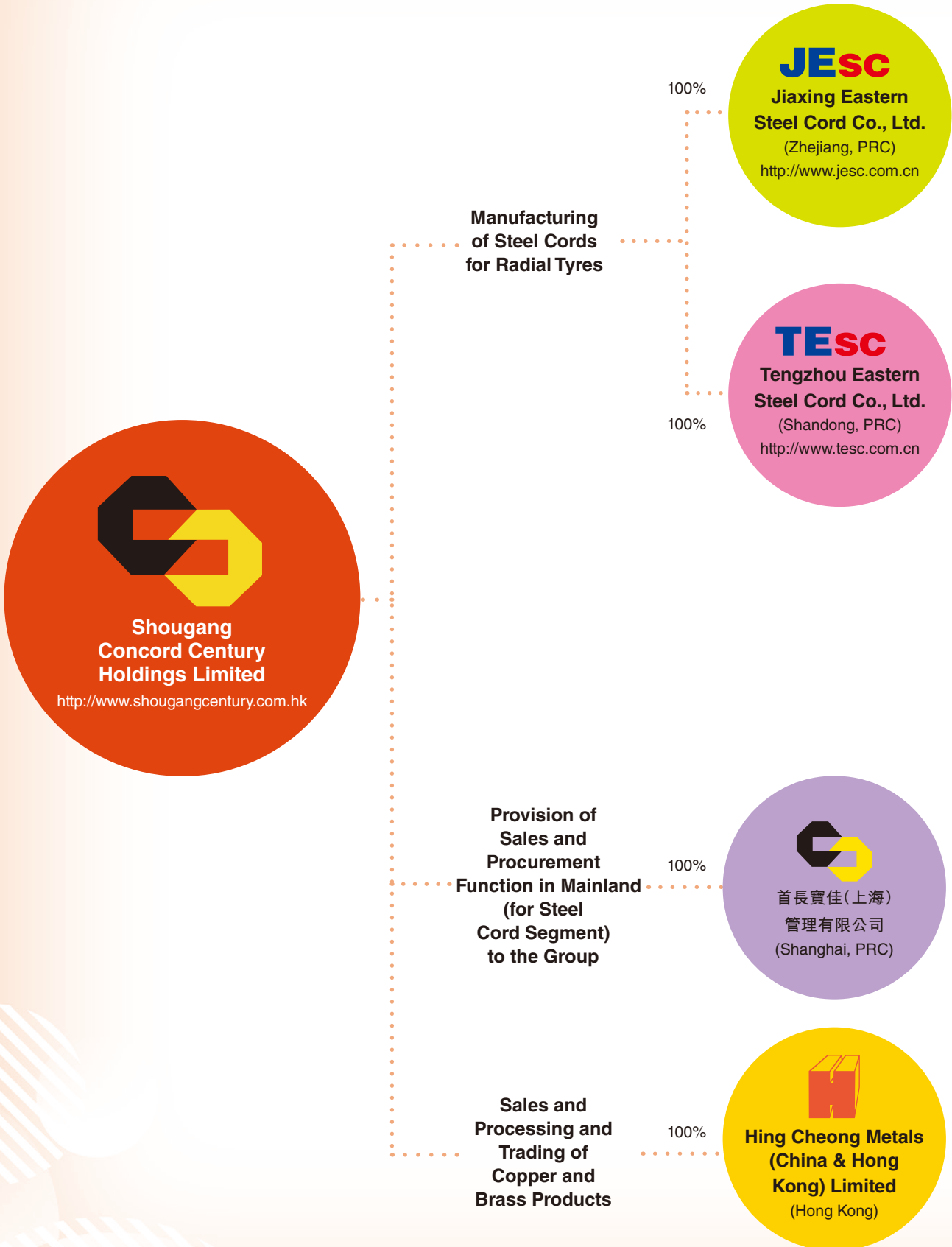
**Mr. Chan Chung Chun**, aged 55, Mr. Chan is a fellow member and an associate member of the HKICPA and The Australian Society of Certified Practising Accountants, respectively. Mr. Chan holds a Bachelor Degree in Commerce from James Cook University of North Queensland and a Master Degree in Commerce from University of New South Wales in Australia. He had worked for the audit department of Ernst & Young for about 7 years. He was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in October 2007. Mr. Chan was also appointed as the independent non-executive director of Global Digital and Shougang Fushan on 20 June 2012 and 1 July 2012 respectively. Mr. Chan is currently the deputy chairman and executive director of China Dynamics. He has extensive working experience in accounting and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the PRC.

Other than the directorship disclosed above, Mr. Chan has not previously held any position with the Group, and is independent of and not connected with the directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has a personal interest of 1,800,000 underlying Shares attached to the share options granted by the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Chan and the Company for a term of three years commencing from 1 January 2014. However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK\$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to his particulars as being a Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

# MAIN OPERATIONAL STRUCTURE

As at 26 March 2015





# CHAIRMAN'S STATEMENT

Dear Shareholders,

## RESULTS FOR THE YEAR

In 2014, the US economy has improved moderately after years of weakness. The economies of other developed countries in Europe and Japan, which are the major markets of our Copper and brass products segment, have shown steady recovery but still uncertain. Domestically, China's economy has a sustainable growth to maintain an annual growth rate of 7.4%. Under such economic condition, China's automobile and logistics industries also maintained a moderate growth, which seemed to bring forth opportunities for radial tyre manufacturers in China. However, unexpected intensified price competition during the year 2014 has placed downward pressure on radial tyre cord margins. As a result, the Group's profitability was substantially affected inevitably.

Owing to the marked decrease in average selling price of Steel cord segment and the impairment loss recognized in respect of property, plant and equipment of TESC, the Group recorded a substantial loss of HK\$275,774,000 for the year, representing an increase of 1562.3% when compared to HK\$16,590,000 for the previous year.

The revenue of Group amounted to HK\$1,787,444,000 (2013: HK\$1,857,665,000), representing a decrease of 3.8% due to the significant drop in average selling price of both Steel cord and Copper and brass products segments even though their respective sales volume increased during the year. The Group reported loss per Share of HK14.34 cents for the year when compared to HK0.86 cents for the previous year. Net asset value was HK\$0.968 per Share at 31 December 2014, decreased by 12.4% as compared to HK\$1.105 at the end of 2013.

## BUSINESS DEVELOPMENT

Amid such complex economic environment as mentioned above, the Board has strategically deployed more resources on research and development in order to enable the Group to deliver a wider range of advanced products and new products to suit the international customers' varying requirements and demands to achieve higher profit margin.





# CHAIRMAN'S STATEMENT

## **DIVIDEND**

The Board did not recommend the payment of a final dividend for the year ended 31 December 2014.

## **LOOKING AHEAD**

In view of the keen price competitions in Steel cord segment, the fluctuation of copper price and persistent decline in average selling price of both steel cords and copper and brass products for a period of time, it is expected that the Group will have to continue to face the noticeable challenges throughout the year 2015.

Against the foresaid backdrop, we remain committed to reduce production costs, enhance production efficiency, develop advanced products for overseas market and strengthen our competitive advantage for the purpose of increasing our market share and maintaining our "Eastern" brand recognition in worldwide market.

## **ACKNOWLEDGEMENTS**

On behalf of the Board, I am grateful for the perseverance and resilience of our staff in such a difficult time and thank for them for their unswerving efforts. I also take this opportunity to express my heartfelt gratitude to all Shareholders, investors and business partners for their patience, understanding and continued support during the adverse period of time.

By order of the Board

**Li Shaofeng**

*Chairman*

Hong Kong

26 March 2015

# 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 awareness and 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 general manager of the Company to 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 increasingly complicated external environment and further discussed follow up action regularly at the Board and/or other management meetings throughout the years.

### Review of operations

During the year under review, the economy of the PRC continued to expand at a stable annual growth rate of 7.4%. However, the growth momentum of certain sectors, including industrial production, fixed assets investments and property development decelerated during the year. The growth in production volume of new motor vehicles also slowed down, that caused a slower increase in production of new radial tyres in the PRC during the year under review. In respect of other major developed countries, the economy of the USA exhibited a solid growth during the year, while those in Europe and Japan appeared to recover but remained unstable. The Steel cord segment hence recorded a slower growth in sales volume as compared to the previous year. The selling price of steel cords continued to decline as the overcapacity situation in the steel cord industry had not relieved during the year. Although the production costs of Steel cord segment decreased as compared to the previous year, it was not able to recoup the reduced sales revenue arising from lowered average selling price of steel cords. As such, the Steel cord segment recorded a decrease in Adjusted EBITDA for the year as compared to the previous year.

In respect of the Copper and brass products segment, there was lower demand for commodity products under a weakened industrial environment that also driven down the prices of commodities, including copper. Sales volume of this segment remained similar to the same level as the previous year; however, revenue decreased attributable to the declining copper price. Notwithstanding the decrease in sales revenue, through strengthened sales and inventory management, this segment achieved an increase in gross profit and returned to positive in EBITDA for the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

In respect of the performance of the Group as a whole, attributable to the decrease in Adjusted EBITDA of Steel cord segment, the Group recorded a lower Adjusted EBITDA as compared to the previous year. Furthermore, due to the recognition of additional allowance for bad and doubtful debts of HK\$16,830,000 and the impairment loss recognised in respect of property, plant and equipment of HK\$147,000,000 during the year, the Group recorded a substantial increase in loss of 1562.3% over the previous year to HK\$275,774,000 for the year.

## Steel cord

### Overall performance

The growth of the automobile industry in the PRC turned slow during the year under review. According to the information of China Association of Automobile Manufacturers, the production of new vehicles amounted to 23.72 million units in the year, represented an annual growth of 7.3% over the previous year, descended as compared to the corresponding annual growth of 14.8% in the previous year. During the year under review, the production volume of passenger cars increased by 10.2% over the previous year; while the production volume of commercial vehicles



recorded a decrease of 5.7% as compared to the previous year. In addition, based on the information from the Tyre Branch of China Rubber Industry Association, the production of radial tyres amounted to approximately 511.0 million units in 2014, increased by 7.4% as compared to approximately 475.7 million units produced in the previous year, also descended as compared to the corresponding annual growth of 14.8% in the previous year.

Attributable to the slower growth in production of motor vehicles and radial tyres as mentioned above, this segment therefore recorded a smaller increase in sales volume during the year, the sales volume of steel cords increased by 4.4% over the previous year. Whilst sales volume increased, average selling price of steel cords dropped by 8.4% as compared to the previous year attributable to the overcapacity situation of the steel cord industry in the PRC. Despite our two steel cord manufacturing plants accomplished lower unit production cost of steel cords as a result of lowered raw material prices, the enhancement of production efficiency and higher production volume, it was not able to recoup the reduced sales revenue arising from the drop in average selling price. As a result, gross profit of this segment decreased by 40.4% as compared to the previous year to HK\$123,028,000 (2013: HK\$206,465,000) for the year.

Due to the significant decline in average selling price of steel cords, particularly in Shandong province, the gross profit margin of TESC was severely eroded. In addition, the capacity utilization rate of TESC's production facility was lower than expected which was attributable to the weaker growth in demand of steel cords during the year. These two factors caused the management of the Group to conduct an impairment assessment on the value of property, plant and equipment of TESC and an impairment loss of HK\$147,000,000 was recognised in this respect during the year as a result.

# MANAGEMENT DISCUSSION AND ANALYSIS

Affected by the decrease in gross profit and the impairment loss recognised in respect of property, plant and equipment, this segment recorded LBITDA of HK\$30,155,000 for the year, as compared to EBITDA of HK\$227,004,000 for the previous year. Adjusted EBITDA was HK\$139,665,000 for the year, decreased by 37.6% as compared to HK\$223,849,000 for the previous year.

Attributable to the substantial decrease in gross profit and the impairment loss recognised in respect of property, plant and equipment as mentioned above, this segment recorded operating loss of HK\$185,445,000 for the year, as opposed to operating profit of HK\$78,994,000 for the previous year.

## Revenue

This segment sold 118,554 tonnes of steel cords during the year, increased by 4.4% as compared to 113,590 tonnes for the previous year. In respect of its sawing wire business, we remained cautious on this business development as the solar energy industry was still very sluggish during the year. This segment sold an aggregate of 671 tonnes of half products and final products of sawing wires during the year, decreased by 30.8% as compared to 970 tonnes for the previous year. The analysis of sales volume of this segment is as follows:

	2014		2013		% change
	Sales volume (Tonne)	% of total sales volume of steel cords	Sales volume (Tonne)	% of total sales volume of steel cords	
Steel cords for:					
– truck tyres	86,235	72.8	84,227	74.1	+2.4
– off the road truck tyres	4,186	3.5	4,284	3.8	-2.3
– passenger car tyres	28,133	23.7	25,079	22.1	+12.2
<b>Total for steel cords</b>	<b>118,554</b>	<b>100.0</b>	113,590	100.0	+4.4
Sawing wires:					
– half product	255		731		-65.1
– final product	416		239		+74.1
<b>Total for sawing wires</b>	<b>671</b>		970		-30.8
Other steel wires	394		621		-36.6
<b>Total</b>	<b>119,619</b>		115,181		+3.9



# MANAGEMENT DISCUSSION AND ANALYSIS

There was no significant change in sales mix of steel cords during the year, steel cords for truck tyres remained the largest part of sales of steel cords which accounted for 72.8% of sales volume of steel cords for the year, however decreasing by 1.3 percentage points as compared to 74.1% for the previous year.

In respect of overseas sales, the volume of export sales of steel cords amounted to 15,300 tonnes for the year, significantly increased by 24.4% as compared to 12,302 tonnes for the previous year, mainly as this segment expanded its coverage in the South America region during the year. The volume of export sales represented 12.9% of total sales volume of steel cords for the year, increased by 2.1 percentage points as compared to 10.8% for the previous year. The analysis of sales volume of steel cords by region is as follows:

	2014		2013		% change
	Sales volume (Tonne)	% of total sales volume of steel cords	Sales volume (Tonne)	% of total sales volume of steel cords	
PRC	103,254	87.1	101,288	89.2	+1.9
Other countries (mainly Japan, South Korea, USA and Brazil)	15,300	12.9	12,302	10.8	+24.4
<b>Total</b>	<b>118,554</b>	<b>100.0</b>	<b>113,590</b>	<b>100.0</b>	<b>+4.4</b>

The average selling price of steel cords dropped by 8.4% as compared to the previous year, as the pricing pressure had not relieved during the year attributable to the overcapacity situation in the PRC.

In summary, the sales volume of steel cords increased by 4.4% over the previous year, however, the average selling price of steel cords recorded a corresponding decline of 8.4%, therefore the revenue of this segment decreased by 3.8% as compared to the previous year to HK\$1,417,930,000 (2013: HK\$1,473,662,000) for the year.

## Gross profit

Gross profit of this segment declined by 40.4% as compared to the previous year to HK\$123,028,000 (2013: HK\$206,465,000) for the year, which was attributable to the following factors:

1. The decline in average selling price of steel cords of 8.4% caused revenue of this segment decreased by HK\$55,732,000 as compared to the previous year; and



# MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of sales increased by 2.2% over the previous year to HK\$1,294,902,000 (2013: HK\$1,267,197,000) for the year as the sales volume of steel cords increased by 4.4%. Unit cost of production of steel cords dropped during the year which was contributed by lower raw material prices, the enhancement of production efficiency and higher production volume. However, the lowered cost of production was not able to recoup the significant reduction in sales revenue arising from the drop in average selling price.

## ***Investment and other income***

Investment and other income amounted to HK\$1,742,000 for the year, decreased by 74.2% as compared to HK\$6,749,000 for the previous year, mainly as the amount of government grants decreased by 73.6% as compared to the previous year to HK\$1,418,000 (2013: HK\$5,380,000) for the year.

## ***Allowance for bad and doubtful debts (recognised) reversed, net***

The measures to recover those long outstanding bad and doubtful debts continued to take place during the year; however, there was no major progress on the recovery despite every efforts had been made including but not limited to legal proceedings. Moreover, certain customers in Shandong province delayed their payments for receivables during the year. In view of such delayed settlements, additional allowance for bad and doubtful debts of HK\$16,830,000 was made for the sake of prudence for the year; while there was net recovery of bad and doubtful debts of HK\$12,763,000 in the previous year.

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

Distribution and selling expenses increased by 6.7% over the previous year to HK\$47,536,000 (2013: HK\$44,551,000) for the year. The increase was mainly because of the increase in transportation costs and export related costs resulted from higher growth of 24.4% in export sales volume of steel cords during the year.

## ***Administrative expenses***

Administrative expenses amounted to HK\$39,919,000 for the year, lowered by 3.2% as compared to HK\$41,227,000 for the previous year.

## ***Research and development expenses***

Research and development expenses increased by 9.3% over the previous year to HK\$58,374,000 (2013: HK\$53,412,000) for the year, as we continued to implement our strategy to deploy more resources on new product development with a view to procure long term sustainable development of the steel cord business.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Copper and brass products

### Overall performance

The economic growth in the PRC slowed down during the year, while the economy in other developed countries exhibited a slow recovery in business activities. Demand for commodities remained weak during the year, this segment hence continued to remain cautious on its business development. The sales volume of this segment was similar to the previous year. Nonetheless, through strengthened sales and



inventory management, this segment recovered from loss to profit during the year. It recorded operating profit of HK\$49,000 for the year, as opposed to operating loss of HK\$2,558,000 for the previous year.

### Revenue

This segment sold 7,823 tonnes of copper and brass products during the year, slightly increased by 0.8% as compared to 7,764 tonnes for the previous year. The sales volume in the PRC declined while those in Hong Kong and other countries increased as compared to the previous year, therefore the percentage of sales volume in the PRC to total sales volume lowered from 73.8% in the previous year to 70.7% for the year. The breakdown of sales volume by geographical location is as follows:

	2014		2013		% change
	Sales volume (Tonne)	% of total sales volume	Sales volume (Tonne)	% of total sales volume	
PRC	5,532	70.7	5,732	73.8	-3.5
Hong Kong and other countries	2,291	29.3	2,032	26.2	+12.7
<b>Total</b>	<b>7,823</b>	<b>100.0</b>	<b>7,764</b>	<b>100.0</b>	<b>+0.8</b>

Copper price declined during the year and therefore average selling price of this segment dropped by 4.8% as compared to the previous year. Attributable to the lowered average selling price, this segment recorded a decline in revenue of 4.1% as compared to the previous year to HK\$391,688,000 (2013: HK\$408,364,000) for the year.

### Gross profit

Despite revenue decreased by 4.1%, this segment achieved an increase in gross profit of 38.5% over the previous year to HK\$9,194,000 (2013: HK\$6,639,000) for the year, being the results of strengthened sales and inventory management. Gross profit margin was 2.3% for the year, increased by 0.7 percentage point as compared to 1.6% for the previous year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group recorded loss of HK\$275,774,000 for the year, significantly increased by 1562.3% as compared to HK\$16,590,000 for the previous year, which was mainly attributable to the significant decrease in gross profit of Steel cord segment; the impairment loss recognised in respect of property, plant and equipment of Steel cord segment; further allowance for bad and doubtful debts made against the trade receivables of Steel cord segment; and the significant reduction of the amount of other income and gains, including government grants and foreign exchange gains. LBITDA of the Group was HK\$52,241,000 for the year, against EBITDA of HK\$221,230,000 for the previous year; while Adjusted EBITDA decreased by 41.0% as compared to the previous year to HK\$116,923,000 (2013: HK\$198,203,000) for the year, as follows:

	2014 HK\$'000	2013 HK\$'000	% change
(L)EBITDA	(52,241)	221,230	N/A
Adjusted for:			
Allowance for bad and doubtful debts recognised (reversed), net	16,830	(12,763)	N/A
Foreign exchange losses (gains), net	1,758	(7,261)	N/A
Increase in fair value of investment properties	(1,699)	(4,465)	-61.9
Impairment loss recognised in respect of property, plant and equipment	147,000	–	N/A
Allowance for inventories recognised	5,275	1,462	+260.8
<b>Adjusted EBITDA</b>	<b>116,923</b>	<b>198,203</b>	<b>-41.0</b>

## Revenue

Revenue of the Group amounted to HK\$1,787,444,000 (2013: HK\$1,857,665,000) for the year, declined by 3.8% as compared to the previous year. The revenue of both Steel cord and Copper and brass products segments decreased as compared to the previous year, the breakdown is as follows:

	2014		2013		% change
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
Steel cord	1,417,930	79.3	1,473,662	79.3	-3.8
Copper and brass products	391,688	21.9	408,364	22.0	-4.1
Sub-total	1,809,618	101.2	1,882,026	101.3	
Elimination of sales by Copper and brass products segment to Steel cord segment	(23,853)	(1.3)	(25,773)	(1.4)	-7.5
Property rental	1,679	0.1	1,412	0.1	+18.9
<b>Total</b>	<b>1,787,444</b>	<b>100.0</b>	<b>1,857,665</b>	<b>100.0</b>	<b>-3.8</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gross profit

Gross profit of the Group decreased by 37.6% as compared to the previous year to HK\$133,785,000 (2013: HK\$214,413,000) for the year. Attributable to the significant drop in gross profit margin of Steel cord segment, gross profit margin of the Group declined from 11.5% in the previous year to 7.5% for the year, lowered by 4.0 percentage points. The breakdown of gross profit by business segments is as follows:

	2014		2013		% change
	HK\$'000	Gross profit margin (%)	HK\$'000	Gross profit margin (%)	
Steel cord	123,028	8.7	206,465	14.0	-40.4
Copper and brass products	9,194	2.3	6,639	1.6	+38.5
Property rental	1,563	93.1	1,309	92.7	+19.4
<b>Total</b>	<b>133,785</b>	<b>7.5</b>	<b>214,413</b>	<b>11.5</b>	<b>-37.6</b>

## Investment and other income

Investment and other income decreased by 55.3% as compared to the previous year to HK\$3,549,000 (2013: HK\$7,945,000) for the year, mainly as the amount of government grants decreased by 73.6% to HK\$1,418,000 (2013: HK\$5,380,000) for the year.





# MANAGEMENT DISCUSSION AND ANALYSIS

## Other gains and losses

The Group recorded net loss of HK\$163,561,000 on other gains and losses for the year, as compared to net gain of HK\$24,877,000 for the previous year. The breakdown of other gains and losses is as follows:

	2014 HK\$'000	2013 HK\$'000	% % change
Foreign exchange (losses) gains, net ( <i>Note</i> )	(1,758)	7,261	N/A
Increase in fair value of investment properties	1,699	4,465	-62.0
Impairment loss recognised in respect of property, plant and equipment	(147,000)	–	N/A
Allowance for bad and doubtful debts (recognised) reversed, net	(16,830)	12,763	N/A
Others	328	388	-15.5
<b>Total</b>	<b>(163,561)</b>	<b>24,877</b>	<b>N/A</b>

*Note:* The Group recorded exchange loss of HK\$1,758,000 for the year as compared to exchange gain of HK\$7,261,000 for the previous year, as the exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") recorded a decrease of approximately 0.3% against HKD over the year under review, whereas the official RMB exchange rate had a corresponding increase of 3.1% over the previous year. Attributable to the decrease in the official RMB exchange rate during the year, the Group recorded exchange loss on its HKD and USD denominated bank borrowings.

## Distribution and selling expenses

Distribution and selling expenses amounted to HK\$51,067,000 (2013: HK\$48,424,000) for the year, representing an increase of 5.5% over the previous year. The increase in distribution and selling expenses when compared to the decrease in revenue of 3.8% was mainly because of the increase in transportation costs and export related costs resulted from higher growth of 24.4% in export sales volume of steel cords during the year.



## Administrative expenses

Administrative expenses amounted to HK\$73,592,000 (2013: HK\$74,711,000) for the year, moderately decreased by 1.5% as compared to the previous year. However, as the revenue of the Group decreased by 3.8%, the ratio of administrative expenses to revenue therefore slightly increased from 4.0% in the previous year to 4.1% for the year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Research and development expenses

Research and development expenses of the Group amounted to HK\$58,374,000 for the year, increased by 9.3% as compared to HK\$53,412,000 for the previous year. Such expenses were all incurred by Steel cord segment, as mentioned in 'Steel cord' section above.

## Segment results

Attributable to the significant decrease in gross profit of Steel cord segment, and the impairment loss recognised in respect of property, plant and equipment, the Group reported loss of HK\$185,396,000 from its business segments during the year, as opposed to profit of HK\$76,436,000 for the previous year. The breakdown of the operating results of the Group's business segments for the year is as follows:

	2014 HK\$'000	2013 HK\$'000	% change
Steel cord	(185,445)	78,994	N/A
Copper and brass products	49	(2,558)	N/A
Total	(185,396)	76,436	N/A

## Finance costs

Finance costs amounted to HK\$65,379,000 for the year, decreased by 14.2% as compared to HK\$76,175,000 for the previous year. Such decrease in interest expenses was mainly the results of the increase in proportion of bank borrowings in HKD and USD since the second half of the previous year, taking advantage of their lower borrowing rates as compared to borrowings in RMB.

## Income tax expense

Income tax expense amounted to HK\$1,135,000 for the year, decreased by 89.8% as compared to HK\$11,103,000 for the previous year. Despite our two business segments reported loss during the year, the Group still incurred income tax expense as the taxable profit generated by JESC could not be offset against losses incurred by other group entities; while the decrease in income tax expense was mainly because the taxable profit of JESC, which is the major contributor to the Group's operating profit for both years, dropped significantly as compared to the previous year.

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% (2013: 16.5%) for the year. For subsidiaries operating in the PRC, pursuant to the Law of the PRC on Enterprise Income Tax (the "EIT Law"), the major subsidiaries operating in the PRC are subject to a tax rate of 25% (2013: 25%) for the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## Trade receivables

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK\$616,925,000 at 31 December 2014, decreased by 13.1% as compared to HK\$710,189,000 at 31 December 2013, which was in line with the decrease in revenue. The overall quality of trade receivables was in manageable condition; however, there were delayed settlements by certain customers mainly in Shandong province during the year, which caused the amount of trade receivables aged over the average credit period of 90 days to increase as compared to the end of 2013, as the liquidity of these customers had been affected by the weakened business environment in general. These customers are still operating, but for the sake of prudence, additional allowance for bad and doubtful debts of HK\$16,830,000 was made during the year.

In respect of those overdue receivables and the balance of the allowance for bad and doubtful debts of HK\$49,949,000 still remaining at 31 December 2014, they represented those made for receivables from sales of steel cord and sawing wire products (including half products and final products), we will continue to use our best endeavors to recover those receivables back, including the negotiation of payment by way of assets other than cash and/or instituting legal actions against those customers to claim our payment back.

In respect of the trade receivables at 31 December 2014, approximately 53.5% has been subsequently settled by cash or bills receivable up to 26 March 2015, details are as follows:

<b>Age</b>	<b>Amount at 31 December 2014 HK\$'000</b>	<b>% of subsequent settlement</b>
0 – 90 days	379,379	51.2
91 – 180 days	158,199	60.4
Over 180 days	29,398	46.6
<b>Total</b>	<b>566,976</b>	<b>53.5</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## TREASURY AND FUNDING POLICIES

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

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

## SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

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

There was no change in the number of issued shares of the Company during the year, the number of issued shares remained at 1,922,900,556 Shares at 31 December 2014. Net asset value of the Group was HK\$1,861,882,000 at 31 December 2014, decreased by 12.4% as compared to HK\$2,125,254,000 at 31 December 2013, attributable to the loss and the decrease in RMB exchange rate against HKD during the year. Net asset value per Share was HK\$0.968 at 31 December 2014, also decreased by 12.4% as compared to HK\$1.105 at 31 December 2013.

## Cash flows

Despite the Group recorded a decrease of 41.0% in Adjusted EBITDA as compared to the previous year, however, it recorded net cash inflow from operating activities of HK\$208,858,000 for the year, much stronger as compared to HK\$21,091,000 of the previous year. The analysis is as follows:

	HK\$'000
Net cash from operating activities as per consolidated statement of cash flows	140,797
Add: Operating cash inflows not reflected in consolidated statement of cash flows (non-cash transactions):	
Bills receivable that discounted to banks and matured during the year	17,075
Bills receivable endorsed to creditors of the Group at 31 December 2013 to settle payable for acquisition of property, plant and equipment and matured during the year	50,986
<b>Net cash inflow from operating activities for the year</b>	<b>208,858</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

In respect of cash flows on other activities, the Group incurred net cash outflow on investing activities of HK\$23,632,000 during the year, mainly represented capital expenditures incurred by Steel cord segment for enhancement of its production facilities; and incurred net cash outflow on financing activities of HK\$171,998,000 during the year, which comprised net repayment of bank borrowings of HK\$110,867,000 and payment of bank loan interests of HK\$61,131,000.

## Bank balances and cash and bank borrowings

The Group's bank balances and cash amounted to HK\$68,789,000 at 31 December 2014, decreased by 44.5% as compared to HK\$124,010,000 at 31 December 2013. Total bank borrowings of the Group were HK\$1,293,837,000 at 31 December 2014, decreased by 9.0% as compared to HK\$1,421,972,000 at 31 December 2013.

At 31 December 2014, HK\$1,124,712,000 of bank borrowings were floating-rate borrowings, while HK\$169,125,000 of bank borrowings were collared at rates ranging from 1.37% to 6.00% per annum. The nature and maturing profile of the Group's bank borrowings at 31 December 2014, based on contracted repayment schedules were as follows:

	HK\$'000	% of total bank borrowings
Due within one year or on demand:		
– Trust receipt loans	27,235	2.1
– Bank advances for discounted bills	13,708	1.1
– Working capital and short term loans	497,217	38.4
– Current portion of medium term loans	606,836	46.9
	1,144,996	88.5
Medium term loan		
– Due in the second year	150,000	11.6
	1,294,996	100.1
Unamortized loan arrangement fees	(1,159)	(0.1)
<b>Total</b>	<b>1,293,837</b>	<b>100.0</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Debt and liquidity ratios

Gearing ratio (calculated as total bank borrowings less bank balances and cash divided by Shareholders' equity) of the Group increased from 61.1% at 31 December 2013 to 65.8% at 31 December 2014. The amount of net bank borrowings at 31 December 2014 reduced as compared to 31 December 2013, the higher gearing ratio at 31 December 2014 as compared to 31 December 2013 was attributable to the larger decrease in Shareholders' equity which was mainly due to the impairment loss recognised in respect of property, plant and equipment of HK\$147,000,000 during the year. The current ratio (calculated as current assets divided by current liabilities) of the Group was 0.98 times at 31 December 2014, lower as compared to 1.16 times at 31 December 2013. Included in current liabilities at 31 December 2014 was bank borrowings that are due after one year but contain a repayment on demand clause totaling HK\$149,791,000 (31 December 2013: HK\$434,291,000). When these bank borrowings are excluded, current ratio of the Group would be 1.07 times at 31 December 2014, still lower as compared to 1.58 times at 31 December 2013.

## FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

Both the Group's sources of revenue and purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimize the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavor to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. As such, the Group increased the proportion of borrowings in HKD and USD during the year to further reduce interest costs. The percentage of bank borrowings of the Group denominated in HKD and USD rose from 60.2% at 31 December 2013 to 72.5% at 31 December 2014. The respective currency composition of the Group's bank balances and cash and bank borrowings was as follows:

## Bank balances and cash

	31 December 2014		31 December 2013	
	HK\$'000	%	HK\$'000	%
RMB	31,402	45.6	78,112	63.0
HKD	4,555	6.6	9,607	7.7
USD	29,480	42.9	35,926	29.0
Other currencies	3,352	4.9	365	0.3
<b>Total</b>	<b>68,789</b>	<b>100.0</b>	<b>124,010</b>	<b>100.0</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

## Bank borrowings

	31 December 2014		31 December 2013	
	HK\$'000	%	HK\$'000	%
RMB	355,861	27.5	565,316	39.8
HKD	861,185	66.6	767,649	54.0
USD	76,791	5.9	89,007	6.2
Total	1,293,837	100.0	1,421,972	100.0

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

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

## BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Capital expenditures incurred by the Group during the year amounted to HK\$13,171,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in 2015 are estimated to be approximately HK\$13,906,000, which are also mainly to be incurred by Steel cord segment. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

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

At 31 December 2014, the Group had a total of 2,141 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\$21,642,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 remains 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 share options granted under the 2002 Scheme have been exercised while 2,000,000 share options were cancelled.

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

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

The Group had no contingent liabilities at 31 December 2014.

At 31 December 2014, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK\$11,700,000; and
2. Equity interests in certain subsidiaries of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **PROGRESS OF 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 13 July 2014, the Company and Zaozhuang Mining, an independent third party, which is principally engaged in coal production and operates in Zaozhuang, the PRC, entered into a non-legally binding memorandum of understanding (the “MOU”) under which it is proposed that Zaozhuang Mining shall inject certain capital into TESC (the “Proposed Capital Injection”). After the completion of the Proposed Capital Injection, the Group and Zaozhuang Mining, each holds 50% of the enlarged registered capital of TESC. The capital injected by Zaozhuang Mining will be utilised to fund the phase II construction of TESC’s steel cord production facilities with an annual production capacity of 100,000 tonnes. Under the MOU, the Company and Zaozhuang Mining jointly expressed the intention to cooperate in the operation and management of TESC, and have the proposed strategic cooperation after completion of the Proposed Capital Injection.

As at the date of this annual report, no legally-binding agreement has been entered into in relation to the Proposed Capital Injection and the proposed strategic cooperation between the Group and Zaozhuang Mining and its subsidiaries due to the due diligence process by Zaozhuang Mining on TESC has not yet completed and the internal approval process conducted by Zaozhuang Mining is still underway. As the Proposed Capital Injection may or may not proceed, Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

## **BUSINESS OUTLOOK**

The Group is not optimistic about the outlook of both Steel cord and Copper and brass products segments in year 2015 as we predict the uncertain economic condition in developed countries and fluctuation of copper price will linger coupled with continual intense competition in the steel cord industry. The over production capacity of steel cord suppliers will continue to cause pressure on selling price in order to strive for or maintain their respective market share, which is attributable to similar competition expected to be happening to our downstream customers, i.e. radial tyre manufacturers, in year 2015. To alleviate this negative impact on our steel cord business, the Group has to improve its product quality and maintain its reputed “Eastern” brand name in the market. It will continue exploring potential business opportunities with international clients by developing more advanced specification of products so as to bring a greater contribution to the Group’s future earnings. Lastly, the Group resolves to continue to reduce its production costs and enhance its production efficiency so as to resist the difficulties ahead in the coming year.

\* For identification purposes only

# CORPORATE GOVERNANCE REPORT

The Board is committed to practicing and achieving a high standard of corporate governance. The Board also recognizes that an effective internal control system is crucial to the long term development of the Company. In order to maintain a sound and effective internal control system, the Board periodically reviews the daily corporate governance practices and procedures of the Company and its subsidiaries and procure the Company has strictly complied with the relevant laws and regulations, and the rules and guidelines of regulatory bodies.

## CORPORATE GOVERNANCE PRACTICES

The Company has made detailed disclosures in relation to the accounting period covered in this annual report in compliance with the requirements of Corporate Governance Report set out in the Code. Also, the Company has applied and complied with all the principles and code provisions of the Code throughout the year ended 31 December 2014, except for deviations from code provisions A.1.1 and D.1.4 of the Code which are explained under the heading “**THE BOARD**” below.

## DIRECTORS’ SECURITIES TRANSACTION

On 6 April 2004, the Board has adopted a SCCHL Code on terms no less exacting than the required standard of the Model Code as the Company’s code of conduct and rules governing dealing by all Directors in the securities of the Company. In order to bring the SCCHL Code in line with the changes brought upon by the relevant amendments to law, rules and regulations, the Board will revise the SCCHL Code from time to time and the latest version is an annexe of the Internal Control Manual which is revised on 17 December 2014. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and SCCHL Code for the year ended 31 December 2014.

## THE BOARD

The Board currently consists of nine members, including three executive Directors (namely Messrs. Li Shaofeng (*Chairman*), Yang Kaiyu (*Managing Director*) and Tang Cornor Kwok Kau (*Deputy Managing Director*)), three non-executive Directors (namely Messrs. Leung Shun Sang, Tony, Zhang Wenhui and Liao Jun) and three independent non-executive Directors (namely Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Chan Chung Chun). The Directors’ biographical details are set out on pages 7 to 15 under the heading “**BIOGRAPHICAL DETAILS OF DIRECTORS**”.

# CORPORATE GOVERNANCE REPORT

The major duties of the Board are set out below:

- Developing business model and business goals of the Company;
- Formulating the strategies, planning and development of the Company;
- Setting up objectives of management;
- Monitoring the performance of management;
- Ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed;
- Reviewing and approving the Company's results and operations to be disclosed on a regular basis to the public; and
- Approving the Group's operating strategies, budget and strategies in collaboration with various jurisdictions enterprises, as well as other major investments, application of funds and other substantial exercises with other enterprises.

In order to have a clear guideline in relation to the matters specifically reserved to the Board for decision, functions between the Board and the management are formalized in the Internal Control Manual. In short, the Board, which is accountable to Shareholders for the long-term performance of the Company, is responsible for directing and supervising the Company's affairs to safeguard the best interest of the Company as a whole. The affairs reserved to the Board including but not limited to the development of business models and strategies of the Company, the preparation of financial reporting and the expansion and development of any new business. The general manager motivates the management and general staff to achieve those business goals and strategies set out by the Board, applying business principles and ethics enshrined in the Internal Control Manual.

Each Director owes a fiduciary duty towards the Company. He should act in good faith and in the best interests for both the Company and Shareholders as a whole. Also, the Board has three independent non-executive Directors which represents one-third of the Board so that there is a strong element of independence in the Board. Each of the independent non-executive Directors has different professional qualification and experience in various aspects: including but not limited to (i) legal professional qualification and experience; (ii) auditing, accounting and tax professional; and (iii) financial and commercial management expertise, which has fully complied with Rules 3.10(1) and (2) of the Listing Rules. Hence, we believe that we have sufficient caliber and number for their views to carry weight.



# CORPORATE GOVERNANCE REPORT

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Although two of the independent non-executive Directors, Messrs. Yip Kin Man, Raymond and Law, Yui Lun have served the Board for more than nine years, they have not engaged in any executive management of the Group. Their familiarity with the Company's business may place them in a better position to contribute independent views to the Company. Taking into consideration of their independent scope of works in the past years, there is no evidence that length of tenure is having an adverse impact on their independence. The Company therefore considers all of independent non-executive Directors (including Messrs. Yip and Law) are independent throughout the year under review. Furthermore, all Directors, including independent non-executive Directors, should be re-elected at least every three years at annual general meeting of the Company and the reasons the Board believes that the individual to be independent are set out in the relevant circulars. In addition to the above, to the best knowledge of the Directors, there is no financial, business, family or other material/relevant relationship among members of the Board and in particular, between the Chairman and the Managing Director.

## **Deviation from code provision A.1.1 of the Code**

During the year under review, the Company held three regular board meetings instead of holding at least four regular board meetings a year as required under the code provision A.1.1 of the Code. However, the three regular board meetings have achieved active participation of Directors and all Directors (except one of the Directors was absent due to his health reason) had shown their high attendance rate of the three board meetings during the year. Further, the Directors consider it is more efficient to hold board meetings to address emerging or ad hoc issues as appropriate and sufficient measures have been taken to ensure there is efficient communication among the Directors.

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

Due to the nomination of Mr. Zhang Zhong (former executive Director) as the representative of Bekaert in accordance with the subscription agreement dated 22 September 2006 entered into by the Company and Bekaert, Mr. Zhang does not have any formal letter of appointment setting out the key terms and conditions of his appointment as Director which therefore deviates from code provision D.1.4 of the Code.

After the year ended 31 December 2014, Bekaert determined to nominate Mr. Liao Jun as a non-executive Director instead of an executive Director of the Company, to succeed Mr. Zhang and the Company also agreed to such new arrangement. As such, Mr. Liao also does not have any formal letter of appointment setting out the key terms and conditions of his appointment as director and will deviate from the aforesaid code provision also.

# CORPORATE GOVERNANCE REPORT

The details of Directors' attendance at the meetings (including the board meetings, audit committee meetings, remuneration committee meetings, nomination committee meetings and annual general meeting) held during the year are set out in the following table:

## Record of attendance of Directors at the meetings held during the year (“Attendance Record”)

Name of director	Number of meetings attended and held				
	Board meetings	Audit committee meetings	Remuneration committee meeting	Nomination committee meeting	Annual general meeting
Li Shaofeng	3/3	N/A	1/1	1/1	1/1
Yang Kaiyu	3/3	N/A	N/A	N/A	1/1
Leung Shun Sang, Tony	3/3	N/A	1/1	1/1	1/1
Zhang Wenhui	3/3	N/A	N/A	N/A	1/1
Tang Cornor Kwok Kau	3/3	N/A	N/A	N/A	1/1
Zhang Zhong <sup>(Note)</sup>	0/3	N/A	N/A	N/A	0/1
Yip Kin Man, Raymond	3/3	3/3	1/1	1/1	1/1
Law, Yui Lun	3/3	3/3	1/1	1/1	1/1
Chan Chung Chun	3/3	3/3	1/1	1/1	0/1

*Note:* Due to his health reason, Mr. Zhang Zhong did not attend the captioned meetings held in 2014.

In addition, during the year, two risk assessment meetings, a budget meeting etc, were held to deal with the risk management issues of the Group and the review of business performance of 2013 and planning of 2014 business.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company will provide a comprehensive, formal and tailored induction package to each newly appointed Director to ensure that he/she is sufficiently aware of his/her duties, responsibilities and obligations as a Director under the Companies Ordinance, the Listing Rules and other regulatory requirement and ensure he/she has a proper understanding of the Company's operations and business. In compliance with the code provision A.6.5 of the Code during the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills. The Directors have attended programmes or seminar(s) organized by the group companies or other qualified professionals and regulatory authorities and/or read relevant training development materials. Furthermore, in order to ensure that the contribution of all Directors to the Board remains informed and relevant, the functional departments of the Company from time to time provide with Directors relevant reading materials to keep them informed of the latest changes in the industrial and market news, and legal and regulatory environment. A record of the training received by the respective Directors are kept and updated by the company secretarial department of the Company. Areas of their training activities provided by the Company are summarized as follow:

<b>Name of Director</b>	<b>Legal, Regulatory updates and Corporate Governance</b>	<b>Group's Policy/ Businesses</b>	<b>Director's roles, duties and functions</b>
Li Shaofeng	✓	✓	✓
Yang Kaiyu	✓	✓	✓
Leung Shun Sang, Tony	✓	✓	✓
Zhang Wenhui	✓	✓	✓
Tang Cornor Kwok Kau	✓	✓	✓
Zhang Zhong	✓	✓	✓
Yip Kin Man, Raymond	✓	✓	✓
Law, Yui Lun	✓	✓	✓
Chan Chung Chun	✓	✓	✓

Directors have disclosed to the Company at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments and the time involvement in those public companies or organisations.

# CORPORATE GOVERNANCE REPORT

## **CHAIRMAN AND MANAGING DIRECTOR**

The roles of Chairman and Managing Director are separate and performed by Mr. Li Shaofeng and Mr. Yang Kaiyu respectively. The Chairman, Mr. Li Shaofeng, is responsible for formulating the overall strategies and policies of the Company, while the Managing Director, Mr. Yang Kaiyu, is authorized by the Board to manage the day-to-day business operations of the Company in accordance with business model and goals set up by the Board and the guidance of the Internal Control Manual. He is also supported by the full Board members and management.

## **NON-EXECUTIVE DIRECTORS**

Non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years commencing from 1 January 2014, while Mr. Zhang Wenhui, who was appointed for a term commencing from 1 January 2015 and expiring on 31 December 2015 and both Mr. Zhang Zhong (executive Director) and his successor, Mr. Liao Jun (non-executive Director), who was nominated by Bekaert without any letter of appointment setting out the key terms and conditions of his appointment as Director with the Company. They all are subject to retirement by rotation and re-election at least every three years at annual general meeting of the Company in accordance with the Articles.

## **BOARD COMMITTEES**

The Board has established the Board committees, namely remuneration committee, nomination committee and audit committee to manage particular aspects of the Company's affairs and aid in sharing the responsibilities of the Board. Moreover, all the Board committees have formulated their specific written terms of reference in accordance with the requirements of the Code. The Board committee members will also from time to time report their decisions and recommendations to the Board, if necessary.

No corporate governance committee has been established but respective Board committee is responsible for performing the corporate governance functions set out in the terms of reference in D.3.1 of the Code.

# CORPORATE GOVERNANCE REPORT

## Remuneration committee

The remuneration committee has been established on 4 April 2005 and consists of five members with a majority of independent non-executive Directors. They are:

Mr. Yip Kin Man, Raymond (*Chairman*)  
Mr. Li Shaofeng (*Vice Chairman*)  
Mr. Leung Shun Sang, Tony (*Non-executive Director*)  
Mr. Law, Yui Lun (*Independent Non-executive Director*)  
Mr. Chan Chung Chun (*Independent Non-executive Director*)

and its terms of reference are summarized as follows:

- i) to make recommendations to the Board on the Company's policy and structure for all Directors', and senior management's (if any) remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- ii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management (if any), including benefits in kind, pension rights, compensation payments (including any compensation payable for loss or termination of their office or appointment), or to make recommendations to the Board on the remuneration of non-executive Directors, and also to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- iii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- iv) to review and approve compensation payable to executive Directors and senior management (if any) for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;



# CORPORATE GOVERNANCE REPORT

- vi) to consider the annual performance bonus for executive Directors and senior management (if any), having regard to their achievements against the performance criteria, and make recommendation to the Board;
- vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- viii) to exercise such other powers, authorities and discretion, and perform such other duties, of the Directors in relation to the remuneration as the Board may from time to time delegate to it, having regard to the Code.

During the year under review, a remuneration committee meeting was held and the works performed by the remuneration committee included: (i) consideration of the renewal of service contract of a non-executive Director; (ii) reviewing and approval of the performance-based remuneration of executive Directors; (iii) recommendation of remuneration of non-executive Directors (including independent non-executive Directors) to the Board; and (iv) reviewing terms of reference of remuneration committee. The emoluments of the Directors are decided by the remuneration committee, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition. The attendance record of the remuneration committee members is set out in the table: Attendance Record on page 39 of this report.

The information in respect of emolument policy of the Group is set out in the Report of the Directors.

## **Nomination committee**

The nomination committee has been established on 4 April 2005 and consists of five members with a majority of independent non-executive Directors. They are:

Mr. Li Shaofeng (*Chairman*)

Mr. Leung Shun Sang, Tony (*Vice Chairman*)

Mr. Yip Kin Man, Raymond (*Independent Non-executive Director*)

Mr. Law, Yui Lun (*Independent Non-executive Director*)

Mr. Chan Chung Chun (*Independent Non-executive Director*)

and its terms of reference are summarized as follows:

- i) to review and monitor the structure, size and diversity (including but not limited to gender, language, age, religion, social-economic status, cultural and educational background, ethnicity, professional experience, regional and industry experience, skills, knowledge, thinking styles, know-how and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

# CORPORATE GOVERNANCE REPORT

- ii) to identify and/or nominate and then select or make recommendation to the Board on the selection of qualified individuals for appointment as additional Directors or to fill Board vacancies as and when they arise with due regard for the benefits of diversity on the Board. Such appointment is subject to the approval of the Board;
- iii) to make recommendations (taking into account the Company's corporate strategy and diversity need in the future) to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;
- iv) to assess and review the independence of independent non-executive Directors annually;
- v) to review the Board Diversity Policy concerning diversity of Board members, including any measurable objectives and progress on achieving those objectives, and make disclosure of the policy or a summary of the policy in the corporate governance report annually;
- vi) for corporate governance issues, the nomination committee should (i) review and monitor the training and continuous professional development of Directors and senior management (if any); and (ii) develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Company's employees and Directors;
- vii) the nomination committee shall make a statement or report to the Board after each meeting about its activities, the process used for appointments and explain if external advice has been used and disclose and publish in the annual report or other report as required subject to the Listing Rules amended from time to time; and
- viii) to exercise such other powers, authorities and discretion, and perform such other duties, of the Directors in relation to the nomination as the Board may from time to time delegate to it, having regard to the Code.

During the year under review, a nomination committee meeting was held and the works performed by the nomination committee included (i) the review of current structure, size and diversity of the Board; (ii) assessment and review of the independence of independent non-executive Directors; (iii) the review of the Board Diversity Policy and determination of its measurable objectives of its timeline to ensure an appropriate focus on diversity; (iv) the review of the training and continuous professional development of Directors; and (v) the review of terms of reference of nomination committee.

# CORPORATE GOVERNANCE REPORT

The Board Diversity Policy has been adopted in compliance with code provision A.5.6 of the Code. Other than the elements of board diversity, in considering the nomination of new directors, the nomination committee members will also take into account the qualification, ability, working experience and professional ethics of the candidates, especially their experience in the business/industry of the Group and/or other professional areas. The recommendation of nomination committee then put forward for consideration and adoption, where appropriate, by the Board. The attendance record of the nomination committee members is set out in the table: Attendance Record on page 39 of this report.

## **The summary of Board Diversity Policy and its measurable objectives are set out hereunder:**

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Through diversity, business results can be driven, reputation can be enhanced and a diverse team of talented people can be attracted, retained on the Board.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, language, age, religion, social-economic status, cultural and educational background, ethnicity, professional experience, regional and industry experience, skills, knowledge, thinking styles, know-how and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Shougang Century remains committed to meritocracy in the boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, language, age, religion, social-economic status, cultural and educational background, ethnicity, professional experience, regional and industry experience, skills, knowledge, thinking styles, know-how and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The nomination committee will also report annually, in this report, on the Board's composition under diversified perspectives, and monitor the implementation of this policy.

# CORPORATE GOVERNANCE REPORT

The following are the measurable objectives in years 2014 and 2015:

## **Progress of Measurable Objectives in 2014**

## **Completion date of the goal**

- |    |   |                  |
|----|---|------------------|
| 1. | Conclusion of the delivery of training to leaders (directors) in sound recruitment methods, including removal of gender bias (through reading presentation materials) | 15 May 2014      |
| 2. | Conclusion of the review of succession planning of board members, if necessary  | 18 December 2014 |

## **Measurable Objective in 2015**

## **Timeline of the goal**

Build and maintain a safe work environment free from discrimination, harassment and bullying, before end of 2015

### **Audit Committee**

The audit committee has been established on 30 December 1998. At present, it consists of three members and all of them are independent non-executive Directors. They are:

Mr. Yip Kin Man, Raymond (*Chairman*)

Mr. Law, Yui Lun

Mr. Chan Chung Chun

and its terms of reference are summarized as follows:

### **Relationship with the Company's external auditors**

- i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- ii) to review and monitor the external auditor's independence and objectivity;
- iii) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;



# CORPORATE GOVERNANCE REPORT

- iv) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally;
- v) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

## ***Review of the Company's financial information***

- vi) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports (if applicable) before submission to the Board, the audit committee should focus particularly on:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- vii) In regard to (vi) above:
  - (a) members of the audit committee should liaise with the Board and senior management (if any);
  - (b) the audit committee must meet, at least twice a year, with the Company's external auditors; and
  - (c) the audit committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer (if any) (or person occupying the same position), or external auditors;

# CORPORATE GOVERNANCE REPORT

## ***Oversight of the Company's financial reporting system and internal control procedures***

- viii) to review the Company's financial controls, internal control and risk management systems;
- ix) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- x) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- xi) to ensure co-ordination between the internal auditors (if any) and external auditors, and to ensure that the internal audit function (if any) is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- xii) to review the Group's financial and accounting policies and practices;
- xiii) to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and the management's response;
- xiv) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- xv) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- xvi) to act as the key representative body for overseeing the Company's relations with the external auditor;
- xvii) to report on all of the above matters in the code provisions of the Code to the Board; and
- xviii) to consider any other matters specifically referred to the audit committee by the Board.

# CORPORATE GOVERNANCE REPORT

## **Corporate Governance Issues**

- xix) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board, and implement the corporate governance policies laid down by the Board;
- xx) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and
- xxi) to review the Company's compliance with the Code and related rules.

During the year under review, three audit committee meetings were held and the attendance record of the audit committee members is set out in the table: Attendance Record on page 39 of this report.

The audit committee members met with the external auditors to discuss the half year and annual financial statements for the financial year of 2014. The external auditors also met the audit committee members without executive Director (save for the financial controller and the company secretary who may attend to answer any query regarding the financial results and record minutes of the meetings respectively) present.

The audit committee members also discuss matters falling within its terms of reference with the external auditors in the presence of the financial controller and the company secretary from time to time as they request. When there are uncertainties or ambiguities in interpretation of accounting standards in preparing the half year and annual accounts that may likely to materially impact the financial position of the Group, the Company will prepare certain analysis explaining the scenario in relation thereto for the audit committee members consideration and understanding. The audit committee members have full access to, and the co-operation of, the Company's management in ensuring that it is satisfied with the Company's internal controls.

During the financial year of 2014, the audit committee members had made many valuable and positive contributions, and independent and informed comments for the development of the Company's strategy and policies. The audit committee members had reviewed the terms of reference of audit committee and also certain areas of the internal control system and corporate governance issues including but not limited to risk assessment reports semi-annually and given advice and opinions to the management of the Company to pay attention to those areas with high risks and further improve the internal control system of the Company. The Board had adopted the recommendation of the audit committee members in those areas thereafter. In view of the scale of the businesses of the Group, the audit committee members agree to the Board's opinion that the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are sufficient.

# CORPORATE GOVERNANCE REPORT

A whistleblowing policy and system has been set up since 22 March 2012 for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the Company.

## AUDITORS' REMUNERATION

During the year ended 31 December 2014, the fee paid/payable to the external auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

The fees charged by the external auditors of the Company, Deloitte Touche Tohmatsu for the year ended 31 December 2014 amounted to HK\$1,321,000 for audit services for audit of annual financial statements and HK\$413,000 for non audit services comprising fees for review of interim financial statements and tax consultancy services.

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting and financial reporting standards to enable the presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Directors will subject to statutory requirements and applicable accounting standards, select suitable accounting policies and apply them consistently, make judgements and estimates that are prudent, fair and reasonable and prepare the financial statements on a going concern basis.

## COMPANY SECRETARY

Ms. Chan Lai Yee, the company secretary of the Company, is a full time employee of the Company. She reports to the Board chairman and/or managing Director. During the year, the company secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

The Board recognizes the importance of effective communication with Shareholders. In order to maintain ongoing dialogue with Shareholders, the Company has particular opportunities of direct communication with Shareholders at various annual general meetings and other general meetings where Shareholders are encouraged to actively participate in. In addition, the chairman of the Board and the chairman of each of remuneration committee, nomination committee and audit committee were present to answer any Shareholder's questions at the 2014 annual general meeting (the "2014 AGM"). The external auditor had attended the 2014 AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence also.



# CORPORATE GOVERNANCE REPORT

In order to comply with the Companies Ordinance which came into effect on 3 March 2014, Shareholders' Rights – "Procedures for members/shareholders to convene a general meeting", "Procedures for members/shareholders and other stakeholders to send enquires and concerns to the Board" and "Circulation of members'/shareholders' resolution/Procedures for members/shareholders to put forward proposals at annual general meetings" had been updated and posted on the website of the Company on 27 March 2014. Further to the amendments to memorandum and articles of association of the Company, Shareholders' Rights – "Procedures for members to propose a person for election as a director" had also been updated and posted on the website of the Company on 6 June 2014.

## **Procedures for members/shareholders to convene a general meeting ("GM")**

Under Section 566 of the Companies Ordinance, the Directors are required to call a GM if the Company has received requests to do so from members/shareholders of the Company representing at least 5% of the total voting rights of all the members/shareholders having a right to vote at GM.

The request:

- (a) must state the general nature of the business to be dealt with at the GM;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the GM;
- (c) may be deposited at the registered office of the Company at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of Company Secretary in hard copy form or in electronic form by email at [ir@shougangcentury.com.hk](mailto:ir@shougangcentury.com.hk);
- (d) may consist of several documents in like form;
- (e) must be authenticated by the person or persons making it; and
- (f) must be verified with the share registrar of the Company, and upon the share registrar's confirmation that the request is proper and in order, the company secretary of the Company will notify the Board to convene a GM by serving proper notice in accordance with the statutory requirements to all the registered members/shareholders of the Company. On the contrary, if the request has been verified as not in order, the requesting members/shareholders will be informed of this outcome and accordingly, a GM will not be convened as requested.

# CORPORATE GOVERNANCE REPORT

## **Procedures for members/shareholders and other stakeholders to send enquires and concerns to the Board**

Members/shareholders and other stakeholders are invited to access the Company's website at <http://www.shougangcentury.com.hk> for up-to-date information of the Company. They are advised to send enquires and concerns to the Board:

- (a) by post at the registered office of the Company situated at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of the Company Secretary; or
- (b) by email at [ir@shougangcentury.com.hk](mailto:ir@shougangcentury.com.hk) for the attention of our Investor Relations section; or
- (c) by filling out the sign up form on the Company's website if they would like to be kept up-to-date on the latest information of the Company.

The Company will make response to their questions through their required communication channels or deliver the relevant material directly to their email addresses as soon as the information becomes available online and make necessary arrangement for direction of enquiries to the Board, if required.

The company secretary forwards communications relating to matters within the Board's purview to the independent non-executive Directors, communications relating to matters within a Board committee's area of responsibility to the chair of the appropriate committee, and communications relating to ordinary business matters, such as suggestions, enquiries and complaints, to the appropriate Company's executive.

Members/shareholders and other stakeholders can read the Shareholders' Communication Policy at the Company's website for details and, effectiveness communication. The Shareholders' Communication Policy was further revised on 23 September 2014 to maintain candid and constructive communications with Shareholders and potential investors.

## **Procedures for members/shareholders to put forward proposals at annual general meetings ("AGM")**

Pursuant to Section 615 of the Companies Ordinance, if a company is required to hold an AGM under Section 610, the members/shareholders of the company may request the company to give, to members/shareholders of the company entitled to receive notice of the AGM, notice of a resolution that may properly be moved and is intended to be moved at that meeting.

# CORPORATE GOVERNANCE REPORT

The Company must give notice of a resolution if it has received requests that it do so from:

- (a) the members/shareholders of the Company representing at least 2.5% of the total voting rights of all the members/shareholders who have a right to vote on the resolution at the AGM to which the requests relate; or
- (b) at least 50 members/shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The request:

- (a) must be sent to the registered office of the Company at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of the Company Secretary in hard copy form or in electronic form at [ir@shougangcentury.com.hk](mailto:ir@shougangcentury.com.hk);
- (b) must identify the resolution of which notice is to be given;
- (c) must be authenticated by the person or persons making it; and
- (d) must be received by the Company not later than (i) 6 weeks before the AGM to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

The written request will be verified with the Company's share registrar who will check if the written request is proper and in order, the company secretary will notify the Board for including the resolution in the agenda for AGM.

Pursuant to Section 616 of the Companies Ordinance, the Company that is required under Section 615 to give notice of a resolution must send a copy of it at the Company's own expense to each member/shareholder of the Company entitled to receive notice of the AGM in the same manner as the notice of the meeting; and at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

If the request has been verified as not in order for the said purposes, the members/shareholders concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM.

## **Shareholders power to request circulation of statement**

Pursuant to Section 580 of the Companies Ordinance, a member/shareholder of the Company may request the Company to circulate, to members/shareholders of the Company entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting. The Company is required to circulate the statement if it has received requests to do so from the members/shareholders representing at least 2.5% of the total voting rights of all the members/shareholders who have a relevant right to vote or at least 50 members/shareholders who have a relevant right to vote.

# CORPORATE GOVERNANCE REPORT

The aforesaid members/shareholders' requests (i) may be sent to the Company in hard copy form at the registered office of the Company, 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong or in electronic form by email at [ir@shougangcentury.com.hk](mailto:ir@shougangcentury.com.hk); (ii) must identify the statement to be circulated; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company at least 7 days before the meeting to which it relates.

Pursuant to Section 581 of the Companies Ordinance, the Company that is required under Section 580 to circulate a statement must send a copy of it to each members/shareholders of the Company entitled to receive notice of the meeting in the same manner as the notice of the meeting and at the same time as or as soon as reasonably practicable after, it gives notice of the meeting. The expenses of the Company in complying with Section 581 need not be paid by the members/shareholders who requested the circulation of the statement if the meeting to which the requests relate is an AGM of the Company; and the requests sufficient to require the Company to circulate the statement are received in time to enable the Company to send a copy of the statement at the same time as it give notice of the meeting.

## INVESTOR RELATIONS

The Company puts a high regard for the aspect of investor relations and it recognizes that establishment of investor relations can enhance its transparency, maximize its value and increase investors' understanding of and trust in the Company. Therefore, the management, as requested may meet with Shareholders, potential and institutional investors and research analysts. The management also will provide them with the information of the latest business development of the Group and answer their queries subject to the Continuous Disclosure Obligation Policy (the "Policy"). The Policy is to help and provide guidance to the Directors and employees of the Group to fulfill their obligations under the Listing Rules and the SFO while allowing them to actively inform the market of the Company development as well as how to make judgement as to what is inside information and when disclosure is required. The corresponding presentation materials subject to the Policy are made available upon request, if appropriate.

In order to further promote a sound communication between the public, the Company fully utilizes its website (<http://www.shougangcentury.com.hk>) as a means to provide the latest and updated information in a timely manner and from time to time enhances the homepage of the website to reflect the current business development of the Company. Also, the company secretarial department of the Company will respond to the telephone enquiries and email or correspondences from Shareholders or investors in respect of various issues subject to the Policy. Any opinions, views and suggestions of Shareholders will be solicited and brought to the attention of the Board and management, if necessary.

# CORPORATE GOVERNANCE REPORT

During the year, the AGM was held on 6 June 2014 to approve ordinary and special businesses of annual general meeting. The resolutions of AGM were duly passed by way of poll.

In order to comply with the Companies Ordinance take effective on 3 March 2014, during the year ended 31 December 2014, the Company has adopted new articles of association of the Company at the AGM held on 6 June 2014, a copy of the Articles is posted on the websites of the Company and the Stock Exchange.

## **INTERNAL CONTROLS**

The Board is responsible for maintaining an adequate internal control system of the Company and also for reviewing and monitoring the internal operation of the Company. The Company has adopted the Internal Control Manual and implemented the internal control system since 1999. The internal control system covers all material control functions, including financial, operational and compliance controls and risk management. In order to align with the changes of relevant laws, rules and regulations as well as further improve the internal control system, the Board will review and refine the system periodically, if necessary.

During the year, on 17 December 2014, the Board adopted the latest Internal Control Manual to maintain an adequate internal control system of the Company and also review and monitor the internal operation of the Company to align with the changes of relevant law, rules and regulations.



# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 42 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS

The Group's loss for the year ended 31 December 2014 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 72 to 157.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group, is set out below:

	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000 (Restated)	2010 HK\$'000 (Restated)
(LOSS) PROFIT FOR THE YEAR	(275,774)	(16,590)	(299,686)	3,757	200,379
TOTAL ASSETS	3,610,120	4,123,008	3,917,338	4,314,080	3,906,962
TOTAL LIABILITIES	(1,748,238)	(1,997,754)	(1,852,788)	(1,971,679)	(1,652,913)
	1,861,882	2,125,254	2,064,550	2,342,401	2,254,049
NON-CONTROLLING INTEREST	–	–	–	(840)	(840)
SHAREHOLDERS' EQUITY	1,861,882	2,125,254	2,064,550	2,341,561	2,253,209

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 16 and 17, respectively to the financial statements.

Particulars of the Group's investment properties as at 31 December 2014 are summarised on page 158 of this annual report.

# REPORT OF THE DIRECTORS

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 32 to the financial statements. Share options granted under the 2002 Scheme remain valid and exercisable in accordance with the terms of issue. No share options were granted, exercised, lapsed or cancelled under the 2012 Scheme. Details of share options of the 2002 Scheme are set out under the headings “**SHARE OPTION SCHEME**”, “**DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**” hereunder and in note 40 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 77 of this annual report and in note 33 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company’s reserves available for distribution, calculated in accordance with the provisions of Sections 291, 297 and 299 of the Companies Ordinance, amounted to HK\$7,364,000.

## DONATIONS

During the year, the Group did not make any charitable donations.

## DIRECTORS

The Directors during the year and up to the date of this annual report were:

Li Shaofeng (*Chairman*)

Yang Kaiyu (*Managing Director*)

Leung Shun Sang, Tony (*Non-executive Director*)

Zhang Wenhui (*Non-executive Director*)

Tang Cornor Kwok Kau (*Deputy Managing Director*)

Liao Jun (*Non-executive Director*)

(*appointed on 25 February 2015*)

Zhang Zhong (*Executive Director*)

(*resigned on 25 February 2015*)

Yip Kin Man, Raymond (*Independent Non-executive Director*)

Law, Yui Lun (*Independent Non-executive Director*)

Chan Chung Chun (*Independent Non-executive Director*)

# REPORT OF THE DIRECTORS

## **DIRECTORS (continued)**

The Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 101 and 102 of the Articles. Messrs. Li Shaofeng, Tang Cornor Kwok Kau and Yip Kin Man, Raymond will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 106 of the Articles, Mr. Liao Jun will retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## **DIRECTORS' SERVICE CONTRACTS**

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

Apart from as disclosed under the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" and in note 40 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Messrs. Yip Kin Man, Raymond and Law, Yui Lun have served the Board for more than nine years, however, they have not engaged in any executive management of the Group. Their familiarity with the Company's business may place them in a better position to contribute independent views to the Company. Taking into consideration of their independent scope of works in the past years, there is no evidence that length of tenure is having an adverse impact on their independence.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading **"DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO"** hereunder and in note 40 to the financial statements.

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

As at 31 December 2014, save for the interest of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

### Long position in Shares

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

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

*Notes:*

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

# REPORT OF THE DIRECTORS

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

### Long position in Shares (continued)

#### (b) Share options

As at 31 December 2014, there were a total of 62,468,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarized as follows:

Name of Director	Options to subscribe for Shares					Date of exercise	Date of grant Note (i)	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the year	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed/ cancelled during the year	Number of outstanding share options held at the end of the year						
Mr. Li	13,800,000	-	-	-	-	13,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.71
Mr. Yang	5,400,000	-	-	-	-	5,400,000	13/7/2009	13/7/2009 to 12/7/2019	0.680		
	5,400,000	-	-	-	-	5,400,000	13/7/2009	1/1/2010 to 12/7/2019	0.680		
	7,200,000	-	-	-	-	7,200,000	13/7/2009	1/1/2011 to 12/7/2019	0.680		
	18,000,000	-	-	-	-	18,000,000				Beneficial owner	0.93
Mr. Leung	12,000,000	-	-	-	-	12,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.62
Mr. Tang	10,000,000	-	-	-	-	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.52
Zhang Zhong	2,000,000	-	-	-	-	2,000,000	14/12/2010	14/12/2010 to 13/12/2020	0.940	Beneficial owner	0.10



# REPORT OF THE DIRECTORS

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

### Long position in Shares (continued)

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

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

#### Notes:

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

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

# REPORT OF THE DIRECTORS

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

### Long position in Shares (continued)

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 31 December 2014.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, save as disclosed below, none of the Directors is considered to have interest in the businesses which are considered to compete or likely to compete, either directly or indirectly, with businesses of the Group pursuant to Rule 8.10 of the Listing Rules:

<b>Name of Director</b>	<b>Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of Director's interest in the entity</b>
Li Shaofeng (Note 1)	BeijingWest Industries	Manufacturing, sales and trading of auto parts and construction decorative hardware products	Executive director
	China Dynamics	Trading of metals and minerals	Non-executive director and shareholder
Tang Cornor Kwok Kau (Note 2)	Loco Hong Kong	Trading of metals	Independent non-executive director

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entity
Zhang Zhong (Note 3)	Bekaert (Huizhou) Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert (Shandong) Tire Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Ansteel Tire Cord (Chongqing) Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Binjiang Advanced Products Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Binjiang Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	Bekaert Korea Ltd.	Sale of steel cord products and other advanced materials	Director
	Bekaert Shenyang Advanced Products Co., Ltd.	Manufacturing and sale of fine cord, precision and other special steel cord products	Director

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entity
	Bekaert - Shenyang Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
	China Bekaert Steel Cord Co., Ltd.	Manufacturing and sale of steel wire and/or cord products	Director
Yip Kin Man, Raymond (Note 4)	BeijingWest Industries	Manufacturing, sales and trading of auto parts and construction decorative hardware products	Independent non-executive director
Chan Chung Chun (Note 5)	China Dynamics (Holdings) Limited	Trading of metals and minerals	Deputy chairman and executive director and shareholder (beneficial owner, interest of controlled corporation)
	Sinocop Resources (Chile) Limited	Trading of metals and minerals	Director

# REPORT OF THE DIRECTORS

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)**

### *Notes:*

1. Mr. Li Shaofeng was appointed as executive director of BeijingWest Industries on 27 January 2014. He also acts as a non-executive director and non-controlling shareholder of China Dynamics, and does not participate in any decision making on its daily operation. He is the chairman of the Company and shall perform his duties towards the interest of the Company.
2. Mr. Tang Cornor Kwok Kau was appointed as independent non-executive director of Loco Hong Kong on 22 July 2014, a company listed on the Growth Enterprise Market of the Stock Exchange on 5 August 2014. He does not participate in any decision making on daily operation of Loco Hong Kong.
3. Pursuant to a subscription agreement (the "Bekaert Subscription") entered into by the Company and Bekaert in September 2006, a nominee of Bekaert should be appointed as an executive Director to represent Bekaert after the completion of the Bekaert Subscription on 15 December 2006 and as such, Mr. Zhang Zhong was appointed.
4. Mr. Yip Kin Man, Raymond was appointed as independent non-executive director of BeijingWest Industries on 27 January 2014 and does not participate in any decision making on its daily operation.
5. Mr. Chan Chung Chun was appointed as an independent non-executive Director on 1 October 2007. He shall perform his duties towards the interest of the Company.

In general, directors should owe their fiduciary duties towards the company as a whole and as such the Board believes that all Board members will act in the best interest of the Company and its Shareholders when they discharge their duties and responsibilities as Directors.



# REPORT OF THE DIRECTORS

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

As at 31 December 2014, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

### Long position in Shares or underlying Shares

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

# REPORT OF THE DIRECTORS

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

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

Notes:

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contract of significance between the Group, Shougang HK and its subsidiaries are set out under the heading "**RELATED PARTY TRANSACTIONS**" hereunder and/or in note 41 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to practicing and achieving a high standard of corporate governance and the Board has approved and adopted the SCCHL Corporate Governance Code on terms no less exacting than those set out in the provisions of the Code. Further information on the Company's Corporate Governance Code is set out in the "**CORPORATE GOVERNANCE REPORT**" on pages 36 to 55 of this annual report.

# REPORT OF THE DIRECTORS

## **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.

## **RELATED PARTY TRANSACTIONS**

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary and usual course of business which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 41 to the financial statements.

## **EMOLUMENT POLICY**

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

In addition, the Company has adopted a share option scheme as incentive/reward to Directors and eligible participants/qualifying grantees, details of the scheme are set out in note 40 to the financial statements and the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereabove.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 25 March 2015 prior to the issue of the annual report.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year under review, sales to the Group's five largest customers accounted for approximately 37% (2013: 35%) of the total sales and sales to the largest customer included therein amounted to approximately 10% (2013: 11%).

Purchases from the Group's five largest suppliers accounted for approximately 39% (2013: 35%) of the total purchases for the year and purchases from the largest supplier, included therein amounted to approximately 12% (2013: 9%).

Save for disclosed above, 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 Company's issued number of shares) had any beneficial interest in the Group's five largest customers or suppliers.

## **AUDITORS**

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

With an increasing global trend of Corporate Social Responsibility, Environmental, Social and Governance (ESG) Reporting has become a common practice for businesses every year. The Board is fully aware of such trend and also notice the upgrade of “recommended best practice” to “comply or explain” in relation to ESG reporting by the Stock Exchange in the near future, as such, during the year, the Group has set up an ESG system for the purpose of data collections of four ESG subject areas, including workplace quality, environmental protection, operating practice and community involvement. We will go through other processes like scope identification, materiality assessment and content development for the preparation of ESG Reporting in the coming year.

During the year under review, the Group has already participated in community involvement. To promote the work in alleviating poverty, the Group has participated in an community investment activity namely “Upward Mobility Formula” under the “Future Stars” programme, which is launched by the Commission on Poverty (a Commission established by The Administration Wing of the Chief Secretary for the Policy and Project Co-ordination Unit) and administered by the Hong Kong Council of Social Service. The Company’s wholly owned subsidiary, Hing Cheong, had invited 30 grass-roots youths to visit its plant situated in Tsuen Wan, Hong Kong. The aims of the programme are to assist the youths from low privileged families in their transition from school to work, encourage them to plan for their future and increase their upward social mobility. Through this activity, the youths are encouraged to learn more about copper and brass products trading and related industry and think about their career path after graduation. In all, the youth’s vision can be broadened.



We are committed to continue to participate in any community involvement as an enterprise having good social responsibility in Hong Kong.

By order of the Board

**Li Shaofeng**

*Chairman*

Hong Kong

26 March 2015

# INDEPENDENT AUDITOR'S REPORT

## **Deloitte.** **德勤**

TO THE MEMBERS OF  
**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**

首長寶佳集團有限公司

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Shougang Concord Century Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 72 to 157, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance (Cap. 622) (the “Hong Kong Companies Ordinance”), and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



# INDEPENDENT AUDITOR'S REPORT

## **AUDITOR'S RESPONSIBILITY** (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

26 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
Revenue	6	1,787,444	1,857,665
Cost of sales		(1,653,659)	(1,643,252)
Gross profit		133,785	214,413
Investment and other income	8	3,549	7,945
Other gains and losses	9	(163,561)	24,877
Distribution and selling expenses		(51,067)	(48,424)
Administrative expenses		(73,592)	(74,711)
Research and development expenses		(58,374)	(53,412)
Finance costs	10	(65,379)	(76,175)
Loss before tax		(274,639)	(5,487)
Income tax expense	11	(1,135)	(11,103)
Loss for the year	12	(275,774)	(16,590)
Loss per share	15		
Basic and diluted		(HK14.34 cents)	(HK0.86 cents)

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
Loss for the year	<b>(275,774)</b>	(16,590)
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss		
Exchange differences arising on translation of group entities	<b>(7,208)</b>	64,937
Surplus on revaluation of properties	<b>18,762</b>	19,403
Effect on deferred tax liability upon change in tax rate of a subsidiary	<b>4,065</b>	–
Recognition of deferred tax liability on revaluation of properties	<b>(3,217)</b>	(7,046)
Other comprehensive income for the year (net of tax)	<b>12,402</b>	77,294
<b>Total comprehensive (expense) income for the year</b>	<b>(263,372)</b>	60,704

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Non-current assets</b>			
Investment properties	16	48,547	46,907
Property, plant and equipment	17	1,659,243	1,928,784
Prepaid lease payments	18	178,000	187,325
Goodwill	20	41,672	41,672
Club memberships	21	761	762
Deposit paid for the acquisition of property, plant and equipment		345	651
Deferred tax assets	31	1,282	1,151
		<b>1,929,850</b>	<b>2,207,252</b>
<b>Current assets</b>			
Inventories	22	337,432	324,316
Trade receivables	23	566,976	662,815
Bills receivable	23	558,370	644,472
Prepayments, deposits and other receivables	25	140,005	151,415
Prepaid lease payments	18	8,698	8,728
Bank balances and cash	28	68,789	124,010
		<b>1,680,270</b>	<b>1,915,756</b>
<b>Current liabilities</b>			
Trade payables	29	288,550	345,450
Other payables and accruals	29	118,926	172,012
Tax payable		15,788	28,197
Bank borrowings – due within one year	30	1,293,837	1,099,542
		<b>1,717,101</b>	<b>1,645,201</b>
<b>Net current (liabilities) assets</b>		<b>(36,831)</b>	<b>270,555</b>
<b>Total assets less current liabilities</b>		<b>1,893,019</b>	<b>2,477,807</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	30	–	322,430
Other payable		1,122	1,250
Deferred tax liabilities	31	30,015	28,873
		<b>31,137</b>	352,553
		<b>1,861,882</b>	2,125,254
<b>Capital and reserves</b>			
Share capital	32	1,191,798	192,290
Reserves		670,084	1,932,964
		<b>1,861,882</b>	2,125,254

The consolidated financial statements on pages 72 to 157 were approved and authorised for issue by the board of directors on 26 March 2015 and are signed on its behalf by:

\_\_\_\_\_  
DIRECTOR

\_\_\_\_\_  
DIRECTOR



# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	19	525,522	502,374
Advances to subsidiaries	19	1,213,217	1,346,944
Club memberships	21	401	402
		<b>1,739,140</b>	<b>1,849,720</b>
<b>Current assets</b>			
Prepayments and other receivables		361	260
Amounts due from subsidiaries	26	857,013	610,159
Bank balances and cash	28	574	3,495
		<b>857,948</b>	<b>613,914</b>
<b>Current liabilities</b>			
Other payables and accruals		1,888	4,556
Bank borrowings – due within one year	30	808,950	604,520
		<b>810,838</b>	<b>609,076</b>
<b>Net current assets</b>			
		<b>47,110</b>	<b>4,838</b>
<b>Total assets less current liabilities</b>			
		<b>1,786,250</b>	<b>1,854,558</b>
<b>Non-current liability</b>			
Bank borrowings – due after one year	30	–	99,959
		<b>1,786,250</b>	<b>1,754,599</b>
<b>Capital and reserves</b>			
Share capital	32	1,191,798	192,290
Reserves	33	594,452	1,562,309
		<b>1,786,250</b>	<b>1,754,599</b>

DIRECTOR

DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	PRC reserve funds HK\$'000 (Note ii)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2013	192,290	996,784	23,990	2,724	40,219	351,000	32,347	45,468	379,728	2,064,550
Loss for the year	-	-	-	-	-	-	-	-	(16,590)	(16,590)
Exchange differences arising on translation of group entities	-	-	-	-	-	64,937	-	-	-	64,937
Surplus on revaluation of properties	-	-	-	-	19,403	-	-	-	-	19,403
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(7,046)	-	-	-	-	(7,046)
Total comprehensive income (expense) for the year	-	-	-	-	12,357	64,937	-	-	(16,590)	60,704
Lapse of share options	-	-	-	-	-	-	(267)	-	267	-
At 31 December 2013	192,290	996,784	23,990	2,724	52,576	415,937	32,080	45,468	363,405	2,125,254
Loss for the year	-	-	-	-	-	-	-	-	(275,774)	(275,774)
Exchange differences arising on translation of group entities	-	-	-	-	-	(7,208)	-	-	-	(7,208)
Surplus on revaluation of properties	-	-	-	-	18,762	-	-	-	-	18,762
Effect on deferred tax liability upon change in tax rate of a subsidiary	-	-	-	-	4,065	-	-	-	-	4,065
Recognition of deferred tax liability on revaluation of properties	-	-	-	-	(3,217)	-	-	-	-	(3,217)
Total comprehensive income (expense) for the year	-	-	-	-	19,610	(7,208)	-	-	(275,774)	(263,372)
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (Note iii)	999,508	(996,784)	-	(2,724)	-	-	-	-	-	-
Cancellation of share options	-	-	-	-	-	-	(535)	-	535	-
At 31 December 2014	1,191,798	-	23,990	-	72,186	408,729	31,545	45,468	88,166	1,861,882

## Notes:

- i. The capital reserve represented the benefit of acquiring a shareholder's loan from a previous shareholder upon the acquisition of a subsidiary in previous years.
- ii. In accordance with the articles of association of the subsidiaries established in the People's Republic of China (the "PRC") and relevant PRC laws and regulations, these subsidiaries are required to transfer at least 10% of their profit after taxation, which is determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund (including the general reserve fund and enterprise expansion fund, where appropriate). Transfer to this statutory reserve fund is subject to the approval of the respective board of directors, and is discretionary when the balance of such fund has reached 50% of the registered capital of the respective company. Statutory reserve fund can only be used to offset accumulated losses or to increase capital.
- iii. The Company has no authorised share capital and its shares have no par value from the commencement date of the new Hong Kong Companies Ordinance (Cap.622) on 3 March 2014.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before tax	(274,639)	(5,487)
Adjustments for:		
Depreciation of property, plant and equipment	148,356	141,951
Impairment loss recognised in respect of property, plant and equipment	147,000	–
Amortisation of prepaid lease payments	8,663	8,591
Increase in fair value of investment properties	(1,699)	(4,465)
(Gain) loss on disposal of property, plant and equipment, net	(17)	244
Interest income	(1,807)	(1,196)
Allowance for inventories recognised, net	5,275	1,462
Allowance for bad and doubtful debts recognised (reversed), net	16,830	(12,763)
Finance costs	65,379	76,175
Foreign exchange losses (gains), net	1,752	(7,203)
Operating cash flows before movements in working capital	115,093	197,309
Increase in inventories	(19,410)	(24,784)
Decrease (increase) in trade receivables	76,834	(139,497)
Increase in bills receivable	(210,659)	(320,017)
Decrease in prepayments, deposits and other receivables	8,432	17,482
Increase in trade payables	170,799	249,857
Increase in other payables and accruals	11,272	1,605
Cash generated from (used in) operations	152,361	(18,045)
Hong Kong Profits Tax refunded	–	75
PRC Enterprise Income Tax (paid) refunded, net	(11,564)	338
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>140,797</b>	<b>(17,632)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Interest received	1,807	1,196
Placement of pledged bank deposits	(21,656)	–
Purchase of property, plant and equipment	(19,318)	(9,860)
Deposit paid for the acquisition of property, plant and equipment	(6,267)	(6,607)
Withdrawal of pledged bank deposits	21,656	–
Proceeds from disposal of property, plant and equipment	146	422
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(23,632)</b>	<b>(14,849)</b>
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	570,202	1,078,032
Trust receipt loans raised	109,207	104,274
Bank advances for discounted bills	29,515	35,980
Repayment of bank loans	(711,812)	(934,577)
Repayment of trust receipt loans	(107,979)	(110,305)
Interest paid	(61,131)	(70,828)
Repayment to a related company	–	(276,124)
Loan advanced from a related company	–	150,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(171,998)</b>	<b>(23,548)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(54,833)</b>	<b>(56,029)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>124,010</b>	<b>175,923</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(388)</b>	<b>4,116</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR,</b> Bank balances and cash	<b>68,789</b>	<b>124,010</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 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 address of the registered office of the Company is disclosed in the “Corporate Information” section of the annual report.

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 OF CONSOLIDATED FINANCIAL STATEMENTS

As of 31 December 2014, the Group had net current liabilities of approximately HK\$36,831,000. Up to the date these consolidated financial statements were authorised for issuance, the relevant banks agreed to renew the banking facilities amounting to HK\$1,005,318,000 upon the maturity in the coming 12 months. In addition, the Group has undrawn banking facilities of approximately HK\$220,258,000 which will not be expired in the coming 12 months. Therefore, the management of the Group is satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### Application of amendments to HKFRSs and a new interpretation

The Group has applied the following amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the amendments and interpretation 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle <sup>6</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle <sup>5</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>5</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

### HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### HKFRS 9 *Financial Instruments* (continued)

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- 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 assets and financial liabilities as at 31 December 2014, the directors of the Company anticipate that the adoption of HKFRS 9 may not have material impact on amounts reported in respect of the Group’s financial assets and financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

In July 2014, 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.

The directors of the Company anticipate that the application of HKFRS 15 in the future may affect the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622) (“New Hong Kong Companies Ordinance”), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating unit ("CGU") (or groups of CGU) that is expected to benefit from the synergies of the combination.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Goodwill arising on an acquisition of a subsidiary before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

### Investments in subsidiaries

Investments in subsidiaries are stated in the Company's statement of financial position at cost (including deemed capital contribution) less subsequent accumulated impairment losses, if any.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's properly interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the property) is included in profit or loss in the period in which the item is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost or valuation of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Club memberships

Club memberships are stated in the consolidated and the Company's statement of financial position at cost less subsequent accumulated impairment losses, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, sales related taxes and returns.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits from customers prior to meeting the revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### *Leasehold land and buildings*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from functional currency to the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### **Financial assets**

The Group's financial assets are classified into "loans and receivables".

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for financial assets.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to subsidiaries, amounts due from subsidiaries, trade receivables, bills receivable, other receivables and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses.

### *Impairment loss on loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial assets (continued)

#### Impairment loss on loans and receivables (continued)

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables, objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period given and observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial liabilities and equity instruments (continued)*

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Financial liabilities*

Financial liabilities (including trade payables, other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

##### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Equity-settled share-based payment transactions**

##### ***Share options granted to employees and other eligible participants after 7 November 2002 and vested on or after 1 January 2005***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, or recognised as an expense in full at the grant date when the share option granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital (to share premium prior to New Hong Kong Companies Ordinance became effective on 3 March 2014). When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Equity-settled share-based payment transactions (continued)**

#### ***Share options granted to employees and other eligible participants on or before 7 November 2002 or granted after 7 November 2002 and vested before 1 January 2005***

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital (prior to New Hong Kong Companies Ordinance became effective on 3 March 2014: as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium). Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### **Impairment losses on tangible assets (see the accounting policy in respect of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment losses on tangible assets (see the accounting policy in respect of goodwill above) (continued)

When allocating an impairment loss to individual assets within a CGU, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the CGU on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### **Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

### ***Deferred taxation on investment properties***

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties. In respect of those investment properties located in the PRC, the Group recognised additional deferred taxes relating to land appreciation tax and Enterprise Income Tax ("EIT") on changes in fair value of such investment properties.

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ***Estimated allowance for bad and doubtful debts***

The Group estimates the allowance for bad and doubtful debts by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowance are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the allowance for bad and doubtful debts at the end of the reporting period. As at 31 December 2014, the carrying amount of trade receivables is HK\$566,976,000, net of allowance of approximately HK\$49,949,000 (2013: HK\$662,815,000, net of allowance of HK\$47,374,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty (continued)

#### *Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or there are unfavourable changes in facts and circumstances which result in revisions of the estimated future cash flows, a material impairment loss may arise. As at 31 December 2014, the carrying amount of goodwill is HK\$41,672,000 (2013: HK\$41,672,000). Details of the recoverable amount calculation are disclosed in Note 20.

#### *Estimated impairment of property, plant and equipment*

The Group reviews the carrying value of its property, plant and equipment to determine whether there is any indication that those assets are impaired. If 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 belong. The recoverable amount of the CGU to which those assets belongs is measured at the higher of value in use and fair value less cost to sell.

The value in use is based on estimate of future expected cash flow of the CGU and a suitable discount rate. Management necessarily applies its judgment in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Where the actual future cash flows are less than or more than expected, or there are favourable or unfavourable events and changes in facts and circumstances which result in revision of future estimated cash flows, a material impairment loss may arise or reverse.

There was no impairment loss recognised or reversed during the year ended 31 December 2013. During the year ended 31 December 2014, an impairment loss of HK\$147,000,000 recognised in the profit or loss of which (i) HK\$145,041,000 was allocated to plant and machinery; (ii) HK\$697,000 was allocated to furniture, fixtures and equipment; (iii) HK\$288,000 was allocated to motor vehicles; and (iv) HK\$974,000 was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. Details of the recoverable amount calculation are disclosed in Note 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty (continued)

#### *Depreciation*

Property, plant and equipment are long-lived but may be subject to technical obsolescence. The annual depreciation charges are affected by the estimated useful lives of the relevant type of property, plant and equipment. Management performs annual reviews to assess the appropriateness of the estimated useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

At 31 December 2014, the Group's carrying value of property, plant and equipment is HK\$1,659,243,000 (2013: HK\$1,928,784,000). Depreciation is recognised by the Group so as to write off the cost or revalued amount of items of property, plant and equipment less their residual values over the estimated useful lives of five to fifty years, using the straight-line method commencing from the date the property, plant and equipment are placed into use. The estimated useful lives and the dates that the Group places the property, plant and equipment into use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of that property, plant and equipment.

#### *Allowance for inventories*

As at 31 December 2014, the carrying amount of the Group's inventories is HK\$337,432,000, net of allowance of HK\$14,698,000 (2013: HK\$324,316,000, net of allowance of HK\$18,961,000). At the end of the reporting period, the Group reviews an aging analysis of inventories and carries out an inventory review on a product-by-product basis. The Group makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group also estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty (continued)

#### *Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties and property, plant and equipment. Details are disclosed in Notes 16 and 17.

## 6. 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 for the year is as follows:

	2014 HK\$'000	2013 HK\$'000
Sales of goods		
Manufacturing of steel cords	1,417,930	1,473,662
Processing and trading of copper and brass products	367,835	382,591
	1,785,765	1,856,253
Rental income	1,679	1,412
	1,787,444	1,857,665

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. 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 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.

### (a) Segment revenues and results

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

**For the year ended 31 December 2014**

	Steel cord HK\$'000	Copper and brass products HK\$'000	Segment total HK\$'000
Segment revenue			
External sales	1,417,930	367,835	1,785,765
Inter-segment sales (Note)	–	23,853	23,853
<b>Total</b>	<b>1,417,930</b>	<b>391,688</b>	<b>1,809,618</b>
Segment results	(185,445)	49	(185,396)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results (continued)

For the year ended 31 December 2014 (continued)

#### Reconciliation of revenue

	HK\$'000
Total revenue for operating segments	1,809,618
Rental income	1,679
Elimination of inter-segment sales	(23,853)
Group revenue	1,787,444

#### Reconciliation of loss before tax

	HK\$'000
Total loss for operating segments	(185,396)
Profit arising from property investment	2,982
Unallocated amounts	
Unallocated income	1,869
Unallocated foreign exchange losses, net	(1,441)
Unallocated expenses	(27,274)
Unallocated finance costs	(65,379)
Loss before tax	(274,639)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results (continued)

For the year ended 31 December 2013

	Steel cord HK\$'000	Copper and brass products HK\$'000	Segment total HK\$'000
Segment revenue			
External sales	1,473,662	382,591	1,856,253
Inter-segment sales (Note)	–	25,773	25,773
<b>Total</b>	<b>1,473,662</b>	<b>408,364</b>	<b>1,882,026</b>
<b>Segment results</b>	<b>78,994</b>	<b>(2,558)</b>	<b>76,436</b>

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

### Reconciliation of revenue

	HK\$'000
Total revenue for operating segments	1,882,026
Rental income	1,412
Elimination of inter-segment sales	(25,773)
<b>Group revenue</b>	<b>1,857,665</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (a) Segment revenues and results (continued)

For the year ended 31 December 2013 (continued)

#### *Reconciliation of loss before tax*

	HK\$'000
Total profit for operating segments	76,436
Profit arising from property investment	5,342
Unallocated amounts	
Unallocated income	1,208
Unallocated foreign exchange gains, net	14,813
Unallocated expenses	(27,111)
Unallocated finance costs	(76,175)
<b>Loss before tax</b>	<b>(5,487)</b>

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represents the profit or loss of each segment without allocation of profit arising from property investment, certain foreign exchange gains or losses, central administration costs, the emoluments of directors of the Company, interest income on bank deposits, finance costs and other income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (b) Segment assets and liabilities

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

#### Segment assets

	2014 HK\$'000	2013 HK\$'000
Steel cord	3,326,482	3,771,136
Copper and brass products	114,798	129,473
Total segment assets	3,441,280	3,900,609
Bank balances and cash	68,789	124,010
Unallocated assets	100,051	98,389
<b>Consolidated assets</b>	<b>3,610,120</b>	<b>4,123,008</b>

#### Segment liabilities

	2014 HK\$'000	2013 HK\$'000
Steel cord	392,059	493,013
Copper and brass products	10,632	18,841
Total segment liabilities	402,691	511,854
Bank borrowings	1,293,837	1,421,972
Unallocated liabilities	51,710	63,928
<b>Consolidated liabilities</b>	<b>1,748,238</b>	<b>1,997,754</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (b) Segment assets and liabilities (continued)

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, investment properties, goodwill, club memberships, deferred tax assets, certain prepayments, deposits and other receivables and bank balances and cash.
- all liabilities are allocated to operating segments other than tax payable, bank borrowings, deferred tax liabilities and other unallocated payables and accruals.

### (c) Other segment information

For the year ended 31 December 2014

	Steel cord HK\$'000	Copper and brass products HK\$'000	Segment total HK\$'000
<b>Amounts included in the measure of segment assets or segment profit or loss:</b>			
Property, plant and equipment	1,638,953	13,975	1,652,928
Capital expenditure	13,088	27	13,115
Depreciation	146,566	882	147,448
Impairment loss on property, plant and equipment recognised in profit or loss	147,000	–	147,000
Allowance for bad and doubtful debts recognised, net	16,830	–	16,830
Allowance for inventories recognised, net	5,275	–	5,275
Loss (gain) on disposal of property, plant and equipment	29	(46)	(17)
<b>Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:</b>			
Income tax expense	1,563	2	1,565

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (c) Other segment information (continued)

For the year ended 31 December 2013

	Steel cord HK\$'000	Copper and brass products HK\$'000	Segment total HK\$'000
<b>Amounts included in the measure of segment assets or segment profit or loss:</b>			
Property, plant and equipment	1,908,495	13,621	1,922,116
Capital expenditure	24,178	784	24,962
Depreciation	139,767	893	140,660
Allowance for bad and doubtful debts reversed, net	(12,763)	–	(12,763)
Allowance for inventories recognised, net	1,462	–	1,462
Loss on disposal of property, plant and equipment	228	–	228
<b>Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:</b>			
Income tax expense	10,108	2	10,110

### (d) Geographical information

The Group's operations, non-current assets and substantially all of the customers are located in the PRC (including Hong Kong) which is the country of domicile of the relevant group entities. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

### (e) Information about major customer

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	2014 HK\$'000	2013 HK\$'000
Customer A <sup>1</sup>	Not applicable <sup>2</sup>	209,035
Customer B <sup>1</sup>	180,194	Not applicable <sup>2</sup>

<sup>1</sup> Revenue from steel cord segment.

<sup>2</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 8. INVESTMENT AND OTHER INCOME

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
<b>Investment income</b>		
Interest income on bank deposits	1,807	1,196
<b>Other income</b>		
Government grants (Note)	1,418	5,380
Sales of scrap materials	324	1,369
	1,742	6,749
	3,549	7,945

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 9. OTHER GAINS AND LOSSES

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Foreign exchange (losses) gains, net	(1,758)	7,261
Increase in fair value of investment properties (Note 16)	1,699	4,465
Impairment loss recognised in respect of property, plant and equipment (Note 17)	(147,000)	–
Allowance for bad and doubtful debts (recognised) reversed, net	(16,830)	12,763
Gain (loss) on disposal of property, plant and equipment, net	17	(244)
Others	311	632
	<b>(163,561)</b>	<b>24,877</b>

## 10. FINANCE COSTS

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	61,131	63,857
Interest expenses on loan from a related company wholly repayable within five years	–	6,971
Amortisation of transaction costs	4,483	5,692
Total borrowing costs	65,614	76,520
Less: amounts capitalised	(235)	(345)
	<b>65,379</b>	<b>76,175</b>

Borrowing costs capitalised during the year arose on general borrowing pool and were calculated by applying a capitalisation rate of 3.93% (2013: 4.24%) per annum to expenditure on qualifying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 11. INCOME TAX EXPENSE

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Current tax:		
PRC EIT	387	5,947
(Over)under provision in prior years:		
PRC EIT	(1,139)	96
Deferred tax (Note 31)	1,887	5,060
	<b>1,135</b>	<b>11,103</b>

No provision for Hong Kong Profits Tax for the years ended 31 December 2014 and 2013 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"), the Company's major subsidiaries in the PRC are now subject to a tax rate of 25%.

Jiaxing Eastern Steel Cord Co., Ltd. ("JESC"), a 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 25% for the year ended 31 December 2013 and a reduced tax rate of 15% for the year ended 31 December 2014.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 11. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
<b>Loss before tax</b>	<b>(274,639)</b>	<b>(5,487)</b>
Tax at PRC EIT rate of 25% (Note i)	(68,660)	(1,372)
Tax effect of expenses not deductible in determining taxable profit	10,750	9,818
Tax effect of income not taxable in determining taxable profit	(2,264)	(2,321)
Tax effect of tax losses not recognised	26,303	9,908
Tax effect on deductible temporary differences not recognised	35,695	(1,061)
Deferred tax on distributable earnings of PRC subsidiaries	98	1,693
Effect of tax concessions granted to subsidiaries	(3,099)	(5,226)
Effect of different tax rates in other jurisdiction	(19)	521
Effect of different tax rates for interest income (Note ii)	(993)	(656)
(Over)under provision in respect of prior years	(1,139)	96
Effect on deferred tax resulting from an entitlement of preferential tax rate of a subsidiary	4,533	–
Others	(70)	(297)
<b>Income tax expense for the year</b>	<b>1,135</b>	<b>11,103</b>

Notes:

- i. The PRC EIT rate of 25% is used as the PRC is where the operation of the Group is substantially based.
- ii. The withholding tax rates on interest income earned from entities in the PRC were 7% and 10%.

In addition to the amount charged or credited to the consolidated statement of profit or loss, deferred tax relating to the revaluation of the Group's leasehold land and buildings has been charged directly to other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 12. LOSS FOR THE YEAR

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration (Note 13):		
– Salaries, wages and other benefits	171,478	166,874
– Retirement benefit scheme contributions	21,642	18,921
<b>Total staff costs</b>	<b>193,120</b>	<b>185,795</b>
Cost of inventories recognised as an expense (including allowance for inventories recognised of approximately HK\$5,275,000 (2013: HK\$1,462,000))	1,633,446	1,621,255
Depreciation of property, plant and equipment	148,356	141,951
Auditor's remuneration	1,321	1,276
Amortisation of prepaid lease payments (included in "Cost of sales")	8,663	8,591
Gross rental income from investment properties	(1,679)	(1,412)
Less: direct operating expenses for investment properties that generate rental income during the year	117	104
<b>Net rental income</b>	<b>(1,562)</b>	<b>(1,308)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the nine (2013: nine) directors of the Company were as follows:

#### For the year ended 31 December 2014

	Li Shaofeng HK\$'000	Yang Kaiyu HK\$'000	Leung Shun Sang, Tony HK\$'000	Zhang Wenhui HK\$'000	Tang Cornor Kwok Kau HK\$'000	Zhang Zhong HK\$'000 <small>(resigned on 25 February 2015)</small>	Yip Kin Man, Raymond HK\$'000	Law, Yui Lun HK\$'000	Chan Chung Chun HK\$'000	Total HK\$'000
Fees	-	-	190	127	-	150	240	240	240	1,187
Other emoluments										
Salaries and other benefits	-	2,642	-	-	1,981	-	-	-	-	4,623
Retirement benefit scheme contributions	-	132	-	-	99	-	-	-	-	231
<b>Total emoluments</b>	<b>-</b>	<b>2,774</b>	<b>190</b>	<b>127</b>	<b>2,080</b>	<b>150</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>6,041</b>

#### For the year ended 31 December 2013

	Li Shaofeng HK\$'000	Yang Kaiyu HK\$'000	Leung Shun Sang, Tony HK\$'000	Zhang Wenhui HK\$'000	Tang Cornor Kwok Kau HK\$'000	Zhang Zhong HK\$'000	Yip Kin Man, Raymond HK\$'000	Law, Yui Lun HK\$'000	Chan Chung Chun HK\$'000	Total HK\$'000
Fees	-	-	190	190	-	150	240	240	240	1,250
Other emoluments										
Salaries and other benefits	-	2,642	-	-	1,982	-	-	-	-	4,624
Retirement benefit scheme contributions	-	143	-	-	107	-	-	-	-	250
Others	-	220	-	-	165	-	-	-	-	385
<b>Total emoluments</b>	<b>-</b>	<b>3,005</b>	<b>190</b>	<b>190</b>	<b>2,254</b>	<b>150</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>6,509</b>

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office.

Mr. Li Shaofeng waived 12 months emoluments of HK\$3,150,000 (2013: HK\$3,150,000) and Mr. Zhang Wenhui waived 4 months director's fees of HK\$63,000 (2013: Nil) during the year ended 31 December 2014, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2013: two) were directors of the Company whose emoluments are included in the disclosures above.

The emoluments of the remaining three (2013: three) individuals were as follows:

	2014 HK\$'000	2013 HK\$'000
Salaries and other benefits	2,979	2,966
Retirement benefit scheme contributions	139	131
Discretionary bonus	587	412
	<b>3,705</b>	<b>3,509</b>

The emoluments of the remaining three (2013: three) individuals were within the following band:

	Number of individuals	
	2014	2013
HK\$1,000,001 to HK\$1,500,000	3	3

### (c) Executive directors' emoluments

Two (2013: Two) executive directors of the Company constitute senior management of the Company, their emoluments were within the following bands:

	2014	2013
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	–	1
	<b>2</b>	<b>2</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 14. DIVIDENDS

No interim or final dividend was paid or proposed for the years ended 31 December 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

## 15. LOSS PER SHARE

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
<b>Loss</b>		
Loss for the purposes of calculation of basic and diluted loss per share	(275,774)	(16,590)

	THE GROUP	
	2014	2013
<b>Number of shares</b>		
Number of ordinary shares for the purposes of calculation of basic and diluted loss per share	1,922,900,556	1,922,900,556

For the years ended 31 December 2014 and 2013, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 16. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	HK\$'000
<b>AT FAIR VALUE</b>	
At 1 January 2013	36,187
Reclassified from property, plant and equipment	5,930
Exchange realignment	325
Net increase in fair value recognised in profit or loss	4,465
At 31 December 2013	46,907
Exchange realignment	(59)
Net increase in fair value recognised in profit or loss	1,699
At 31 December 2014	48,547

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties as at 31 December 2014 and 2013 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.

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

Market comparable approach has been adopted for valuing the Group's industrial property unit and residential property units.

One of the key inputs used in valuing the Group's industrial property unit and residential property units was the price per square foot/meter, which was approximately HK\$4,200 (2013: HK\$4,000) per square foot and ranged from HK\$23,000 to HK\$33,800 (2013: HK\$22,700 to HK\$33,900) per square meter respectively. An increase in the price per square foot/square meter used would result in an increase in fair value measurement of the industrial property unit and residential property units, and vice versa.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 16. INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2014 and 2013 are as follows:

### As at 31 December 2014

	Level 3 HK\$'000	Fair value HK\$'000
Industrial property units located in Hong Kong	30,800	30,800
Residential property units located in the PRC	17,747	17,747
	<b>48,547</b>	<b>48,547</b>

### As at 31 December 2013

	Level 3 HK\$'000	Fair value HK\$'000
Industrial property units located in Hong Kong	29,100	29,100
Residential property units located in the PRC	17,807	17,807
	<b>46,907</b>	<b>46,907</b>

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

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

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
Long-term lease in Hong Kong	30,800	29,100
Medium-term lease in other regions in the PRC	11,536	11,574
Long-term lease in other regions in the PRC	6,211	6,233
	<b>48,547</b>	<b>46,907</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)						
<b>THE GROUP</b>							
<b>COST OR VALUATION</b>							
At 1 January 2013	385,505	3,940	2,346,058	29,771	26,055	45,178	2,836,507
Exchange realignment	11,464	78	72,386	844	659	2,049	87,480
Additions	515	939	5,355	644	68	17,544	25,065
Reclassification	4,123	–	9,098	1,403	–	(14,624)	–
Reclassified to							
investment property	(6,026)	–	–	–	–	–	(6,026)
Disposals	–	–	(2,976)	(616)	(1,133)	–	(4,725)
Adjustment on revaluation	(4,478)	–	–	–	–	–	(4,478)
At 31 December 2013	391,103	4,957	2,429,921	32,046	25,649	50,147	2,933,823
Exchange realignment	(1,276)	(12)	(8,037)	(99)	(69)	(211)	(9,704)
Additions	960	50	316	447	275	11,123	13,171
Reclassification	24,628	–	20,490	1,248	–	(46,366)	–
Disposals	–	–	(230)	(155)	(1,693)	–	(2,078)
Adjustment on revaluation	(7,182)	–	–	–	–	–	(7,182)
At 31 December 2014	408,233	4,995	2,442,460	33,487	24,162	14,693	2,928,030
Comprising:							
At 31 December 2014							
At cost	–	4,995	2,442,460	33,487	24,162	14,693	2,519,797
At valuation	408,233	–	–	–	–	–	408,233
	408,233	4,995	2,442,460	33,487	24,162	14,693	2,928,030
At 31 December 2013							
At cost	–	4,957	2,429,921	32,046	25,649	50,147	2,542,720
At valuation	391,103	–	–	–	–	–	391,103
	391,103	4,957	2,429,921	32,046	25,649	50,147	2,933,823

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)						
<b>DEPRECIATION AND IMPAIRMENT</b>							
At 1 January 2013	–	2,671	826,002	16,382	17,479	2,112	864,646
Exchange realignment	(149)	52	25,621	509	445	–	26,478
Provided for the year	24,126	640	109,631	4,246	3,308	–	141,951
Eliminated on disposals	–	–	(2,553)	(559)	(947)	–	(4,059)
Reclassified to							
investment property	(96)	–	–	–	–	–	(96)
Write back on revaluation	(23,881)	–	–	–	–	–	(23,881)
At 31 December 2013	–	3,363	958,701	20,578	20,285	2,112	1,005,039
Exchange realignment	(170)	(8)	(3,407)	(74)	(56)	–	(3,715)
Provided for the year	26,114	637	115,123	4,150	2,332	–	148,356
Reclassification	–	–	1,462	288	6	(1,756)	–
Impairment loss recognised							
in profit or loss	–	–	145,041	697	288	974	147,000
Eliminated on disposals	–	–	(217)	(151)	(1,581)	–	(1,949)
Write back on revaluation	(25,944)	–	–	–	–	–	(25,944)
At 31 December 2014	–	3,992	1,216,703	25,488	21,274	1,330	1,268,787
<b>CARRYING VALUES</b>							
At 31 December 2014	408,233	1,003	1,225,757	7,999	2,888	13,363	1,659,243
At 31 December 2013	391,103	1,594	1,471,220	11,468	5,364	48,035	1,928,784

Note: In the opinion of the directors, the lease payments cannot be allocated reliably between the land and building elements of the properties located in Hong Kong. Thus, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	25 to 50 years, or over the terms of the leases, whichever is shorter
Leasehold improvements	18% – 20%
Plant and machinery	4% – 20%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	11% – 20%

Impairment losses recognised during the year ended 31 December 2014:

During the year ended 31 December 2014, as the result of the unexpected unfavourable performance of Tengzhou Eastern Steel Cord Co., Ltd. (“TESC”), an indirect wholly-owned subsidiary of the Company, the management conducted an impairment assessment of the property, plant and equipment of TESC individually. If 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 belong. 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 test. 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 2014 is determined based on value in use calculation and based on certain key assumptions. Value in use calculations use cash flow projections based on financial budgets approved by the management of the Group covering a five-year period. The discount rate used for the value in use calculations is at 10.81%. Cash flow beyond the five-year period is extrapolated for nineteen years 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 is based on the management’s expectations for the market development.

During the year ended 31 December 2014, an impairment loss of HK\$147,000,000 recognised in the profit or loss of which (i) HK\$145,041,000 was allocated to plant and machinery; (ii) HK\$697,000 was allocated to furniture, fixtures and equipment; (iii) HK\$288,000 was allocated to motor vehicles; and (iv) HK\$974,000 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2013, the management conducted a review of the property, plant and equipment of TESC and determined that there were no impairment to these assets. The recoverable amount of the relevant assets had been determined on the basis of their value in use and TESC was considered as a CGU for the purpose of the impairment test. 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 calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 9.97%. The cash flow of TESC beyond the five-year period was extrapolated for twenty years using zero growth rate. The recoverable amount of TESC as at 31 December 2013 was determined to be approximately HK\$1,245 million, which was higher than the carrying amount.

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
The carrying value of leasehold land and buildings comprises:		
Leasehold land and buildings in Hong Kong:		
Long-term lease	4,200	3,900
Medium-term lease	11,700	10,850
Buildings in other regions in the PRC	392,333	376,353
	<b>408,233</b>	<b>391,103</b>

As at 31 December 2014 and 2013, the leasehold land and buildings of the Group were valued by Grant Sherman, an independent qualified professional valuer not related to the Group.

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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

The following table gives information about how the fair values of these leasehold land and properties determined (in particular, the valuation techniques and input used).

Leasehold land and buildings	Carrying values as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Sensitivity
	2014 HK\$'000	2013 HK\$'000				
Industrial properties in Hong Kong	15,900	14,750	Level 3	Market Comparable Approach  The key input is price per square foot.	Price per square foot, based on recent market transactions for comparable properties which ranged from HK\$4,300 to HK\$4,700 (2013: HK\$4,000 to HK\$4,400) per square foot.	An increase in the price per square foot used would result in an increase in fair value measurement of the property, and vice versa.
Commercial property in the PRC	1,013	1,018	Level 3	Market Comparable Approach  The key input is price per square meter.	Price per square meter, based on recent market transactions for comparable properties which was approximately HK\$22,800 (2013: HK\$22,900) per square meter.	An increase in the price per square meter used would result in an increase in fair value measurement of the property, and vice versa.
Industrial properties in the PRC	391,320	375,335	Level 3	Depreciated Replacement Cost Approach  The key inputs are: (1) Unit replacement cost; and (2) Adopted depreciation rate.	Unit replacement cost, based on current cost of replacement (reproduction) of a property which ranged from HK\$970 to HK\$2,180 (2013: HK\$969 to HK\$2,175) per square meter.  Adopted depreciation rate, based on valuer's professional judgement.	If the unit replacement cost to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would increase/decrease by approximately HK\$19.5 million (2013: HK\$18.8 million) respectively.  If the adopted depreciation rate to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would decrease/increase by approximately HK\$3.4 million (2013: HK\$1.7 million) respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

Details of the Group's leasehold land and buildings and information about the fair value hierarchy as at 31 December 2014 and 2013 are as follows:

### As at 31 December 2014

	Level 3 HK\$'000	Fair value HK\$'000
Industrial property units located in Hong Kong	15,900	15,900
Commercial property unit located in the PRC	1,013	1,013
Industrial property units located in the PRC	391,320	391,320
	<b>408,233</b>	<b>408,233</b>

### As at 31 December 2013

	Level 3 HK\$'000	Fair value HK\$'000
Industrial property units located in Hong Kong	14,750	14,750
Commercial property unit located in the PRC	1,018	1,018
Industrial property units located in the PRC	375,335	375,335
	<b>391,103</b>	<b>391,103</b>

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

If the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK\$351,173,000 (2013: HK\$343,873,000).

Applications for property ownership certificates of the buildings located in the PRC with aggregate carrying values of approximately HK\$2,463,000 (2013: HK\$102,827,000) are still in the progress as at 31 December 2014. In spite of the above, the directors of the Company are of the opinion that the Group has acquired the beneficial title of those properties and legal titles will be obtained in due time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 18. PREPAID LEASE PAYMENTS

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Medium-term leasehold land located in the PRC analysed for reporting purposes as:		
Current asset	8,698	8,728
Non-current asset	178,000	187,325
	<b>186,698</b>	<b>196,053</b>

At 31 December 2014, included in prepaid lease payments was land use rights with carrying amount of HK\$87,914,000 (2013: HK\$91,910,000) which the Group was in the process of obtaining the land use right certificates.

## 19. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

	THE COMPANY	
	2014	2013
	HK\$'000	HK\$'000
Unlisted shares, at cost	63,552	63,552
Deemed capital contributions	461,970	438,822
	<b>525,522</b>	<b>502,374</b>
Advances to subsidiaries	<b>1,213,217</b>	<b>1,346,944</b>

Deemed capital contributions represent financial liability on financial guarantees provided to subsidiaries and imputed interest on interest-free advances to subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 19. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Except for (i) balance with a subsidiary of HK\$15,372,000 (2013: HK\$15,372,000) which bears interest at the London Interbank Offered Rate (“LIBOR”) plus 3% (2013: LIBOR plus 3%) per annum as at 31 December 2014, and (ii) balance with a subsidiary of HK\$37,056,000 (2013: HK\$34,176,000) which bears interest at Hong Kong Dollar Prime Rate (2013: Hong Kong Dollar Prime Rate) per annum as at 31 December 2014, the remaining balances are interest free. In the opinion of the directors, the Company will not demand repayment within one year from the end of the reporting period and advances to subsidiaries are therefore considered as non-current. Such interest-free loans are measured at amortised cost determined using the effective interest method. As at 31 December 2014, the effective interest rates used were within a range of 3.33% to 5.00% per annum (2013: 3.41% to 5.00% per annum), being the prevailing market borrowing rates for a similar instrument.

Details of the Company’s principal subsidiaries at 31 December 2014 are set out in Note 42.

## 20. GOODWILL

The carrying value of goodwill at the end of the reporting period was approximately HK\$41,672,000 for both years.

For the purposes of impairment testing, goodwill has been allocated to one CGU, comprising a subsidiary in the steel cord segment, JESC.

During the year ended 31 December 2014, the management of the Group determined that there was no impairment of the CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10.81% (2013: 9.97%). The cash flow of CGU beyond the five-year period is extrapolated using a zero growth rate. The management expected that the business license of JESC can be extended for another thirty years with minimal cost incurred upon its expiry in July 2024. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, gross margin and other direct costs, such estimation is based on the unit’s past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 21. CLUB MEMBERSHIPS

	THE GROUP		THE COMPANY	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Club memberships, at cost	2,238	2,206	1,048	1,016
Exchange realignment	(2)	12	(2)	12
Less: impairment losses	(1,475)	(1,456)	(645)	(626)
	<b>761</b>	<b>762</b>	<b>401</b>	<b>402</b>

## 22. INVENTORIES

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
Raw materials	122,220	127,319
Work in progress	58,394	66,357
Finished goods	156,818	130,640
	<b>337,432</b>	<b>324,316</b>

## 23. TRADE RECEIVABLES/BILLS RECEIVABLE

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
Trade receivables	616,925	710,189
Less: allowance for bad and doubtful debts	(49,949)	(47,374)
	<b>566,976</b>	<b>662,815</b>
Bills receivable	558,370	644,472
	<b>1,125,346</b>	<b>1,307,287</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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:

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
0 – 90 days	379,379	521,771
91 – 180 days	158,199	115,045
Over 180 days	29,398	25,999
	<b>566,976</b>	<b>662,815</b>

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
0 – 90 days	11,346	46,960
91 – 180 days	195,981	258,042
Over 180 days	351,043	339,470
	<b>558,370</b>	<b>644,472</b>

At the end of the reporting period, all bills receivable are with maturity date within one year based on the issuance date of relevant bills.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. For trade receivables that are neither past due nor impaired as at the end of the reporting period, approximately 90% of which have the best credit scoring attributable under the credit scoring system used by the Group.

Included in the Group's trade receivables balances are debtors with an aggregate carrying amount of approximately HK\$194,422,000 (2013: HK\$257,844,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as they have been substantially settled subsequent to the end of the reporting period or there were no historical default of payments by the respective customers. The Group does not hold any collateral over these balances.

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
0 – 90 days	149,583	228,582
91 – 180 days	35,077	14,448
Over 180 days	9,762	14,814
	<b>194,422</b>	<b>257,844</b>

Movement in the allowance for bad and doubtful debts:

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Balance at beginning of the year	47,374	59,535
Exchange realignment	(150)	1,740
Amount written off as uncollectible	(14,105)	(1,138)
Impairment losses recognised (reversed) on receivables	16,830	(12,763)
Balance at end of the year	<b>49,949</b>	<b>47,374</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 24. TRANSFERS OF FINANCIAL ASSETS

The following are the Group's bills receivable as at 31 December 2014 that are transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivable and the associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

### THE GROUP

As at 31 December 2014

	Bills receivable discounted to banks with full recourse HK\$'000	Bills receivable endorsed to suppliers with full recourse HK\$'000
Carrying amount of bills receivable	13,708	198,146
Carrying amount of associated secured borrowings	(13,708)	–
Carrying amount of associated trade payables	–	(185,201)
Carrying amount of associated other payables	–	(12,945)

As at 31 December 2013

	Bills receivable discounted to banks with full recourse HK\$'000	Bills receivable endorsed to suppliers with full recourse HK\$'000
Carrying amount of bills receivable	1,272	277,529
Carrying amount of associated secured borrowings	(1,272)	–
Carrying amount of associated trade payables	–	(226,543)
Carrying amount of associated other payables	–	(50,986)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Other receivables are unsecured and interest free. Except for value added tax receivables of approximately HK\$109,710,000 (2013: HK\$119,060,000) as at 31 December 2014, the remaining balances are repayable on demand.

## 26. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest free and repayable within one year.

## 27. PLEDGE OF ASSETS

At the end of the reporting period, the following assets are pledged to secure certain bank borrowings as set out in Note 30:

- (i) the Group's leasehold land and buildings with an aggregate net book value of HK\$11,700,000 (2013: HK\$10,850,000);
- (ii) the Group's certain prepaid lease payments with an aggregate net book value of HK\$87,712,000 in 2013 (2014: Nil); and
- (iii) the equity interests in certain subsidiaries of the Company.

## 28. BANK BALANCES AND CASH

### THE GROUP

As at 31 December 2014 and 2013, bank balances carry interest at market rates which ranging from 0.01% to 0.35% per annum. At the end of the reporting period, the bank balances and cash that are denominated in currencies other than the functional currency of respective group entities are set out below:

	Denominated in		
	HKD HK\$'000	USD HK\$'000 Equivalent	Others HK\$'000 Equivalent
As at 31 December 2014	4,555	29,480	3,352
As at 31 December 2013	9,607	35,926	365

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 28. BANK BALANCES AND CASH (continued)

### THE COMPANY

As at 31 December 2014 and 2013, bank balances carry interest at market rates which ranging from 0.01% to 0.25% per annum. At the end of the reporting period, bank balances and cash that are denominated in currencies other than the functional currency of the Company are set out below:

	Denominated in	
	HKD	USD
	HK\$'000	HK\$'000 Equivalent
As at 31 December 2014	538	10
As at 31 December 2013	3,464	10

## 29. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
0 – 30 days	55,034	151,522
31 – 90 days	89,798	119,584
91 – 180 days	128,977	64,522
181 – 365 days	10,276	7,560
Over 1 year	4,465	2,262
	<b>288,550</b>	<b>345,450</b>

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\$70,269,000 (2013: HK\$124,773,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 30. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Trust receipt loans	27,235	26,040	–	–
Other bank loans	1,252,894	1,394,660	808,950	704,479
Discounted bills with recourse	13,708	1,272	–	–
	<b>1,293,837</b>	<b>1,421,972</b>	<b>808,950</b>	<b>704,479</b>
Secured	22,926	54,348	–	6,604
Unsecured	1,270,911	1,367,624	808,950	697,875
	<b>1,293,837</b>	<b>1,421,972</b>	<b>808,950</b>	<b>704,479</b>

The above amounts are repayable as follows:

	THE GROUP		THE COMPANY	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Within one year	859,546	558,251	399,659	105,729
In the second year	–	322,430	–	99,959
	<b>859,546</b>	<b>880,681</b>	<b>399,659</b>	<b>205,688</b>
Carrying amount of bank loans contain a repayment on demand clause:				
– within one year	284,500	107,000	259,500	89,500
– in the second year	149,791	284,500	149,791	259,500
– in the third to fifth year inclusive	–	149,791	–	149,791
	<b>434,291</b>	<b>541,291</b>	<b>409,291</b>	<b>498,791</b>
	<b>1,293,837</b>	<b>1,421,972</b>	<b>808,950</b>	<b>704,479</b>
Less: Amount shown under current liabilities	<b>(1,293,837)</b>	<b>(1,099,542)</b>	<b>(808,950)</b>	<b>(604,520)</b>
Amount shown under non-current liabilities	–	322,430	–	99,959



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 30. BANK BORROWINGS (continued)

As at 31 December 2014, the carrying amount of the Group's fixed-rate borrowings and variable rate borrowings are HK\$169,125,000 (2013: HK\$262,795,000) and HK\$1,124,712,000 (2013: HK\$1,159,177,000) respectively. As at 31 December 2014, the Company's bank borrowings of HK\$808,950,000 (2013: HK\$704,479,000) carries variable-rate.

The Group has variable-rate borrowings which carry interest at a premium over LIBOR, Hong Kong Interbank Offered Rate ("HIBOR"), TAIFX (Taiwan's interbank United States Dollar lending rate) and the prevailing lending rate quoted by the People's Bank of China. The Company has variable-rate borrowings which carry interest at a premium over LIBOR and HIBOR.

The range of effective interest rates (which are also equal to contractual interest rates) on the Group's and the Company's borrowings are as follows:

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
Effective interest rate per annum:				
Fixed-rate borrowings	1.37% to 6.00%	2.41% to 7.15%	–	–
Variable-rate borrowings	1.89% to 7.07%	1.88% to 7.07%	1.89% to 4.06%	1.88% to 4.13%

The Group's and the Company's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HKD	861,185	767,649	808,950	697,875
USD	76,791	89,007	–	6,604

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 31. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>THE GROUP</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Deferred tax assets	<b>(1,282)</b>	(1,151)
Deferred tax liabilities	<b>30,015</b>	28,873
	<b>28,733</b>	27,722

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years.

<b>THE GROUP</b>	<b>Accelerated tax depreciation</b>	<b>Allowance for bad and doubtful debts</b>	<b>Allowance for inventories</b>	<b>Revaluation of properties</b>	<b>Tax loss</b>	<b>Withholding tax on distributable profit of subsidiaries</b>	<b>Others</b>	<b>Total</b>
						<b>in the PRC</b>		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	143	(6,961)	111	12,119	(10,822)	18,167	2,857	15,614
Exchange realignment	1,080	(427)	(242)	108	(517)	-	-	2
Charge (credit) to profit or loss for the year	1,781	3,451	(402)	802	(1,908)	1,693	(357)	5,060
Charge to equity for the year	-	-	-	7,046	-	-	-	7,046
At 31 December 2013	3,004	(3,937)	(533)	20,075	(13,247)	19,860	2,500	27,722
Exchange realignment	(82)	35	7	(59)	71	-	-	(28)
(Credit) charge to profit or loss for the year	(2,168)	(2,474)	(199)	(18)	2,472	98	(357)	(2,646)
Effect of change in tax rate charge to profit or loss	3,326	1,126	81	-	-	-	-	4,533
Effect of change in tax rate credit to equity	-	-	-	(4,065)	-	-	-	(4,065)
Charge to equity for the year	-	-	-	3,217	-	-	-	3,217
At 31 December 2014	4,080	(5,250)	(644)	19,150	(10,704)	19,958	2,143	28,733

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK\$542,439,000 (2013: HK\$457,887,000) available for offset against future profits. The losses may be carried forward indefinitely.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 31. DEFERRED TAX (continued)

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$223,803,000 (2013: HK\$73,909,000). A deferred tax asset has been recognised in respect of approximately HK\$24,994,000 (2013: HK\$17,880,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK\$198,809,000 (2013: HK\$56,029,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

The Company had no significant deferred taxation for the year or at the end of the reporting period.

## 32. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
<b>Authorised</b>		
At 1 January 2013 and 2014		
– Ordinary shares of HK\$0.10 each	5,000,000	500,000
At 31 December 2014 (Note)	N/A	N/A

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

	Number of shares '000	Amount HK\$'000
<b>Issued and fully paid</b>		
At 1 January 2013 and 2014		
– Ordinary shares of HK\$0.10 each	1,922,901	192,290
Transfer from share premium and capital redemption reserve upon abolition of par value	–	999,508
At 31 December 2014		
– Ordinary shares with no par value	1,922,901	1,191,798

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 33. RESERVES

THE COMPANY	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2013	996,784	23,990	2,724	170,036	32,347	273,434	1,499,315
Profit for the year	-	-	-	-	-	25,220	25,220
Translation adjustment	-	-	-	37,774	-	-	37,774
Total comprehensive income for the year	-	-	-	37,774	-	25,220	62,994
Lapse of share options	-	-	-	-	(267)	267	-
At 31 December 2013	996,784	23,990	2,724	207,810	32,080	298,921	1,562,309
Profit for the year	-	-	-	-	-	35,964	35,964
Translation adjustment	-	-	-	(4,313)	-	-	(4,313)
Total comprehensive (expense) income for the year	-	-	-	(4,313)	-	35,964	31,651
Transfer upon abolition of par value under the New Hong Kong Companies Ordinance	(996,784)	-	(2,724)	-	-	-	(999,508)
Cancellation of share options	-	-	-	-	(535)	535	-
At 31 December 2014	-	23,990	-	203,497	31,545	335,420	594,452

The capital reserve of the Company represents the benefit of acquiring a shareholder's loan from a previous shareholder upon the acquisition of a subsidiary in previous years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 30, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debts.

## 35. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	<b>1,222,664</b>	1,457,858	<b>2,070,804</b>	1,960,598
<b>Financial liabilities</b>				
Amortised cost	<b>1,674,388</b>	1,907,610	<b>810,723</b>	708,810

### b. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade receivables, bills receivable, other receivables, advances to subsidiaries, amounts due from subsidiaries, bank balances and cash, trade payables, other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### Market risk

##### (i) Currency risk

Certain bank balances and cash, trade receivables, other receivables, amounts due from subsidiaries, advance to subsidiaries, trade payables, other payables and bank borrowings of the Group and the Company are denominated in currencies other than the functional currency of the relevant group entities. The Group and the Company currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rates and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Equivalent	Equivalent	Equivalent	Equivalent
<b>Monetary assets denominated in</b>				
HKD	21,660	24,981	1,507,328	1,385,507
USD	88,088	79,141	262,830	273,773
Others	3,520	14,636	–	–
<b>Monetary liabilities denominated in</b>				
HKD	864,716	771,332	810,723	702,174
USD	95,626	91,544	–	6,636
Others	389	1,157	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### Market risk (continued)

##### (i) Currency risk (continued)

###### Sensitivity analysis for non-derivative financial instruments

The Group and the Company are mainly exposed to the fluctuations in HKD and USD against RMB.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in the Group's pre-tax loss for both years where RMB appreciates 5% against the relevant currency. A negative number below indicates a decrease in the Company's pre-tax profit for both years where RMB appreciates 5% against the relevant currency. For a 5% depreciation of RMB against the relevant currency, there would be an equal and opposite impact on the pre-tax results.

	HKD		USD	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>THE GROUP</b>				
Decrease in loss	42,153	37,318	377	620
<b>THE COMPANY</b>				
Decrease in profit	(34,830)	(34,167)	(13,142)	(13,357)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### *Market risk (continued)*

#### *(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate deposits (see Note 28) and fixed-rate borrowings (see Note 30 for details of these borrowings). The Company is exposed to fair value interest rate risk in relation to fixed-rate deposits (see Note 28). The Group and the Company currently do not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 30 for details of these borrowings). The Company is exposed to cash flow interest rate risk in relation to variable-rate advances to subsidiaries (see Note 19 for details of these advances) and variable-rate bank borrowings (see Note 30 for details of these borrowings). It is the Group's and the Company's policy to reduce its exposure to cash flow interest rate risk for borrowings by hedging should the need arise.

The Group's and the Company's exposure to interest rates on financial liabilities are detailed in liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China's lending rate, TAIFX, HIBOR and LIBOR arising from the Group's borrowings. The Company's cash flow interest rate risk is mainly concentrated on the fluctuation of market rates arising from the Company's advances to subsidiaries and borrowings at variable rates.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate advances to subsidiaries and variable-rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease for variable-rate advances to subsidiaries and variable-rate bank borrowings are used represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period if interest rates had been 50 basis points (2013: 50 basis points) higher/lower for variable-rate bank borrowings, and all other variables were held constant, the Group's pre-tax loss for the years ended 31 December 2014 and 2013 would increase/decrease by HK\$5,624,000 and HK\$5,796,000 respectively.

At the end of the reporting period if interest rates had been 50 basis points (2013: 50 basis points) higher/lower for variable-rate advances to subsidiaries and variable-rate bank borrowings, and all other variables were held constant, the Company's pre-tax profit for the years ended 31 December 2014 and 2013 would decrease/increase by HK\$3,783,000 and HK\$3,275,000 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### *Credit risk*

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge obligations by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities disclosed in Note 38.

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risks of the Group and the Company are significantly reduced.

The credit risk on bank balances and bills receivable is limited because the counterparties are reputable banks in the PRC and Hong Kong.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 86.8% (2013: 89.2%) of the total trade receivables as at 31 December 2014.

The Company's concentration of credit risk is on advances to subsidiaries and amounts due to subsidiaries. The Company manages this risk by monitoring the cash flow position of the subsidiaries.

#### *Liquidity risk*

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2014, the Group has available undrawn borrowing facilities of approximately HK\$220,258,000 (2013: HK\$106,172,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

#### Liquidity and interest rate risk tables

##### THE GROUP

	Weighted average effective interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	4 – 6 months HK\$'000	7 – 12 months HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2014 HK\$'000
<b>2014</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	-	-	380,551	-	-	-	380,551	380,551
Bank borrowings								
- fixed rate	4.74	-	67,826	46,373	59,486	-	173,685	169,125
- variable rate	3.72	434,291	295,413	373,528	32,181	-	1,135,413	1,124,712
		434,291	743,790	419,901	91,667	-	1,689,649	1,674,388

	Weighted average effective interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	4 – 6 months HK\$'000	7 – 12 months HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2013 HK\$'000
<b>2013</b>								
<b>Non-derivative financial liabilities</b>								
Trade and other payables	-	-	485,638	-	-	-	485,638	485,638
Bank borrowings								
- fixed rate	4.72	-	110,841	144,095	13,057	-	267,993	262,795
- variable rate	4.08	541,291	6,179	19,226	281,525	348,721	1,196,942	1,159,177
		541,291	602,658	163,321	294,582	348,721	1,950,573	1,907,610

Note: The weighted average effective interest rates are based on the rates of bank borrowings at the end of the reporting period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

#### Liquidity and interest rate risk tables (continued)

#### THE COMPANY

	Weighted average effective interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	4 – 6 months HK\$'000	7 – 12 months HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2014 HK\$'000
	(Note)							
<b>2014</b>								
<b>Non-derivative financial liabilities</b>								
Other payables	-	-	1,614	-	-	-	1,614	1,614
Financial guarantee contracts	-	599,673	-	-	-	-	599,673	159
Bank borrowings - variable rate	2.87	409,291	201,243	202,720	-	-	813,254	808,950
		<b>1,008,964</b>	<b>202,857</b>	<b>202,720</b>	<b>-</b>	<b>-</b>	<b>1,414,541</b>	<b>810,723</b>

	Weighted average effective interest rate %	On demand HK\$'000	Less than 3 months HK\$'000	4 – 6 months HK\$'000	7 – 12 months HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2013 HK\$'000
	(Note)							
<b>2013</b>								
<b>Non-derivative financial liabilities</b>								
Other payables	-	-	1,786	-	-	-	1,786	1,786
Financial guarantee contracts	-	875,541	-	-	-	-	875,541	2,545
Bank borrowings - variable rate	2.80	498,791	6,398	-	102,158	105,556	712,903	704,479
		<b>1,374,332</b>	<b>8,184</b>	<b>-</b>	<b>102,158</b>	<b>105,556</b>	<b>1,590,230</b>	<b>708,810</b>

Note: The weighted average effective interest rates are based on the rates of bank borrowings at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

Bank loans with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis. As at 31 December 2014, the aggregate carrying amount of these bank loans of the Group and the Company amounted to HK\$434,291,000 (2013: HK\$541,291,000) and HK\$409,291,000 (2013: HK\$498,791,000) respectively. Taking into account the Group’s and the Company’s financial position, the directors do not believe that the banks will exercise their discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, the directors review the expected cash flow information of the Group’s and the Company’s bank borrowings carried variable interest rates based on the scheduled repayment dates set out in the bank loan agreements as set out in the table below:

#### THE GROUP

	Weighted average effective interest rate %	Less than 3 months HK\$'000	3 months to less than 1 year HK\$'000	1 year to less than 2 years HK\$'000	2 years to less than 3 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount as at 31 December HK\$'000
Bank borrowings – variable rate							
2014	2.44	52,695	237,796	157,110	–	447,601	434,291
2013	2.56	7,548	102,046	299,061	161,291	569,946	541,291

#### THE COMPANY

	Weighted average effective interest rate %	Less than 3 months HK\$'000	3 months to less than 1 year HK\$'000	1 year to less than 2 years HK\$'000	2 years to less than 3 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount as at 31 December HK\$'000
Bank borrowings – variable rate							
2014	2.29	40,104	224,663	156,664	–	421,431	409,291
2013	2.36	–	91,613	271,754	160,401	523,768	498,791

### c. Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. OPERATING LEASES

### The Group as lessee

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	7,047	6,875

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Within one year	4,847	4,772
In the second to fifth year inclusive	2,988	2,486
	7,835	7,258

Operating lease payments represents rental payable by the Group for certain of its offices, factory premises and staff quarters. Leases are negotiated for terms of one to three years (2013: one to seven years).

### The Group as lessor

Property rental income earned during the year was HK\$1,679,000 (2013: HK\$1,412,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Within one year	1,106	1,541
In the second to fifth year inclusive	472	1,305
	1,578	2,846

The Company had no commitment under operating leases at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 37. CAPITAL COMMITMENTS

	THE GROUP	
	2014 HK\$'000	2013 HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the consolidated financial statements	1,123	397
– authorised but not contracted for	12,783	25,310
	<b>13,906</b>	<b>25,707</b>

The Company did not have any significant commitments at the end of the reporting period.

## 38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Guarantees given to banks in respect of banking facilities to subsidiaries				
– amount guaranteed	–	–	599,673	875,541
– amount utilised	–	–	529,466	769,369

As at 31 December 2014, an amount of approximately HK\$159,000 (2013: HK\$2,545,000) has been recognised in respect of the financial guarantee provided to subsidiaries in the Company's statement of financial position as other payables. The amount as at 31 December 2013 represents the amount initially recognised less cumulative amortisation recognised in accordance with the revenue recognition policy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 39. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme with maximum amount of HK\$1,500 per month per employee (HK\$1,250 per month per employee prior to 1 June 2014) (save for the directors of the Company), which contribution is matched by employees.

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the respective local municipal government. These PRC subsidiaries are required to contribute 9% to 21% (2013: 9% to 21%) of its basic payroll costs to the scheme/fund. The contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme/fund.

## 40. SHARE-BASED PAYMENT TRANSACTIONS

### The Company’s share option scheme

A share option scheme (the “2002 Scheme”) was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the “Board”) of the Company 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 in the capital of the Company. A new share option scheme (the “2012 Scheme”) was adopted and the 2002 Scheme was terminated by the shareholders of the Company at the annual general meeting held on 25 May 2012.

The 2012 Scheme became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any shares falling to be issued and allotted upon the exercise of the share options granted.

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

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entities and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group. The 2012 Scheme serves the same purpose as the 2002 Scheme to provide incentives and rewards to qualifying grantees.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### The Company's share option scheme (continued)

Qualifying grantees of the 2012 Scheme include any director (including executive, non-executive and independent non-executive), executive, officer, employee, shareholder of the Company or any of the subsidiaries or any of the associated companies or any of the jointly controlled entities and any supplier, customer, consultant, adviser, agent, partner or business associate, who will contribute or has contributed to the development and growth of the Group. Unless otherwise cancelled or amended, the 2012 Scheme will remain in force for a period of ten years from 29 May 2012.

The maximum number of unexercised share options currently permitted to be granted under the 2012 Scheme is 192,290,055 shares which represented 10% of the issued shares of the Company as at the date of this annual report. The maximum number of shares issuable under the share options to each qualifying grantee in the 2012 Scheme within any 12-month period is limited to 1% of the issued shares of the Company in issue under the 2012 Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options under the 2012 Scheme may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. An option may be exercised under the 2002 Scheme and 2012 Scheme at any time within 10 years from the date of grant of the options or may be determined by the Board at its absolute discretion. The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion.

The exercise price per share in relation to an option under the 2002 Scheme and 2012 Scheme shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the option is offered to an eligible participant/a qualifying grantee, which must be a business day; or (b) the official average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant/a qualifying grantee.

Pursuant to the 2002 Scheme and 2012 Scheme, share options held by any eligible participant/qualifying grantee will lapse automatically upon their termination of employment but the Board is empowered to extend the exercise period of the concerned share options at its discretion. Relevant exercise period of share options held by the eligible participant whose employment terminated during the previous years was extended and approved by the Board. Such change does not constitute modification of the 2002 Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### The Company's share option scheme (continued)

No share options were granted under the 2002 Scheme during the years ended 31 December 2014 and 2013. During the year ended 31 December 2014, since the 2002 Scheme was terminated, no share options granted under the 2002 Scheme had been exercised or lapsed while 2,000,000 share options had been cancelled. Also, no share options granted under the 2002 Scheme have been exercised or cancelled while 148,182,000 had been lapsed during the year ended 31 December 2013.

No share options were granted, exercised, cancelled or lapsed under the 2012 Scheme during the years ended 31 December 2014 and 2013.

The following table discloses details of the Company's share options under the 2002 Scheme held by eligible participants and movements in such holdings in relation thereto during the years ended 31 December 2014 and 2013:

Grantees	Number of share options for 2014			Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2014	Cancelled during the year	At 31.12.2014			
Directors of the Company	1,268,000	-	1,268,000	26.1.2007	26.1.2007 – 25.1.2017	0.656
	5,400,000	-	5,400,000	13.7.2009	13.7.2009 – 12.7.2019	0.680
	5,400,000	-	5,400,000	13.7.2009	1.1.2010 – 12.7.2019	0.680
			(Note c)			
	7,200,000	-	7,200,000	13.7.2009	1.1.2011 – 12.7.2019	0.680
			(Note c)			
	41,200,000	-	41,200,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
	2,000,000	-	2,000,000	14.12.2010	14.12.2010 – 13.12.2020	0.940
	62,468,000	-	62,468,000			
Employees other than directors of the Company	34,200,000	(2,000,000)	32,200,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
		(Note a)				
	100,000	-	100,000	28.1.2008	28.1.2011 – 27.1.2018	0.864
			(Note d)			
	1,350,000	-	1,350,000	13.7.2009	13.7.2009 – 12.7.2019	0.680
	1,350,000	-	1,350,000	13.7.2009	1.1.2010 – 12.7.2019	0.680
		(Note c)				
	1,800,000	-	1,800,000	13.7.2009	1.1.2011 – 12.7.2019	0.680
			(Note c)			
	38,800,000	(2,000,000)	36,800,000			
All other eligible participants	17,000,000	-	17,000,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
	118,268,000	(2,000,000)	116,268,000			
Exercisable at year end			116,268,000			
Weighted average exercise price	0.828	0.864	0.827			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### The Company's share option scheme (continued)

Grantees	Number of share options for 2013			Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2013	Lapsed during the year	At 31.12.2013			
Directors of the Company	30,614,000	(30,614,000) (Note e)	–	25.6.2003	25.6.2003 – 24.6.2013	0.365
	4,974,000	(4,974,000) (Note e)	–	25.8.2003	25.8.2003 – 24.8.2013	0.740
	1,268,000	–	1,268,000	26.1.2007	26.1.2007 – 25.1.2017	0.656
	5,400,000	–	5,400,000	13.7.2009	13.7.2009 – 12.7.2019	0.680
	5,400,000	–	5,400,000 (Note c)	13.7.2009	1.1.2010 – 12.7.2019	0.680
	7,200,000	–	7,200,000 (Note c)	13.7.2009	1.1.2011 – 12.7.2019	0.680
	41,200,000	–	41,200,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
2,000,000	–	2,000,000	14.12.2010	14.12.2010 – 13.12.2020	0.940	
	98,056,000	(35,588,000)	62,468,000			
Employees other than directors of the Company	38,268,000	(38,268,000) (Note f)	–	25.6.2003	25.6.2003 – 24.6.2013	0.365
	5,000,000	(5,000,000) (Note f)	–	25.8.2003	25.8.2003 – 24.8.2013	0.740
	34,200,000	–	34,200,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
	100,000	–	100,000 (Note d)	28.1.2008	28.1.2011 – 27.1.2018	0.864
	1,350,000	–	1,350,000	13.7.2009	13.7.2009 – 12.7.2019	0.680
	1,350,000	–	1,350,000 (Note c)	13.7.2009	1.1.2010 – 12.7.2019	0.680
	1,800,000	–	1,800,000 (Note c)	13.7.2009	1.1.2011 – 12.7.2019	0.680
	82,068,000	(43,268,000)	38,800,000			
All other eligible participants	5,356,000	(5,356,000)	–	12.3.2003	12.3.2003 – 11.3.2013	0.325
	2,240,000	(2,240,000)	–	25.8.2003	25.8.2003 – 31.12.2012	0.740
	3,380,000	(3,380,000) (Note h)	–	25.8.2003	25.8.2003 – 24.8.2013	0.740
	57,350,000	(57,350,000)	–	2.10.2003	2.10.2003 – 1.10.2013	0.780
	17,000,000	–	17,000,000	28.1.2008	28.1.2008 – 27.1.2018	0.864
	1,000,000	(1,000,000) (Note h)	–	28.1.2008	28.1.2008 – 24.8.2013	0.864
	86,326,000	(69,326,000) (Note g)	17,000,000			
	266,450,000	(148,182,000)	118,268,000			
Exercisable at year end			118,268,000			
Weighted average exercise price	0.683	0.567	0.828			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### The Company's share option scheme (continued)

Notes:

- a. 2,000,000 share options at the exercise price of HK\$0.864 were cancelled during the year ended 31/12/2014 due to resignation and retirement of employees.
- b. The vesting period of the share options is from the date of grant to the beginning of the exercise period except for the share options set out under Notes (c) and (d) below.
- c. 5,400,000 share options have a vesting period from the date of grant to 31/12/2009 and 7,200,000 share options have a vesting period from the date of grant to 31/12/2010 under the category of "Directors of the Company". 1,350,000 share options have a vesting period from the date of grant to 31/12/2009 and 1,800,000 share options have a vesting period from the date of grant to 31/12/2010 under the category of "Employees other than the directors of the Company".
- d. 100,000 share options have a vesting period of three years from the date of grant.
- e. 30,614,000 share options held by Mr. Li Shaofeng lapsed with effect from 25/6/2013 and respective 4,592,000 and 382,000 share options held by Mr. Leung Shun Sang, Tony and Mr. Yip Kin Man, Raymond lapsed with effect from 25/8/2013.
- f. The respective 38,268,000 and 5,000,000 share options lapsed with effect from 25/6/2013 and 25/8/2013.
- g. Totalling of 69,326,000 outstanding share options held by all other eligible participants lapsed following the day of the end of respective exercise period during the year ended 31/12/2013.
- h. On 11/1/2012 and 20/2/2012, the Board approved the 2,140,000, 2,240,000 share options held by two retired employees who are reclassified as "All other eligible participants" under the 2002 Scheme remain exercisable up to 24/8/2013.

## 41. RELATED PARTY TRANSACTIONS/BALANCES

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

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

	THE GROUP	
	2014	2013
	HK\$'000	HK\$'000
Consultancy fees paid to Shougang HK Group	960	960
Rental expenses paid to Shougang HK Group	2,376	2,376
Loan from Shougang HK Group	–	150,000
Loan repaid to Shougang HK Group	–	276,124
Interest expenses on loans from Shougang HK Group	–	–
<b>HK Group</b>	<b>–</b>	<b>6,971</b>

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

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

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

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

#### Compensation of key management personnel

The key management of the Group comprises all executive directors of the Company, details of their emoluments and share-based payment transactions are disclosed in Notes 13 and 40, respectively. The emoluments of the directors of the Company are decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital	Attributable equity interest of the Group		Principal activities
			2014	2013	
Bigland Investment Limited	Hong Kong/PRC	2 ordinary shares	100%	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares	100%	100%	Trading of metals and investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares	100%	100%	Investment holding
Fair Win Development Limited	Hong Kong/PRC	500,000 ordinary shares	100%	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares	100%	100%	Property investment
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares	100%*	100%*	Processing and trading of copper and brass products
Jiaxing Eastern Steel Cord Co., Ltd. <sup>#</sup> 嘉興東方鋼簾線有限公司	PRC	US\$70,000,000	100%	100%	Manufacturing of steel cords
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	100%	100%	Investment holding
Tengzhou Eastern Steel Cord Co., Ltd. <sup>#</sup> 滕州東方鋼簾線有限公司	PRC	US\$82,000,000	100%	100%	Manufacturing of steel cords

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital	Attributable equity interest of the Group		Principal activities
			2014	2013	
Wei Hua International Trading (Shanghai) Co. Ltd. <sup>#</sup> 魏華國際貿易(上海)有限公司	PRC	US\$5,000,000	100%*	100%*	Trading of metal products
東莞興銅五金有限公司 <sup>#</sup>	PRC	US\$5,200,000 (2013: US\$4,600,000)	100%	100%	Processing and trading of copper and brass products
首長寶佳(上海)管理有限公司 <sup>#</sup>	PRC	US\$2,000,000	100%	100%	Provision of management services

<sup>#</sup> A wholly foreign owned enterprise

\* Directly held by the Company

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any loan capital and issued any debt securities subsisting at the end of the year or at any time during the year.

# SUMMARY OF INVESTMENT PROPERTIES

Particulars of the investment properties held by the Group as at 31 December 2014 are as follows:

	<b>Property</b>	<b>Use</b>	<b>Group interest</b>	<b>Category of lease</b>
1.	House 5 – 18 and carport District 5, Legend Garden Villas No. 89 Capital Airport Road Chaoyang District, Beijing PRC	Residential	100%	Medium term lease
2.	Workshop Nos. 15, 16, 17 and 18 on 12th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan, Hong Kong	Industrial and commercial	100%	Long term lease
3.	Workshop No. 10 on 6th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan, Hong Kong	Industrial and commercial	100%	Long term lease
4.	Apartment Unit 4-14-5, Level 2 Block 4-8, District 4 Legend Garden Villas No. 89 Capital Airport Road Chaoyang District, Beijing PRC	Residential	100%	Medium term lease
5.	Unit 5E on Level 5 and Car Park No. 39 on level 2 Jinmin Building No. 8 Zunyi Road South Changning District, Shanghai PRC	Commercial	100%	Long term lease

# DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

“2002 Scheme”	A share option scheme adopted and terminated by the Shareholders at the annual general meetings held on 7 June 2002 and 25 May 2012 respectively
“2012 Scheme”	A share option scheme adopted by the Shareholders at the annual general meeting held on 25 May 2012 and became effective on 29 May 2012
“Able Legend”	Able Legend Investments Limited, a subsidiary of Shougang HK
“Articles”	the Articles of Association of the Company
“BeijingWest Industries”	BeijingWest Industries International Limited (Stock Code: 2339), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Bekaert”	NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder (as defined under the SFO) of the Company
“Bekaert Combustion”	Bekaert Combustion Technology B.V., a wholly owned subsidiary of Bekaert, is a substantial shareholder (as defined under the SFO) of the Company
“Board”	the board of Directors
“Board Diversity Policy”	Shougang Concord Century Holdings Limited Board Diversity Policy adopted on 26 August 2013 and revised from time to time thereafter
“Casula”	Casula Investments Limited, a subsidiary of Shougang International
“Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”/“Shougang Century”	Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange

# DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Continuous Disclosure Obligation Policy”	Shougang Concord Century Holdings Limited Continuous Disclosure Obligation Policy adopted on 28 March 2011 and revised from time to time thereafter
“Copper and brass products”	processing and trading of copper and brass products
“Director(s)”	the director(s) of the Company
“Fair Union”	Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International
“Global Digital”	Global Digital Creations Holdings Limited (Stock Code: 8271), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange.
“Group”	the Company and its subsidiaries
“HKD/HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hing Cheong”	Hing Cheong Metals (China & Hong Kong) Limited, a company incorporated in Hong Kong, a wholly owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internal Control Manual”	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter
“JESC”	Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“Li Ka Shing Foundation”	Li Ka Shing Foundation Limited, a “charitable body” within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder (as defined under the SFO) of the Company



# DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan
“Richson”	Richson Limited, a subsidiary of Shougang International
“RMB”	Renminbi, the lawful currency of the PRC
“SCCHL Code”	Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter
“SCCHL Corporate Governance Code”	Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shareholders’ Communication Policy”	Shougang Concord Century Holdings Limited Shareholders’ Communication Policy adopted in 2012 and revised from time to time thereafter
“Shareholders’ Rights”	Principal rights of Shareholders under the Articles and the Companies Ordinance listed as required under the Code
“Shougang Fushan”	Shougang Fushan Resources Group Limited (Stock Code: 639), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange

# DEFINITIONS

“Shougang Grand”	Shougang Concord Grand (Group) Limited (Stock Code: 730), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Shougang HK”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial shareholder (as defined under the SFO) of the Company
“Shougang International”	Shougang Concord International Enterprises Company Limited (Stock Code: 697), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange, a substantial shareholder (as defined under the SFO) of the Company
“Shougang Technology”	Shougang Concord Technology Holdings Limited (Stock Code: 521), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Steel cord”	manufacturing of steel cords for radial tyres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TESC”	Tengzhou Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“USA”	United States of America
“USD/US\$”	United States dollars, the lawful currency of the USA
“%”	per cent.