



# Discover

 THE VALUE  
INTERIM REPORT 2010



**SHOUGANG CONCORD CENTURY  
HOLDINGS LIMITED**

Stock Code : 103



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## CORPORATE PROFILE

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**Shougang Concord Century Holdings Limited** (“Shougang Century” or the “Company”; together with its subsidiaries, collectively the “Group”) is one of the leading manufacturers of steel cord in the PRC. Besides, the Group is engaged in the sales and processing and trading of copper and brass products.

Shougang Century has been listed on the Main Board of the Stock Exchange since April 1992 (Stock Code: 103). Shougang HK, Shougang Corporation’s wholly owned subsidiary, and its controlled corporations, Bekaert and Li Ka Shing Foundation are the substantial shareholders of the Company.

In order to enlarge the steel cord market share in both PRC and overseas, Shougang Century will continue to increase the production capacity of its major steel cord manufacturing plants located at Jiaxing City, Zhejiang Province as well as at Tengzhou City, Shandong Province. In addition, it will develop and expand other metal products production, and capture distribution markets for copper and metal products, with the aim of consolidating its leadership in Mainland China.

### Corporate 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 tonne annual production capacity in steel cord manufacturing
- be one of the top 3 independent manufacturers in China steel cord industry

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



## CORPORATE INFORMATION

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### Board of Directors

#### Executive Directors

Li Shaofeng  
*(Chairman and Managing Director)*  
Tong Yihui *(Deputy Managing Director)*  
Tang Cornor Kwok Kau  
*(Deputy Managing Director)*  
Yang Kaiyu *(Deputy Managing Director)*  
Geert Johan Roelens

#### Non-executive Director

Leung Shun Sang, Tony

#### 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

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

### Nomination Committee

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

### Authorised Representatives

Tang Cornor Kwok Kau  
Chan Lai Yee

### Company Secretary

Chan Lai Yee

### Qualified Accountant

Wu Siu Man



## **CORPORATE INFORMATION (continued)**

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<b>Principal Bankers</b>	Bank of China Bank of China (Hong Kong) Limited CITIC Bank International Limited Hang Seng Bank Limited Industrial and Commercial Bank of China Industrial and Commercial Bank of China (Asia) Limited The Bank of East Asia, Limited
<b>Auditors</b>	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i>
<b>Share Registrar</b>	Tricor Tengis Limited 26/F., Tesbury Centre 28 Queen's Road East Hong Kong
<b>Registered Office</b>	5th Floor, Bank of East Asia Harbour View Centre 51-57 Gloucester Road Wanchai Hong Kong
<b>Website</b>	<a href="http://www.shougangcentury.com.hk">http://www.shougangcentury.com.hk</a>
<b>HKEx Stock Code</b>	103
<b>Listing Date</b>	9 April 1992



## FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change %
	2010	2009	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	
<b>Operations</b>			
Revenue	<b>829,102</b>	422,712	<b>+96.1</b>
Gross profit	<b>168,143</b>	48,352	<b>+247.7</b>
Earnings before interest, tax, depreciation and amortization	<b>183,775</b>	131,084	<b>+40.2</b>
Profit for the period	<b>91,205</b>	85,678	<b>+6.5</b>
Core profit for the period (Note)	<b>78,134</b>	9,841	<b>+694.0</b>
Earnings per share (basic) (HK cents)	<b>4.74</b>	4.56	<b>+4.0</b>

Note: Excluding government grants (net of tax) of HK\$796,000 (2009: HK\$75,837,000) and gain on disposal of listed available-for-sale investments of HK\$12,275,000 (2009: Nil).

	30 June	31 December	Change %
	2010	2009	
	(Unaudited) HK\$'000	(Audited) HK\$'000	
<b>Financial position</b>			
Total assets	<b>3,558,440</b>	3,038,112	<b>+17.1</b>
Shareholders' equity	<b>2,115,937</b>	2,065,826	<b>+2.4</b>
Net asset value per share (HK\$)	<b>1.10</b>	1.08	<b>+1.9</b>



## INFORMATION FOR INVESTORS

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### Share Information

Board lot size:	2,000 Shares
Nominal value per Share:	HK\$0.10
Shares outstanding as at 30 June 2010:	1,921,800,556 Shares
Market capitalization as at 30 June 2010:	HK\$1,556,658,450
Closing share price as at 30 June 2010:	HK\$0.81
Earnings per share (basic) for the six months ended 30 June 2010:	HK4.74 cents
Interim Dividend:	HK1 cent per Share

### Key Date

Payment Date of 2010 Interim Dividend:	8 October 2010
Closure of Register of Members for 2010 Interim Dividend:	16 to 17 September 2010
Announcement of 2010 Interim Results:	26 August 2010

### 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:	26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong
Telephone:	(852) 2980 1888
Fax:	(852) 2810 8185
Website:	<a href="http://www.hk.tricorglobal.com">http://www.hk.tricorglobal.com</a>



## BUSINESS CONTACTS

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

Address: 1 Dong Fang Road, Jiaying Economic  
Development Zone, Zhejiang Province, PRC  
Postal code: 314003  
Telephone: (86) 573 8221 3511  
Fax: (86) 573 8220 0076  
Website: <http://www.jesc.com.cn>  
E-mail address: [market.dep@jesc.com.cn](mailto:market.dep@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



### **Dongguan Xingtong Metal Ltd.**

Address: San Zhong Jinlong Industrial Zone, Qingxi,  
Dongguan, Guangdong Province, PRC  
Postal code: 523660  
Telephone: (86) 769 8709 1818  
Fax: (86) 769 8709 1810





## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

# Deloitte.

## 德勤

TO: THE BOARD OF DIRECTORS OF  
**SHOUGANG CONCORD CENTURY HOLDINGS LIMITED**  
首長實佳集團有限公司  
*(incorporated in Hong Kong with limited liability)*

### Introduction

We have reviewed the interim financial information set out on pages 9 to 32, which comprises the condensed consolidated statement of financial position of Shougang Concord Century Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
26 August 2010



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		<b>Six months ended 30 June</b>	
		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>		<b>HK\$'000</b>	<i>HK\$'000</i>
	3	<b>829,102</b>	422,712
Revenue			
		<b>(660,959)</b>	(374,360)
Cost of sales			
		<b>168,143</b>	48,352
Gross profit			
	4	<b>5,861</b>	92,739
Investment and other income			
	5	<b>16,972</b>	(1,276)
Other gains and losses			
		<b>(13,270)</b>	(7,327)
Distribution and selling expenses			
		<b>(50,003)</b>	(30,459)
Administrative expenses			
	6	<b>(13,546)</b>	(1,240)
Finance costs			
		–	(1,461)
Share of result of a jointly controlled entity			
		<b>114,157</b>	99,328
Profit before tax			
	7	<b>(22,952)</b>	(13,650)
Income tax expenses			
	8	<b>91,205</b>	85,678
Profit for the period			
	9	<b>HK4.74 cents</b>	HK4.56 cents
Earnings per share			
Basic			
		<b>HK4.55 cents</b>	HK4.53 cents
Diluted			



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit for the period	<b>91,205</b>	85,678
Other comprehensive income		
Exchange differences arising on translation		
– group entities	<b>18,337</b>	1,268
– a jointly controlled entity	<b>–</b>	(1)
(Loss) gain on fair value change of listed available-for-sale investments	<b>(19,354)</b>	30,037
Reclassification adjustment upon disposal of listed available-for-sale investments	<b>(12,307)</b>	–
Other comprehensive (expense) income for the period	<b>(13,324)</b>	31,304
Total comprehensive income for the period	<b>77,881</b>	116,982



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	<i>Notes</i>	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	11	22,463	22,401
Property, plant and equipment	11	1,547,568	1,320,715
Prepaid lease payments		105,183	106,459
Goodwill		41,672	41,672
Club memberships		723	719
Available-for-sale investments	12	15,515	50,538
Deposit paid for the acquisition of property, plant and equipment	13	167,120	79,000
		<b>1,900,244</b>	<b>1,621,504</b>
<b>Current assets</b>			
Inventories		365,789	211,802
Trade receivables	14	502,412	322,700
Bills receivable	14	380,356	386,039
Prepayments, deposits and other receivables		127,653	98,862
Prepaid lease payments		4,530	4,489
Amounts due from related companies		–	277
Tax recoverable		96	96
Restricted bank deposits		1,939	49,448
Bank balances and cash		275,421	342,895
		<b>1,658,196</b>	<b>1,416,608</b>
<b>Current liabilities</b>			
Trade payables	15	35,832	46,448
Other payables and accruals	16	110,533	87,440
Tax payable		24,528	29,710
Bank borrowings – due within one year	17	424,170	350,108
Dividend payable		28,827	–
		<b>623,890</b>	<b>513,706</b>
<b>Net current assets</b>		<b>1,034,306</b>	<b>902,902</b>
<b>Total assets less current liabilities</b>		<b>2,934,550</b>	<b>2,524,406</b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	17	797,470	446,556
Other payable		1,047	1,007
Deferred tax liabilities	18	19,256	10,177
		<b>817,773</b>	457,740
		<b>2,116,777</b>	2,066,666
<b>Capital and reserves</b>			
Share capital	19	192,180	192,180
Reserves		1,923,757	1,873,646
Equity attributable to equity holders of the Company		<b>2,115,937</b>	2,065,826
Share option reserve of a subsidiary		840	840
		<b>2,116,777</b>	2,066,666



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2010

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Share option reserve	PRC reserve funds	Retained profits	Total attributable to equity holders of the Company	Equity component of share option reserve of a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2009 (audited)	186,774	984,775	23,990	2,724	9,901	16,488	172,919	27,242	49,704	361,328	1,835,845	840	1,836,685
Profit for the period	-	-	-	-	-	-	-	-	-	85,678	85,678	-	85,678
Exchange differences arising on translation													
- group entities	-	-	-	-	-	-	1,268	-	-	-	1,268	-	1,268
- a jointly controlled entity	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Gain on fair value change of listed available-for-sale investments	-	-	-	-	-	30,037	-	-	-	-	30,037	-	30,037
Total comprehensive income for the period	-	-	-	-	-	30,037	1,267	-	-	85,678	116,982	-	116,982
Share issued at premium	3,461	6,978	-	-	-	-	-	-	-	-	10,439	-	10,439
Share issue expenses	-	(7)	-	-	-	-	-	-	-	-	(7)	-	(7)
Recognition of equity settled share-based payments	-	-	-	-	-	-	-	25	-	-	25	-	25
Balance at 30 June 2009 (unaudited)	190,235	991,746	23,990	2,724	9,901	46,525	174,186	27,267	49,704	447,006	1,963,284	840	1,964,124



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

For the six months ended 30 June 2010

	Share capital	Share premium	Capital reserve	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Share option reserve	PRC reserve funds	Retained profits	Total attributable to equity holders of the Company	Equity component of share option reserve of a subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010 (audited)	192,180	996,080	23,990	2,724	13,837	43,252	169,641	31,967	38,815	553,340	2,065,826	840	2,066,666
Profit for the period	-	-	-	-	-	-	-	-	-	91,205	91,205	-	91,205
Exchange differences arising on translation – group entities	-	-	-	-	-	-	18,337	-	-	-	18,337	-	18,337
Loss on fair value change of listed available-for-sale investments	-	-	-	-	-	(19,354)	-	-	-	-	(19,354)	-	(19,354)
Reclassification adjustment upon disposal of listed available-for-sale investments	-	-	-	-	-	(12,307)	-	-	-	-	(12,307)	-	(12,307)
Total comprehensive income (expense) for the period	-	-	-	-	-	(31,661)	18,337	-	-	91,205	77,881	-	77,881
Dividend recognised as distribution	-	-	-	-	-	-	-	-	-	(28,827)	(28,827)	-	(28,827)
Recognition of equity settled share-based payments	-	-	-	-	-	-	-	1,057	-	-	1,057	-	1,057
Balance at 30 June 2010 (unaudited)	192,180	996,080	23,990	2,724	13,837	11,591	187,978	33,024	38,815	615,718	2,115,937	840	2,116,777



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash (used in) from operating activities	<b>(282,352)</b>	77,639
Net cash used in investing activities:		
Purchase of property, plant and equipment	<b>(107,933)</b>	(226,845)
Deposit paid for the acquisition of property, plant and equipment	<b>(167,120)</b>	–
Decrease (increase) in restricted bank deposits	<b>47,509</b>	(46,009)
Proceeds from disposal of listed available-for-sale investments	<b>15,637</b>	–
Dividend received from listed available-for-sale investments	<b>263</b>	591
Proceeds from disposal of property, plant and equipment	<b>17</b>	–
Addition to prepaid lease payments	–	(67,889)
Entrusted loan repaid	–	17,009
	<b>(211,627)</b>	(323,143)
Net cash from financing activities:		
New bank loans raised	<b>860,409</b>	105,544
Repayment of bank loans	<b>(437,451)</b>	(41,854)
Proceeds on issue of ordinary shares	–	10,439
Other financing cash flows	–	408
	<b>422,958</b>	74,537
Net decrease in cash and cash equivalents	<b>(71,021)</b>	(170,967)
Cash and cash equivalents at 1 January	<b>342,895</b>	399,322
Effect of foreign exchange rate changes	<b>3,547</b>	156
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>275,421</b>	228,511





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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*For the six months ended 30 June 2010*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the financial year beginning on 1 January 2010.

#### **HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements***

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.



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

For the six months ended 30 June 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Amendment to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The amendment to HKAS 17 does not have any effect on the condensed consolidated financial statements of the Group.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.



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

For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the Company's managing director, being the chief operating decision maker of the Group (the "CODM"), for the purpose of resource allocation and performance assessment 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.

Information regarding the above segments is presented below.

#### For the six months ended 30 June 2010

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Total segment (Unaudited) HK\$'000
Segment revenue			
External sales	613,395	213,772	827,167
Inter-segment sales	–	7,969	7,969
Total	<u>613,395</u>	<u>221,741</u>	<u>835,136</u>
Segment results	<u>126,061</u>	<u>4,638</u>	<u>130,699</u>

Inter-segment sales are made based on prevailing market rates.



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

For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION (continued) For the six months ended 30 June 2010 (continued)

#### Reconciliation of revenue

	(Unaudited) HK\$'000
Total revenues for operating segments	835,136
Rental income and revenue for trading of other metal products	1,935
Elimination of inter-segment sales	(7,969)
	<hr/>
Group's revenue	<b>829,102</b>

#### Reconciliation of profit before tax

	(Unaudited) HK\$'000
Total profit for operating segments	130,699
Profit arising from trading of other metal products and property investment	533
Unallocated amounts	
Unallocated income	13,548
Unallocated expenses	(17,077)
Unallocated finance costs	(13,546)
	<hr/>
Profit before tax	<b>114,157</b>



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

For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2009

	Steel cord (Unaudited) HK\$'000	Copper and brass products (Unaudited) HK\$'000	Total segment (Unaudited) HK\$'000
Segment revenue			
External sales	367,314	43,189	410,503
Inter-segment sales	–	1,756	1,756
Total	<u>367,314</u>	<u>44,945</u>	<u>412,259</u>
Segment results	<u>115,000</u>	<u>(433)</u>	<u>114,567</u>

Inter-segment sales are made based on prevailing market rates.

Reconciliation of revenue

	(Unaudited) HK\$'000
Total revenues for operating segments	412,259
Rental income and revenue for trading of other metal products	12,209
Elimination of inter-segment sales	(1,756)
Group's revenue	<u>422,712</u>



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

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For the six months ended 30 June 2010

### 3. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2009 (continued)

Reconciliation of profit before tax	(Unaudited) HK\$'000
Total profit for operating segments	114,567
Loss arising from trading of other metal products and property investment	(1,724)
Unallocated amounts	
Unallocated income	4,220
Unallocated expenses	(15,034)
Unallocated finance costs	(1,240)
Share of result of a jointly controlled entity	(1,461)
Profit before tax	<u>99,328</u>

Segment profit represents the profit earned by each segment without allocation of central administration costs and the emoluments of directors of the Company, share of result of a jointly controlled entity, gain on disposal of listed available-for-sale investments, interest income on bank deposits, dividend income from listed available-for-sale investments, gain on fair value change of leveraged foreign exchange contract, commission income and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.



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

For the six months ended 30 June 2010

### 4. INVESTMENT AND OTHER INCOME

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Investment income</b>		
Interest income on bank deposits	1,593	1,220
Dividend income from listed available-for-sale investments	263	591
	<b>1,856</b>	1,811
<b>Other income</b>		
Government grants (Note)	796	89,732
Commission income	–	999
Others	3,209	197
	<b>4,005</b>	90,928
	<b>5,861</b>	92,739

Note: The amount includes an amount of approximately HK\$796,000 (six months ended 30 June 2009: HK\$88,484,000) unconditional grant from the local government of Tengzhou City in the PRC. The management considered the grant is a financial subsidy to the Group with no further related costs to be incurred. The remaining amount of approximately HK\$1,248,000 for the six months ended 30 June 2009 represented the unconditional grant received from the local government as an incentive in relation to the compliance with environmental regulations in Jiaying City in the PRC.



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

For the six months ended 30 June 2010

**5. OTHER GAINS AND LOSSES**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Gain on disposal of listed available-for-sale investments ( <i>Note 12</i> )	<b>12,275</b>	–
Foreign exchange gains (losses), net	<b>3,721</b>	(2,636)
Reversal of (allowance for) bad and doubtful debts	<b>1,030</b>	(36)
Realised gain on change in fair value of leveraged foreign exchange contract	–	1,396
Others	<b>(54)</b>	–
	<b>16,972</b>	(1,276)

**6. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	<b>16,292</b>	1,107
Amortisation of borrowing costs	<b>760</b>	133
Total borrowing costs	<b>17,052</b>	1,240
Less: amounts capitalised	<b>(3,506)</b>	–
	<b>13,546</b>	1,240

Borrowing costs capitalised during the six months ended 30 June 2010 arose on general borrowing pool and are calculated by applying a capitalisation rate of 3.02% (2009: Nil) per annum to expenditure on qualifying assets.





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

For the six months ended 30 June 2010

### 7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax	13,971	16,985
Over provision in prior periods:		
PRC Enterprise Income Tax	(86)	(5,664)
Deferred taxation ( <i>Note 18</i> )	9,067	2,329
	<u>22,952</u>	<u>13,650</u>

No provision for Hong Kong profits tax has been made in the condensed consolidated financial statements for both periods as the Group has no assessable profit arising in Hong Kong for both periods.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law (the "Implementation Regulation"). Under the New Law and Implementation Regulation, the Company's major subsidiaries in the PRC are subject to a respective tax rate of 18%, 20%, 22%, 24% and 25% for the years ended 31 December 2008 and 2009 and the years ending 31 December 2010, 2011 and 2012 onwards, respectively. The tax rate for these subsidiaries was 22% (2009: 20%) for the six months ended 30 June 2010.

Two subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions in respect of PRC enterprise income tax and are exempted from PRC enterprise income tax for the two years commencing from their first year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The PRC enterprise income tax charges are arrived at after taking into account these tax incentives.



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

For the six months ended 30 June 2010

### 8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>53,822</b>	29,324
Amortisation of prepaid lease payments (included in "Cost of sales")	<b>2,250</b>	1,192
Share of tax of a jointly controlled entity (included in "Share of result of a jointly controlled entity")	–	204
Loss on disposal of property, plant and equipment	<b>54</b>	130
Share-based payment expenses	<b>1,057</b>	25
	<b><u>1,057</u></b>	<u>25</u>

### 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit for the period for the purposes of calculation of basic and diluted earnings per share	<b>91,205</b>	85,678
	<b><u>91,205</u></b>	<u>85,678</u>



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

For the six months ended 30 June 2010

### 9. EARNINGS PER SHARE (continued)

	Six months ended 30 June	
	2010	2009
<b>Number of shares</b>		
Number/weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	<b>1,921,800,556</b>	1,877,424,557
Effect of dilutive potential ordinary shares: Share options	<b>79,490,023</b>	11,949,754
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	<b>2,001,290,579</b>	1,889,374,311

### 10. DIVIDENDS

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
2009 final dividend of HK1.5 cents per share (six months ended 30 June 2009: Nil)	<b>28,827</b>	–

The directors have resolved to declare an interim dividend of HK1 cent per share for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).



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

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*For the six months ended 30 June 2010*

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

During the period, the Group spent approximately HK\$267,813,000 (six months ended 30 June 2009: HK\$296,759,000) on the expansion of production capacity of steel cord segment. In addition, the Group also acquired approximately HK\$396,000 (six months ended 30 June 2009: HK\$11,133,000) of other property, plant and equipment in the period.

At 30 June 2010, the directors of the Company considered the carrying amounts of the Group's leasehold land and buildings carried at revalued amounts and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the end of the reporting period. Consequently, no revaluation surplus or deficit has been recognised in the current period.

At 30 June 2010, the Group's investment properties are measured at fair value by the directors of the Company with reference to market evidence of transaction prices for similar properties in similar locations and conditions. No gains or losses arising from changes in the fair value have been recognised in profit or loss for the current period.

### **12. AVAILABLE-FOR-SALE INVESTMENTS**

During the six months ended 30 June 2010, the Group disposed 2,291,283 "A" shares of Xinyu Iron & Steel Co., Ltd. ("Xinyu Iron") (six months ended 30 June 2009: Nil). Xinyu Iron is a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. The net proceeds from the disposal in aggregate were approximately HK\$15,637,000, resulting a gain of approximately HK\$12,275,000 (six months ended 30 June 2009: Nil).

### **13. DEPOSIT PAID FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT**

The amount mainly represents the deposit paid by subsidiaries of the Company for the acquisition of plant and equipment for the expansion of production capacity of steel cord segment.



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

For the six months ended 30 June 2010

### 14. TRADE RECEIVABLES/BILLS RECEIVABLE

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

An aged analysis of trade receivables net of allowance for bad and doubtful debts at the end of the reporting period based on sales invoice date is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
0 – 90 days	<b>415,115</b>	302,070
91 – 180 days	<b>80,619</b>	20,529
Over 180 days	<b>6,678</b>	101
	<b>502,412</b>	322,700

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

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
0 – 90 days	<b>230,340</b>	12,016
91 – 180 days	<b>150,016</b>	293,187
Over 180 days	–	80,836
	<b>380,356</b>	386,039

At the end of the reporting period, all bills receivable are matured within six months.



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

For the six months ended 30 June 2010

### 15. TRADE PAYABLES

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

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
0 – 90 days	<b>33,412</b>	45,239
91 – 180 days	<b>1,471</b>	754
Over 180 days	<b>949</b>	455
	<b>35,832</b>	46,448

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

### 16. OTHER PAYABLES AND ACCRUALS

At 30 June 2010, included in other payables and accruals are payables for purchase of plant and equipment of approximately HK\$77,037,000 (31 December 2009: construction payables of HK\$45,294,000).

### 17. BANK BORROWINGS

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Secured	<b>536,922</b>	436,103
Unsecured	<b>684,718</b>	360,561
	<b>1,221,640</b>	796,664

During the period, the Group obtained new bank borrowings of approximately HK\$860,409,000 (six months ended 30 June 2009: HK\$105,544,000) and repaid bank borrowings of approximately HK\$437,451,000 (six months ended 30 June 2009: HK\$41,854,000). These borrowings carry interest at market rates ranging from 1.00% to 5.79% per annum (six months ended 30 June 2009: 1.00% to 4.39% per annum) and are repayable over a period of one to five years.



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

For the six months ended 30 June 2010

### 18. DEFERRED TAX LIABILITIES

At 30 June 2010, included in deferred tax liabilities was deferred tax liabilities arising from withholding tax on distributable profits of subsidiaries in the PRC of approximately HK\$15,448,000 (31 December 2009: HK\$10,997,000).

### 19. SHARE CAPITAL

Ordinary shares of HK\$0.10 each

	<b>Number of shares '000</b>	<b>Share capital HK\$'000</b>
Authorised:		
At 1 January 2010 and 30 June 2010	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 January 2010 and 30 June 2010	<u>1,921,801</u>	<u>192,180</u>

### 20. SHARE-BASED PAYMENT

The Company has adopted a share option scheme for directors, employees and other eligible participants of the Group. The movements of the share options during the six months ended 30 June 2010 are as follows:

	<b>Number of share options</b>
Outstanding at 1 January 2010 and 30 June 2010	<u>279,528,000</u>

The share option granted to an employee to subscribe for up to 10% equity interest in Rise Boom International Limited, an indirect wholly owned subsidiary of the Company, remained outstanding at 30 June 2010.



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

For the six months ended 30 June 2010

### 21. CAPITAL COMMITMENTS

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the condensed consolidated financial statements	<b>339,316</b>	470,198
– authorised but not contracted for	–	149,170
	<b>339,316</b>	619,368

### 22. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2009, deposit paid for acquisition of prepaid lease of approximately HK\$13,040,000 (six months ended 30 June 2010: Nil) was transferred to prepaid lease payments.

The Group acquired property, plant and equipment of approximately HK\$77,037,000 (30 June 2009: HK\$81,047,000). The aggregate consideration has not been paid and was included in other payables and accruals as at 30 June 2010.

### 23. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with Shougang Holding (Hong Kong) Limited ("Shougang HK") and its subsidiaries (collectively the "Shougang HK Group") and Shougang Concord Technology Holdings Limited ("Shougang TECH") and its subsidiaries (collectively the "Shougang TECH Group"). Shougang HK is a substantial shareholder of the Company and Shougang TECH.

	<b>Six months ended 30 June 2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Consultancy fees paid to Shougang HK Group	<b>480</b>	480
Rental expenses paid to Shougang HK Group	<b>960</b>	804
Sales to Shougang TECH Group	–	827





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

For the six months ended 30 June 2010

### 23. RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel

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

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short-term benefit	4,085	4,123
Share-based payment	209	–
	<u>4,294</u>	<u>4,123</u>

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



## MANAGEMENT DISCUSSION AND ANALYSIS

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### BUSINESS REVIEW

The PRC sustained robust economic growth in the first half year driven by the expanding capital and infrastructural investments across the country and the Central Government's policy to boost domestic consumption, both of which stimulated the further growth of transportation and automobile industries. According to the National Bureau of Statistics of China, the total volume of freight for highways was 11.5 billion tonnes for the first half year, an year on year growth of 15.5% as compared to the same period last year; while the total turnover volume of freight transport for highways was 2,010.2 billion tonnes per kilometre for the first half year, an year on year growth of 17.9% as compared to the same period last year. Furthermore, the manufacture and sales of vehicles continued to record a strong growth after a record level of approximately 13,600,000 units of automobiles produced in 2009. According to the China Association of Automobile Manufacturers, 8,930,000 units and 9,020,000 units of vehicles were manufactured and sold in the first half year, represented a significant increase of 48.8% and 47.7% over the same period last year.

The above factors pushed forward the increasing demand for radial tyres, and hence steel cord in the first half year. The production costs of our steel cord manufacturing plant at JESC substantially reduced as a result of the additional capital expenditure spent during the previous years with a view to enhance operational efficiency and enlarge production capacity. Contributed by the rising demand for steel cords and our lower cost base, the Steel cord segment achieved a tremendous growth in revenue and profit as compared with the same period last year.

In respect of the Copper and brass products segment, its sales rebounded sharply from the doldrums last year as the economy gradually recovered all over the world since the second quarter of 2009. As such, the operating performance of this segment improved and resumed profitability as compared to the loss generated for the same period last year.

The Group achieved net profit of HK\$91,205,000 for the period, increased by 6.5% as compared to HK\$85,678,000 for the same period last year. Core profit of the Group, after excluding government grants and gain on disposal of listed available-for-sale investments, was HK\$78,134,000 for the period, significantly increased by 694.0% as compared to HK\$9,841,000 for the same period last year, reflecting the strong performance of the Group's core business of manufacturing of steel cords.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Steel cord

##### Revenue

The Steel cord segment achieved a remarkable increase in sales volume of 73.5% over the same period last year to 41,640 tonnes (2009: 24,006 tonnes) for the period. The analysis of sales volume is as follows:

	For the six months ended 30 June				
	2010		2009		% change
	Sales volume (tonne)	% of total sales volume	Sales volume (tonne)	% of total sales volume	
Steel cord for:					
– truck tyres	32,228	77.4	17,534	73.1	+83.8
– off the road truck tyres	1,250	3.0	552	2.3	+126.4
– passenger car tyres	8,035	19.3	5,913	24.6	+35.9
Steel wires	127	0.3	7	–	+1714.3
<b>Total</b>	<b>41,640</b>	<b>100.0</b>	<b>24,006</b>	<b>100.0</b>	<b>+73.5</b>

Sales volume attributable to JESC and TESC in the first half year is as follows:

	JESC (Tonne)	TESC (Tonne)	Total (Tonne)
Steel cord for:			
– truck tyres	28,799	3,429	32,228
– off the road truck tyres	1,250	–	1,250
– passenger car tyres	6,972	1,063	8,035
Steel wires	49	78	127
<b>Total</b>	<b>37,070</b>	<b>4,570</b>	<b>41,640</b>

The average selling price of steel cord was RMB12,937 per tonne for the period, lowered by 4.2% as compared to RMB13,510 per tonne for the same period last year, this was primarily attributable to the decline in raw material prices since the second half year of 2009. In summary, the increase in sales volume contributed to the growth in revenue of this segment by 67.0% over the same period last year to HK\$613,395,000 (2009: HK\$367,314,000) for the period.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Steel cord (continued)

##### *Gross profit*

Gross profit of this segment tremendously increased by 254.2% over the same period last year to HK\$158,901,000 (2009: HK\$44,858,000) for the period. In addition to the sales volume growth of 73.5% over the same period last year, the sharp rise was also contributed by the lower production costs of JESC, which was brought by greater economies of scale from increased production volume, improvement in raw materials procurement strategies, enhancement of production techniques and efficiency. The lowered production costs brought along the significant improvement in the gross profit margin of JESC from 12.7% in the same period last year to 30.8% for the period.

For our new steel cord production plant at TESC, its first phase development with 30,000 tonnes of annual production capacity was completed and production already commenced at the end of 2009. During the first half year of 2010, the installation of additional machineries were ended resulting to an annual production capacity of 50,000 tonnes by the end of the captioned period. Nonetheless, TESC was at the stage of getting the approval and recognition of its various specifications of steel cords by radial tyre manufacturers, therefore the volume of production and sales remained low, with utilization of production capacity of less than 50% during the period. Owing to the low production and sales, and considerable initial operating costs incurred, TESC generated a gross loss of HK\$11,936,000 for the period.

The significant improvement in gross profit margin of JESC was partially offset by the gross loss of TESC, therefore gross profit margin of Steel cord segment was lower at 25.9% for the period, but sharply increased by 13.7 percentage points as compared to 12.2% for the same period last year.

##### *Investment and other income*

Investment and other income of this segment decreased by 93.6% to HK\$5,773,000 (2009: HK\$90,781,000) for the period, as the amount of government grants received during the period substantially dropped by 99.1% as compared to the same period last year to HK\$796,000 (2009: HK\$89,732,000) for the period.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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### BUSINESS REVIEW (continued)

#### Steel cord (continued)

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

Distribution and selling expenses increased by 92.5% over the same period last year to HK\$12,993,000 (2009: HK\$6,749,000). Transportation expenses increased following the increase in sales volume, additional costs were also incurred during the period to strengthen the sales and distribution network of this segment in particular for the recognition of the products of TESC.

Administrative expenses increased by 131.5% over the same period last year to HK\$28,232,000 (2009: HK\$12,197,000) for the period. Besides to the increase in those of JESC by 41.1% following the increase in revenue, the increase was also attributable to the initial operating costs incurred by TESC after it commenced production at the end of last year. For the same period last year, the manufacturing plant of TESC was still under construction, therefore smaller amount of operating expenses incurred as compared to that of the period under review.

##### *Operating profit*

Operating profit of this segment increased by 9.6% to HK\$126,061,000 (2009: HK\$115,000,000) for the period. Core operating profit of this segment, excluding government grants was HK\$125,265,000 for the period, significantly increased by 395.7% as compared to that of HK\$25,268,000 for the same period last year.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Copper and brass products

##### Revenue

Worldwide economy continued its recovery path in the first half year which helped the build up of orders from customers in general. This segment therefore achieved a tremendous growth in revenue of 393.4% over the same period last year to HK\$221,741,000 (2009: HK\$44,945,000) for the period. Sales volume was 4,148 tonnes for the period, increased by 242.8% as compared to 1,210 tonnes for the same period last year. This segment continued its progress in developing domestic sales in the PRC. The volume of domestic sales significantly increased by 1029.1% over the same period last year to 1,863 tonnes for the period, while its percentage of total sales volume increased from 13.6% in the same period last year to 44.9% for the period. The breakdown of sales volume by geographical location is as follows:

	2010		2009		% change
	Sales volume (tonne)	% of total sales volume	Sales volume (tonne)	% of total sales volume	
PRC	1,863	44.9	165	13.6	+1029.1
Other regions	2,285	55.1	1,045	86.4	+118.7
<b>Total</b>	<b>4,148</b>	<b>100.0</b>	<b>1,210</b>	<b>100.0</b>	<b>+242.8</b>

As copper price rebounded since early 2009, average selling price climbed from HK\$37,145 per tonne for the same period last year to HK\$53,458 per tonne for the period, representing an increase of 43.9% over the same period last year. The increased sales volume and rising average selling price contributed to the revenue growth of 393.4% over the same period last year.

##### Gross profit

Gross profit of this segment amounted to HK\$8,973,000 for the period, increased by 190.6% as compared to HK\$3,088,000 for the same period last year. However, gross profit margin dropped from 6.9% in the same period last year to 4.0% for the period. The fluctuation of copper price was more volatile in the first half year as compared to that of the same period last year, especially when the occurrence of the European sovereign debt crisis since early April, in which the LME 3-months copper price declined from approximately US\$8,000 per tonne in early April to approximately US\$6,500 per tonne at the end of June. Such volatility in copper price increased the difficulty in the management of inventory and sales. However, the management had endeavoured to take appropriate measures to minimize the impact of such volatility to the gross profit margin of this segment.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### BUSINESS REVIEW (continued)

#### Copper and brass products (continued)

##### Operating profit

In all, with the significant increase in sales volume, this segment achieved an operating profit of HK\$4,638,000 for the period, a significant turnaround as compared to an operating loss of HK\$433,000 for the same period last year.

#### Listed available-for-sale investments

During the period, the Group disposed of 2,291,283 'A' shares of Xinyu Iron at an average price of RMB6 per share on the Shanghai Stock Exchange and recorded a gain of approximately HK\$12,275,000 on those disposals. There was no disposal of 'A' shares of Xinyu Iron during the same period last year.

### FINANCIAL REVIEW

Net profit of the Group increased by 6.5% over the same period last year to HK\$91,205,000 (2009: HK\$85,678,000) for the period. Core profit of the Group, excluding government grants and gain on disposal of listed available-for-sale investments, was HK\$78,134,000 for the period, a significant increase of 694.0% as compared to HK\$9,841,000 for the same period last year, reflecting the strong performance of the Group's core businesses during the period, as follows:

	For the six months ended 30 June		
	2010 HK\$'000	2009 HK\$'000	% change
Profit for the period	91,205	85,678	+6.5
Less: Government grants (net of tax)	796	75,837	-99.0
Gain on disposal of listed available-for-sale investments	12,275	–	N/A
Core profit for the period	78,134	9,841	+694.0



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### Revenue

Revenue of the Group amounted to HK\$829,102,000 for the period, representing a remarkable growth of 96.1% over the same period last year. The breakdown of revenue by business segments is as follows:

	2010		2009		% change
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	
Steel cord	613,395	74.0	367,314	86.9	+67.0
Copper and brass products	221,741	26.8	44,945	10.6	+393.4
Sub-total	835,136	100.8	412,259	97.5	
Elimination of inter-segment sales	(7,969)	(1.0)	(1,756)	(0.4)	+353.8
Other operations ( <i>Note</i> )	1,935	0.2	12,209	2.9	-84.2
Total	829,102	100.0	422,712	100.0	+96.1

*Note:* Mainly comprises trading of other metal products and property investment.





## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### Gross profit

Gross profit of the Group significantly increased by 247.7% over the same period last year to HK\$168,143,000 (2009: HK\$48,352,000) for the period. Gross profit margin was 20.3%, remarkably increased by 8.9 percentage points as compared to 11.4% for the same period last year. The breakdown of gross profit by business segments is as follows:

	For the six months ended 30 June				
	2010	Gross profit margin	2009	Gross profit margin	%
	HK\$'000	(%)	HK\$'000	(%)	change
Steel cord	158,901	25.9	44,858	12.2	+254.2
Copper and brass products	8,973	4.0	3,088	6.9	+190.6
Unrealised profit on inter-segment sales	(25)	N/A	–	N/A	N/A
Other operations	294	15.2	406	3.3	–27.6
Total	<u>168,143</u>	<u>20.3</u>	<u>48,352</u>	11.4	<u>+247.7</u>



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### Investment and other income

Investment and other income decreased by 93.7% as compared to the same period last year to HK\$5,861,000 (2009: HK\$92,739,000) for the period, primarily because only HK\$796,000 of government grants were received during the period, as compared to HK\$89,732,000 for the same period last year. When income from government grants was excluded, investment and other income would be HK\$5,065,000 for the period, increased by 68.4% as compared to HK\$3,007,000 for the same period last year.

#### Other gains and losses

The Group recorded a net gain of HK\$16,972,000 on other gains and losses for the period, as compared to a net loss of HK\$1,276,000 for the same period last year. In addition to the gain on disposal of listed available-for-sale investments of HK\$12,275,000 as mentioned in '**Listed available-for-sale investments**' section above, the Group recorded an exchange gain of HK\$3,721,000, primarily contributed by the exchange gain arising on the appreciation of the exchange rate of RMB over the period. The breakdown of other gains and losses is as follows:

	For the six months ended 30 June		
	2010 HK\$'000	2009 HK\$'000	% change
Gain on disposal of listed available-for-sale investments	12,275	–	N/A
Exchange gains (losses), net	3,721	(2,636)	N/A
Reversal of (allowance for) bad and doubtful debts	1,030	(36)	N/A
Change in fair value of derivative financial instruments	–	1,396	–100.0
Others	(54)	–	N/A
Total	16,972	(1,276)	N/A

#### Distribution and selling expenses

Distribution and selling expenses increased by 81.1% over the same period last year to HK\$13,270,000 (2009: HK\$7,327,000) for the period, as higher amount of transportation expenses incurred was commensurated with the increase in revenue of 96.1% over the same period last year.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### Administrative expenses

Administrative expenses of the Group amounted to HK\$50,003,000 (2009: HK\$30,459,000) for the period, representing an increase of 64.2% over the same period last year. In addition to the increased expenditures incurred on expanding businesses, TESC continued to record expenditures for its initial production and capacity expansion during the period. However, as revenue of the Group increased by 96.1% over the same period last year, the ratio of administrative expenses to revenue lowered from 7.2% in the same period last year to 6.0% for the period.

#### Segment results

Profit from the Group's business segments amounted to HK\$130,699,000 for the period, increased by 14.1% as compared to HK\$114,567,000 for the same period last year. When the amounts of government grants received by the Steel cord segment were excluded, segment results would be sharply increased by 423.1% over the same period last year. The breakdown of the operating results of the Group's business segments is as follows:

	For the six months ended 30 June		
	2010 HK\$'000	2009 HK\$'000	% change
Steel cord			
– Core operating profit	125,265	25,268	+395.7
– Government grants	796	89,732	–99.1
Sub-total for Steel cord	126,061	115,000	+9.6
Copper and brass products	4,638	(433)	N/A
Total	130,699	114,567	+14.1

#### Finance costs

Finance costs amounted to HK\$13,546,000 for the period, significantly increased by 992.4% as compared to HK\$1,240,000 for the same period last year. Such tremendous increase in finance costs arose primarily due to: (i) the raising of additional bank borrowings to finance the capacity expansion plan of the Steel cord segment, in particular the expansion of the production capacity of TESC to 100,000 tonnes per annum since the second half of last year; and (ii) the increase in working capital borrowings to provide funding for the expansion of production and sales of the Group's products.

#### Income tax expenses

Income tax expenses of the Group increased by 68.1% over the same period last year to HK\$22,952,000 (2009: HK\$13,650,000) for the period, primarily as the profit of the Steel cord segment increased over the same period last year.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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 the Shareholders. It is imperative to maintain the debt and equity ratio of the Group at a secure and manageable level.

There were no movements on the issued share capital of the Company during the period, the number of issued share capital of the Company remained at 1,921,800,556 Shares at 30 June 2010. The net asset value of the Group was HK\$2,116,777,000 at 30 June 2010, increased by 2.4% as compared to HK\$2,066,666,000 at 31 December 2009; and net asset value per share increased by 1.9% over the end of 2009 to HK\$1.10 per Share at 30 June 2010.

The Group's bank balances and cash (including restricted bank deposits) amounted to HK\$277,360,000 at 30 June 2010, lowered by 29.3% as compared to HK\$392,343,000 at 31 December 2009. Total bank borrowings of the Group were HK\$1,221,640,000 at 30 June 2010, significantly increased by 53.3% as compared to HK\$796,664,000 at 31 December 2009.

At 30 June 2010, HK\$1,002,066,000 of bank borrowings were floating-rate borrowings, while HK\$219,574,000 of bank borrowings were collared at rate ranging from 1.74% to 5.79% per annum. The nature and maturing profile of the Group's bank borrowings at 30 June 2010 were as follows:

	<i>HK\$'000</i>	%
Due within one year or on demand:		
– Trust receipt loans	81,350	6.7
– Bank advances for discounted bills	78,291	6.4
– Working capital loans	184,208	15.1
– Current portion of medium term loans	82,404	6.7
	426,253	34.9
Medium term loans		
– Due in the second year	298,014	24.4
– Due in the third year	339,618	27.8
– Due in the fourth year	129,617	10.6
– Due in the fifth year	32,405	2.7
	1,225,907	100.4
Unamortized loan arrangement fees	(4,267)	(0.4)
	1,221,640	100.0
Total		



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES (continued)

As a result of the increased bank borrowings during the period to finance the capacity expansion plan of the Steel cord segment and working capital requirements, the gearing ratio (bank borrowings less bank balances and cash/shareholders' equity) of the Group increased from 19.6% at 31 December 2009 to 44.6% at 30 June 2010.

Despite the increased gearing level, the liquidity position of the Group remained healthy, current ratio of the Group at 30 June 2010 was 2.7 times, similar to 2.8 times at 31 December 2009.

### FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's sources of revenue are principally denominated in RMB and HKD, while purchases and payments are concentrated on 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 endeavoured to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. As at 30 June 2010, all the Group's bank borrowings were denominated at RMB, HKD and USD, as follows:

	<b>30 June 2010 %</b>	31 December 2009 %
HKD	<b>51.4</b>	38.7
RMB	<b>32.0</b>	42.2
USD	<b>16.6</b>	13.8
Other currencies	–	5.3
Total	<b>100.0</b>	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 and cashflows of the Group, as we are of the view that interest rate will sustain at a relatively low level for a considerable period of time.

In all, we would keep monitoring the currency and interest rate composition of the Group's bank borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.



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

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

#### **Steel cord**

TESC completed the installation and commissioning of the plant and machineries for another 20,000 tonnes of annual production capacity in the first half year of 2010, and reached to 50,000 tonnes of annual production capacity at 30 June 2010. The remaining 50,000 tonnes of annual production capacity will be added in the second half year to achieve an annual production capacity of 100,000 tonnes by the end of 2010, as planned. Capital expenditures incurred by the Steel cord segment during the first half year amounted to approximately HK\$267,813,000. The capital expenditures to be incurred in the second half year are estimated to be approximately HK\$339,316,000, which will be financed by the Group's internal resources and bank borrowings.

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

At 30 June 2010, the Group had a total of 2,364 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 income statement for the period amounted to approximately HK\$4,088,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation.

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 a share option scheme (the "Scheme"). Under the Scheme, the Board shall, subject to and in accordance with the provisions of the 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 Scheme will remain in force for a period of ten years from the date of its adoption. No share options were exercised, cancelled or lapsed during the period.



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

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### **PLEDGE OF ASSETS**

At 30 June 2010, 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\$6,798,000;
2. Prepaid lease payments amounted to HK\$90,191,000;
3. Bank deposits amounted to HK\$1,939,000; and
4. Equity interests in certain subsidiaries of the Company.

### **BUSINESS OUTLOOK**

China's economy is growing steadily and it has a vast population with increasing disposable income and changing lifestyle. Given such socio-economic betterment and rapid development in its road infrastructure, China has become a ludicrous market in the global automobile industry.

China Association of Automobile Manufacturers has predicted that total vehicle production volume will climb to 15,000,000 units with double digit growth rate in 2010. The State Council of PRC issued a "China's 2010 Blue Book of Automobile Industry" in July 2010 also predicted that the total production volume of automobile is expected to reach more than 20,000,000 units, an increase of 45% over that of last year. Albeit the rapid growth in the automobile industry, we are cognizant of the latest fine tuning measures promulgated by the Central Government in particular towards the property market. It is expected that these measures should steer the economy to a soft landing while affecting the consumption habit to a certain extent. Despite these fluid and uncertain economic market conditions, we have already put our central effort to exert stronger marketing and sales effort to our existing customers, develop new potential customers and broaden customer base in different regional territories in order to continue capturing larger market share in the steel cord industry. We believe we are able to achieve fruitful results in the second half year and in fact our gross profit margin has been shown substantial improvement during the period under review. Our future as one of the top three independent steel cord producers in China is propitious but we will continue our introspection to safeguard interest against risks and prepare for any challenge ahead.

In view of the increase of domestic sales of copper and brass products brought forth positive results to the Group, our confidence in such strategy has been strengthened. Nonetheless, we do not foresee substantial capital expenditure in this segment in the near future.

Moreover, in order to maximize the profitability and reduce the business risk of the Group, we would continue to, if appropriate, work with our business partners to look for other possible metal product business opportunities in the PRC.



## **INTERIM DIVIDEND**

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The Board has declared an interim dividend of HK1 cent per Share for the six months ended 30 June 2010 to the Shareholders whose names appear on the Register of Members of the Company at the close of business on 17 September 2010. The interim dividend will be paid on or about 8 October 2010 (2009: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 16 to 17 September 2010, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 15 September 2010.

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

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Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.





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

As at 30 June 2010, save for the interests of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

### Long position in Shares

#### (a) Ordinary Shares of HK\$0.10 each of the Company

Name of Director	Total number of Shares held	Approximate % of the issued share capital	Capacity in which interest are held
Li Shaofeng ("Mr. Li")	7,652,000	0.39	Beneficial owner
Tong Yihui ("Mr. Tong")	5,152,000	0.26	Beneficial owner
Leung Shun Sang, Tony ("Mr. Leung")	7,652,000	0.39	Beneficial owner
Tang Cornor Kwok Kau ("Mr. Tang")	10,000,000	0.52	Beneficial owner (Note a)
Yang Kaiyu ("Mr. Yang")	3,596,000	0.18	Family interest (Note b)

Notes:

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



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

### Long position in Shares (continued)

#### (b) Share options

As at 30 June 2010, there were a total of 146,706,000 outstanding share options of the Company granted to Directors, details of which are summarized in the following table:

Name of Director	Options to subscribe for Shares				Date of exercise	Date of grant (Note a)	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Number of outstanding share options held at the end of the period						
Mr. Li	30,614,000 (Note b)	-	-	- 30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365			
	13,800,000	-	-	- 13,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>44,414,000</u>	<u>-</u>	<u>-</u>	<u>44,414,000</u>				Beneficial owner	2.31	
Mr. Tong	38,268,000 (Note b)	-	-	- 38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365			
	10,000,000	-	-	- 10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>48,268,000</u>	<u>-</u>	<u>-</u>	<u>48,268,000</u>				Beneficial owner	2.51	
Mr. Leung	4,592,000	-	-	- 4,592,000	25/6/2003	25/6/2003 to 24/6/2013	0.740			
	12,000,000	-	-	- 12,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864			
	<u>16,592,000</u>	<u>-</u>	<u>-</u>	<u>16,592,000</u>				Beneficial owner	0.86	
Mr. Tang	10,000,000	-	-	- 10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.52	
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 (Note c)	13/7/2009	1/1/2011 to 12/7/2019	0.680			
	<u>18,000,000</u>	<u>-</u>	<u>-</u>	<u>18,000,000</u>				Beneficial owner	0.93	



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

### Long position in Shares (continued)

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

Name of Director	Options to subscribe for Shares					Date of grant (Note a)	Exercise period	Exercise price per Share HK\$	Capacity in which interests are held	Approximate % of the issued share capital
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Date of exercise	Number of outstanding share options held at the end of the period					
Geert Johan Roelens	2,000,000	-	-	-	2,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.10
Yip Kin Man, Raymond	382,000	-	-	-	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	-	-	-	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	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		
	<u>2,816,000</u>	<u>-</u>	<u>-</u>		<u>2,816,000</u>				Beneficial owner	0.14
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		
	<u>2,816,000</u>	<u>-</u>	<u>-</u>		<u>2,816,000</u>				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
	<u>146,706,000</u>	<u>-</u>	<u>-</u>		<u>146,706,000</u>					



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

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### **Long position in Shares (continued)**

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

*Notes:*

- (a) Share options granted are exercisable within the period from the date of grant to the end of the exercise period except for the share options set out under note (c) below.
- (b) These share options granted were in excess of the individual limit and the approval from Shareholders was obtained in general meeting held on 25 June 2003.
- (c) 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 the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, Shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective Directors.

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of its associated corporations at 30 June 2010.



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

As at 30 June 2010, 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	35.72	Beneficial owner and interests of controlled corporations <i>Note (1)</i>
Casula	402,395,304	20.93	Beneficial owner
Shougang International	686,655,179	35.72	Interests of controlled corporations <i>Note (2)</i>
Able Legend	126,984,000	6.60	Beneficial owner
Shougang HK	887,145,179	46.16	Interests of controlled corporations <i>Note (3)</i>
Bekaert Holding	250,000,000	13.00	Beneficial owner <i>Note (4)</i>
Bekaert	250,000,000	13.00	Interests of controlled corporations <i>Note (5)</i>
Li Ka Shing Foundation	100,000,000	5.20	Beneficial owner <i>Note (6)</i>



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

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### 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) By virtue of the SFO, Shougang HK is deemed to be interested in the 126,984,000 Shares and the 59,636,000 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 13,870,000 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 Holding is beneficially interested in 250,000,000 Shares.
- (5) By virtue of the SFO, Bekaert is deemed to be interested in the 250,000,000 Shares held by Bekaert Holding, which is a wholly owned subsidiary of Bekaert.
- (6) Li Ka Shing Foundation is beneficially interested in 100,000,000 Shares.



## SHARE OPTION SCHEME

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

Category of participant	Options to subscribe for Shares					Date of Grant (Note a)	Exercise period	Exercise price per Share HK\$
	Number of outstanding share options held at the beginning of the period	Number of share options granted during the period	Reclassification of categories of participant	Number of share options exercised during the period	Date of exercise			
Employees other than the Directors	12,220,000	-	-	-	-	25/8/2003	25/8/2003 to 24/8/2013	0.740
	1,500,000	-	-	-	-	25/8/2003 (Note b)	25/8/2003 to 30/4/2011	0.740
	26,700,000	-	-	-	-	28/1/2008	28/1/2008 to 27/1/2018	0.864
	400,000	-	-	-	-	28/1/2008 (Note c)	28/1/2011 to 27/1/2018	0.864
	7,500,000	-	(5,400,000) (Note d)	-	-	13/7/2009	13/7/2009 to 12/7/2019	0.680
	7,500,000	-	(5,400,000) (Note d)	-	-	13/7/2009	1/1/2010 to 12/7/2019	0.680
	10,000,000	-	(7,200,000) (Note d)	-	-	13/7/2009	1/1/2011 to 12/7/2019	0.680
	<u>65,820,000</u>	<u>-</u>	<u>(18,000,000)</u>	<u>-</u>	<u>-</u>	<u>47,820,000</u>		
All other eligible participants	2,296,000	-	-	-	-	23/8/2002	23/8/2002 to 22/8/2012	0.295
	5,356,000	-	-	-	-	12/3/2003	12/3/2003 to 11/3/2013	0.325
	-	-	57,350,000 (Note f)	-	-	2/10/2003	2/10/2003 to 1/10/2013	0.780
	3,000,000	-	-	-	-	28/1/2008 (Note g)	28/1/2008 to 31/12/2011	0.864
	-	-	17,000,000 (Note f)	-	-	28/1/2008	28/1/2008 to 27/1/2018	0.864
	<u>10,652,000</u>	<u>-</u>	<u>74,350,000</u>	<u>-</u>	<u>-</u>	<u>85,002,000</u>		
<b>Total</b>	<u><u>76,472,000</u></u>	<u><u>-</u></u>	<u><u>56,350,000</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>132,822,000</u></u>		



## SHARE OPTION SCHEME (continued)

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*Notes:*

- (a) Share options granted are exercisable within the period from the date of grant to the end of the exercise period except for the share options set out under notes (c) and (e) below.
- (b) The exercise period of 1,500,000 outstanding share options was changed from 25 August 2003 to 24 August 2013 to 25 August 2003 to 30 April 2011 by the approval of the Board on 29 April 2010.
- (c) 400,000 share options have a vesting period of three years from the date of grant.
- (d) The outstanding share options held by an employee who is reclassified as a Director with effect from 10 May 2010.
- (e) 2,800,000 share options have a vesting period from the date of grant to 31 December 2010.
- (f) The outstanding share options held by a former Director who is reclassified as the other eligible participant due to his resignation with effect from 10 May 2010. 57,350,000 share options granted were in excess of the individual limit and the approval from shareholders was obtained in general meeting held on 2 October 2003.
- (g) The exercise period of 3,000,000 outstanding share options was changed from 28 January 2008 to 27 January 2018 to 28 January 2008 to 31 December 2011 by the approval of the Board on 31 December 2009.

As mentioned above, no share options was granted during the six months ended 30 June 2010. 10,000,000 share options granted on 13 July 2009 were vested during the period from 13 July 2009 to 31 December 2010 ("Option A"). The fair value of these share options recognised in the condensed consolidated income statement for the six months ended 30 June 2010 was approximately HK\$1,031,000. In respect of the 400,000 share options (see note (c)) vested with three-year vesting period from the date of grant ("Option B"), the fair value of these share options recognised in the condensed consolidated income statement for the six months ended 30 June 2010 was approximately HK\$26,000 (2009: HK\$25,000).





### SHARE OPTION SCHEME (continued)

The following assumptions were used to calculate the fair value of the Company's share options using the Binomial Option Pricing Model (the "Binomial Model"):

<b>Date at grant</b>	<b>13 July 2009 Option A</b>	<b>28 January 2008 Option B</b>
Closing price of the Company's shares at the grant date	HK\$0.68	HK\$0.80
Exercise price	HK\$0.68	HK\$0.864
Option life	10 years	10 years
Expected volatility	66.37%	66.37%
Dividend yield	1.47%	1.25%
Risk-free interest rate	2.372%	2.505%

Expected volatility of the Company was determined by using the historical volatility of the Company's share price and the share price of other companies in the similar industry, respectively.

The Binomial Model has been used to estimate the fair value of the Company's share options. The variables and assumptions used in computing its fair values are based on the best estimate of the Company's directors. The value of an option varies with different variables of certain subjective assumption.



## DISCLOSURE OF INFORMATION ON DIRECTORS

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

**Mr. Cao Zhong** resigned as the Chairman and executive Director and the chairman of nomination committee and vice-chairman of remuneration committee of the Company with effect from 10 May 2010.

**Mr. Li Shaofeng**, the managing Director, was appointed as Chairman and the chairman of nomination committee and vice-chairman of remuneration committee of the Company with effect from 10 May 2010.

With effect from 10 May 2010, Mr. Li was also appointed as the chairman and executive director of each of Shougang Technology, Shougang Grand, Global Digital Creations Holdings Limited, the managing director of Shougang International and the deputy general manager of China Shougang International Trade and Engineering Corporation and also re-designated as the deputy chairman and general manager of Shougang HK.

**Mr. Yang Kaiyu**, was appointed as an executive Director with effect from 10 May 2010. He was appointed as the deputy general manager of the Company on 15 July 2008 and re-designated as the deputy managing Director with effect from 10 May 2010. At present, he holds directorship in certain wholly owned subsidiaries of the Company. He holds a Bachelor Diploma in Engineering Mechanics from Shanghai Jiaotong University and a Master Degree in Industry Management and Engineering from The Katholieke Universiteit Leuven in Belgium. He also attended the General Management Development and Operation Management Programs organised by INSEAD, France and Creative Leadership Development Programme organized 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 since 1993. Other than the 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 Director, senior management or substantial Shareholders or controlling Shareholders.

Mr. Yang has entered into a service contract with the Company, which 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. Yang with the Company as he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company. Mr. Yang is entitled to have a monthly salary of HK\$165,000 which is determined with reference to the experience and duties of Mr. Yang as well as his individual performance.



## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code and the SCCHL Corporate Governance Code throughout the six months ended 30 June 2010, except for a deviation from code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the posts of chairman and managing director of the Company are not separate. In view of Mr. Li Shaofeng's extensive experience in the industry and deep understanding of the Group's businesses, vesting the roles of both chairman and managing director in Mr. Li allows for more effective planning and enhances efficiency in decision-making. This structure will not impair the balance of power and authority between the Board and the management.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

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



## **CODE ON CORPORATE GOVERNANCE PRACTICES (continued)**

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### **AUDIT COMMITTEE**

The Company's audit committee comprises of three independent non-executive Directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Chan Chung Chun. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and meeting with the external auditors. The Company has engaged the external auditors to assist the audit committee to review the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2010. During the meetings of the audit committee for the period under review, the audit committee members, amongst other things, had reviewed the accounting principles and practices adopted by the Group and discussed the financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2010.

### **APPRECIATION**

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We would like to express our gratitude to our Shareholders, investors and business partners for their continuous support. We would also like to thank all the staff of the Group for their contributions and commitment to the continuous success of the Group.

By order of the Board  
**Li Shaofeng**  
*Chairman and Managing Director*

Hong Kong, 26 August 2010

*This interim report can also be accessed through the internet at the Stock Exchange's website at <http://www.hkexnews.hk> and the Company's website at <http://www.shougangcentury.com.hk> under the "Investor Relations" or "Corporate News" sections.*



## DEFINITIONS

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

“Able Legend”	Able Legend Investments Limited, a subsidiary of Shougang HK
“Bekaert”	NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial shareholder of the Company
“Bekaert Holding”	Bekaert Holding B.V., a wholly owned subsidiary of Bekaert
“Board”	the board of Directors
“Casula”	Casula Investments Limited, a subsidiary of Shougang International
“Code”	the code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
“Company”/ “Shougang Century”	Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Copper and brass products”	processing and trading of copper and brass products
“Director(s)”	the director(s) of the Company
“Fair Union”	Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International
“Group”	the Company and its subsidiaries
“HKD/HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



## DEFINITIONS (continued)

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“Internal Control Manual”	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter
“JESC”	Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“Li Ka Shing Foundation”	Li Ka Shing Foundation Limited, a “charitable body” within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder (as defined under the SFO) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transaction 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 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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company



## DEFINITIONS (continued)

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“Shareholder(s)”	shareholder(s) of the Company
“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 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 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 cord for radial tyres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TESC”	Tengzhou Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“USD/US\$”	United States dollars, the lawful currency of the United States of America
“Xinyu Iron”	Xinyu Iron & Steel Co., Ltd. 新余鋼鐵股份有限公司, a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange
“%”	per cent.