SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

Annual Report 2017

CONTENTS

CORPORATE PROFILE

Shougang Concord Century Holdings Limited ("Shougang Century"; together with its subsidiaries, collectively the "Group") has been listed on the Stock Exchange since April 1992. Shougang Group Co., Ltd. (a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission) and its controlled corporations, Bekaert and Li Ka Shing Foundation are the substantial shareholders of Shougang Century.

The Group is primarily involved in the following activities:

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

CORPORATE'S GOAL

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Su Fanrong *(Chairman and Managing Director)*
Tang Cornor Kwok Kau *(Deputy Managing Director)*

Non-executive Directors

Leung Shun Sang, Tony
Liao Jun

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Tang Cornor Kwok Kau
Chan Lai Yee

COMPANY SECRETARY

Chan Lai Yee

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of China (Hong Kong) Limited
China CITIC Bank
China CITIC Bank International Limited
China Minsheng Banking Corp. Ltd.

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

INTERNAL AUDITOR

Moore Stephens Advisory Services Limited

SHARE REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

REGISTERED OFFICE

5th Floor,
Bank of East Asia Harbour View Centre,
51-57 Gloucester Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

http://www.shougangcentury.com.hk

WEBSITE FOR PUBLISHING LISTING RULES RELATED ANNOUNCEMENTS AND OTHER DOCUMENTS

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

HKEx STOCK CODE

103

LISTING DATE

9 April 1992

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	**%**
	HK$'000	HK$'000	**Change**
Operations			
Revenue	**2,113,258**	1,703,255	**+24.1**
Gross profit	**196,065**	215,414	**-9.0**
EBITDA (Note)	**104,096**	175,264	**-40.6**
(Loss) profit for the year	**(68,518)**	10,103	**N/A**
Basic (loss) earnings per Share (HK cents)	**(3.56)**	0.53	**N/A**

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

	At 31 December		
	2017	2016	**%**
	HK$'000	HK$'000	**Change**
Financial position			
Total assets	**3,444,076**	3,037,042	**+13.4**
Shareholders' equity	**1,391,528**	1,321,965	**+5.3**
Net asset value per Share (HK$)	**0.724**	0.687	**+5.3**

INFORMATION FOR INVESTORS

SHARE INFORMATION

Board lot size:	2,000 Shares
Shares outstanding as at the last trading day of 2017:	1,922,900,556 Shares
Market capitalisation as at the last trading day of 2017:	HK$473,033,537
Closing share price as at the last trading day of 2017:	HK$0.246

Basic earnings (loss) per Share for 2017:

Interim	:	HK1.27 cents
Final	:	(HK3.56 cents)

KEY DATE

2018 Annual General Meeting:	18 May 2018
Closure of Register of Members for 2018 Annual General Meeting:	14 to 18 May 2018
Announcement of 2017 Final Results:	22 March 2018

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

SHAREHOLDER ENQUIRIES

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

Tricor Tengis Limited

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

BUSINESS CONTACTS

Jiaxing Eastern Steel Cord Co., Ltd.

Address:	1 Dong Fang Road, Jiaxing Economic Development Zone Zhejiang Province, PRC
Postal code:	314003
Telephone:	(86) 573 8222 2790
Fax:	(86) 573 8221 3500
Website:	http://www.jesc.com.cn
E-mail address:	jesc@jesc.com.cn

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

東莞興銅五金有限公司

Address:	San Zhong Jinlong Industrial Zone, Qingxi, Dongguan Guangdong Province, PRC
Postal code:	523660
Telephone:	(86) 769 8709 1818
Fax:	(86) 769 8709 1810
Website:	http://www.dgxtong.com

首長寶佳(上海)管理有限公司

Address:	16F., Shartex Plaza, No. 88 Zunyi Nan Road Shanghai, PRC
Postal code:	200336
Telephone:	(86) 21 6291 8806
Fax:	(86) 21 6291 8805

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Su Fanrong, aged 50, joined the Group as a deputy general manager of the Company in January 2015 and was appointed as the executive deputy managing Director on 1 December 2015. Mr. Su has re-designated as the executive director and chairman of the Company and acted as the chairman and vice-chairman of the nomination committee and remuneration committee of the Company respectively since 18 January 2018, and he has been appointed as the managing Director on 31 January 2018. At present, he holds directorship in all wholly owned subsidiaries of the Company. He also acts as the deputy general manager of Shougang HK. He holds a Master degree in Business Administration from Missouri State University and Bachelor degree specialising in Pressure Processing from University of Science and Technology Beijing. He joined Shougang Corporation (now "Shougang Group Co., Ltd.") in 1990 and had been working in various companies under Shougang Group Co., Ltd. during the period from the same year to 2014. Mr. Su has over 25 years of sales and management experience in the steel industry.

Other than his directorship and position disclosed above, he does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. Su does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Su and the Company for a term commencing from 1 January 2018 and ending on 31 December 2020 to act as an executive deputy managing Director. Following his re-designation as a Chairman of the Company, Mr. Su entered into a service contract for a term commencing from 18 January 2018 and ending on 31 December 2020. The service contracts may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Su's monthly salaries is entitled to HK$150,000 at present under his service contract with the Company in order to show his accountability to the Shareholders. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Leung Shun Sang, Tony, aged 75, was appointed as a non-executive Director in 1995. He also serves as the vice-chairman of the nomination committee and a member of the remuneration committee of the Company. He is also a non-executive director of each of Shougang International, CWT International Limited (formerly known as "HNA Holding Group Company Limited"), Shougang Grand, Global Digital and Shougang Fushan. Mr. Leung holds a Bachelor Degree of Commerce from the Chinese University of Hong Kong and a Master Degree in Business Administration from New York State University. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

Other than his directorship disclosed above, he has not previously held any position with the Group and does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. Leung does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he beneficially owns 7,652,000 Shares within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Leung and the Company for a term of three years commencing from 1 January 2017. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will retire at the forthcoming annual general meeting which will be held on 18 May 2018 (the "AGM") but will not offer himself for re-election. After the conclusion of the AGM, he will cease to be the member and vice-chairman of nomination committee and the member of the remuneration committee of the Company. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$190,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Tang Cornor Kwok Kau, aged 57, Mr. Tang joined the Group in 1998 and was appointed as the deputy managing Director in March 2000. At present, he holds directorship in all wholly owned subsidiaries of the Company. Mr. Tang was an independent non-executive director of Loco Hong Kong from 22 July 2014 to 9 September 2016. He holds a Bachelor and a Master Degrees in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years' experience in corporate and investment banking.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Liao Jun, aged 55, was appointed a non-executive Director on 25 February 2015. Mr. Liao holds a Bachelor of Science and a Master of Science in Physical Metallurgy from Central South Mining and Metallurgy Institute and Central South University of Technology respectively in China. He further achieved his Doctor of Philosophy in Materials Science in College of Engineering, University of Michigan and Master of Business Administration in University of Michigan Ross School of Business Management.

Mr. Liao is currently the Senior Vice President of Bekaert, General Manager of rubber reinforcement North Asia in Bekaert group. Prior to joining Bekaert group, he had held various management positions of several reputable multinational corporations such as Dow Corning and Solvay. In all, Mr. Liao has over 15 years of experience in sales and management in industrial chemicals and polymers businesses.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Yip Kin Man, Raymond, aged 71, holds a Bachelor's Degree in Arts with honors from the University of Hong Kong. He was appointed as the independent non-executive Director in 1993. He also serves as the chairman of each of the audit committee and remuneration committee and a member of the nomination committee of the Company. Mr. Yip has also acted as the independent non-executive director of Shougang Grand since January 2007. On 27 January 2014, he was appointed as an independent non-executive director of BeijingWest Industries. Mr. Yip is a practising solicitor, notary public and China-Appointed Attesting Officer. He has extensive experience in legal profession. He will act as vice-chairman of nomination committee of the Company after the retirement of Mr. Leung Shun Sang, Tony, the non-executive Director at the conclusion of the annual general meeting to be held on 18 May 2018.

Other than the directorship disclosed above, Mr. Yip has not previously held any position with the Group, and is independent of and not connected with the Directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Yip and the Company for a term of three years commencing from 1 January 2017. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Law, Yui Lun, aged 55, Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He is also an associate member of each of the HKICPA and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants ("ACCA") of the United Kingdom. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in April 2005. On 1 November 2017, he was also appointed as the independent non-executive director of Zhi Cheng Holdings Limited. On 20 January 2017, he was appointed as the independent non-executive director of CBK Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange on 15 February 2017. At present, Mr. Law is a Certified Public Accountant (Practising) in Hong Kong with extensive professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management for over 30 years.

Other than the directorship disclosed above, Mr. Law has not previously held any position with the Group, and is independent of and not connected with the Directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. He does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Law and the Company for a term of three years commencing from 1 January 2017. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Lam Yiu Kin, aged 63, Mr. Lam is a fellow member of each of the ACCA, the Institute of Chartered Accountants in England & Wales (ICAEW), the Chartered Accountants of Australia and New Zealand (CAANZ) and HKICPA. He graduated from The Hong Kong Polytechnic University ("Polytechnic University") with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of Polytechnic University in 2002. Mr. Lam was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in August 2015. He is also an independent non-executive director of each of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Limited, Vital Mobile Holdings Limited, Spring Real Estate Investment Trust, Global Digital, COSCO SHIPPING Ports Limited, Nine Dragons Paper (Holdings) Limited, WWPKG Holdings Company Limited, CITIC Telecom International Holdings Limited, Mason Group Holdings Limited (formerly known as "Mason Financial Holdings Limited"), which he held directorship until 24 May 2017 and Royal Century Resources Holdings Limited, which he held directorship until 17 September 2015. On 18 October 2017, Mr. Lam has become the independent non-executive director of Bestway Global Holding Inc. which is listed on the Main Board of the Stock Exchange on 16 November 2017. Mr. Lam had taken the position of an adjunct professor in the School of Accounting and Finance of Polytechnic University until 31 August 2016. He was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a partner of PricewaterhouseCoopers from 1993 to 2013 and a member of the Finance Management Committee of the Hong Kong Management Association until 7 July 2016. In all, Mr. Lam has over 40 years of extensive experience in accounting, auditing and business consulting.

Other than his directorship disclosed above, he has not previously held any position with the Group, and is independent of and not connected with the directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. Save as disclosed above, he does not have any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he does not have any interest in the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Lam and the Company for a term commencing from 1 January 2018 and ending on 31 December 2020. However, he is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

MAIN OPERATIONAL STRUCTURE

As at 22 March 2018

Shougang Concord Century Holdings Limited
http://www.shougangcentury.com.hk

- **Manufacturing of Steel Cords for Radial Tyres**
  - 100% **Jiaxing Eastern Steel Cord Co., Ltd.** (Zhejiang, PRC) http://www.jesc.com.cn
  - 100% **Tengzhou Eastern Steel Cord Co., Ltd.** (Shandong, PRC) http://www.tesc.com.cn
- **Provision of Sales and Procurement Function in Mainland (for Steel Cord Segment) to the Group**
  - 100% 首長寶佳(上海)管理有限公司 (Shanghai, PRC)
- **Sales and Processing and Trading of Copper and Brass Products**
  - 100% 東莞興銅五金有限公司 (Dongguan, PRC)

CHAIRMAN'S STATEMENT

Dear Shareholders,

RESULTS FOR THE YEAR

On behalf of the Board, making my debut as the chairman of the Company and managing Director, I am pleased to present the audited final results of the Group for the year ended 31 December 2017.

With the benefit from the surge in demand for radial tires out of the flourishing trade in automobile and transportation sectors of the PRC and the adjustment to global sales strategy by the Group to cater for the demand for steel cords in overseas automobile markets, the Steel cord segment accomplished a solid growth in steel cord sales volume of 15.2% over the previous year.

Furthermore, due to the rebound in steel prices, the relief in overcapacity situation of steel cord industry, enrichment of our product portfolio and expansion of export during the year, we were able to raise selling price in a variety of aspects, notably improving our product income.

As a result, the revenue of the Group amounted to HK$2,113,258,000 (2016: HK$1,703,255,000), representing an increase of 24.1%.

However, with the upswing in raw material prices driven by the de-capacitation in the steel rod industry, the price of wire rod, being our principal raw material, the cost of sale of Steel cord segment rose drastically by 34.7% during the year, resulting from a drop of 8.4% in gross profit of this segment for the year.

Besides, the Group has recognised a full impairment of prepaid lease payments amounting to HK$72,523,000 as a result of possible forfeiture of land use rights of three parcels of idle land at the vicinity of our manufacturing plant at Tengzhou, Shandong for the year under review. However, this recognition of full impairment is one-off and non-cash in nature. We believe that this recognition would not have any material impact on the cash flow and operations of the Group.

As a consequence of decline in gross profit and the aforesaid recognition of impairment, the Group's profitability was substantially affected. The Group recorded a loss of HK$68,518,000 for the year, whereas the net asset value was HK$0.724 per Share at 31 December 2017, increased by 5.3% as compared to HK$0.687 at the end of 2016. The Group reported loss per Share of HK3.56 cents for the year when compared to earnings per Share of HK0.53 cents for the previous year.

CHAIRMAN'S STATEMENT

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017.

LOOKING AHEAD

Over the years, we have worked hard to improve upon the quality of our products while increasing our product capacity in line with our financial wherewithal. Looking forward, this will remain a key focus for us to strive for a successful "Eastern" brand recognition in the steel cord industry. By recognizing the operating environment constantly in flux, arising from the associated risks of a faster United States ("US") interest rate cycle, the fluctuation in RMB exchange rate, continuous consolidation within industries with over-capacity and the possible rise of protectionism, the management of the Company regularly examines and reviews the strategies of the Group holistically in order to ensure momentum for growth of the Group.

In conclusion, we will be all challenged in the business world. However, at Shougang Century, I am proud to be working diligently alongside with board members in leading the management team that strives on reaching the success and greatness of the Group. We look forward to delivering good results to our Shareholders and investors in the coming years.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt thanks to our stakeholders for their continuous trust and support. I also wish to extend my sincere gratitude to all the employees of Shougang Century for their contributions to the development of the Group. Last but not least, I would like to take this opportunity to thank Mr. Li Shaofeng, our former chairman for his great contribution over the past years to the Group.

By order of the Board

Su Fanrong
Chairman and Managing Director
Hong Kong
22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business model and strategy

Our mission is to be one of the top tier steel cord and wire products manufacturers in the PRC capable of consistently purveying premium quality steel cords and wire products; and the evolution into a diversified metal product manufacturer benefiting from a successful "Eastern" brand recognition in the PRC and worldwide markets. Further details in respect of the business model and strategy of the Company, please refer to the section "REPORT OF THE DIRECTORS" of this annual report.

Review of operations

During the year under review, the PRC recorded a stable economic growth of 6.9% driven by the strong growth in local consumption, export trade and property development. The sentiment of industrial sectors also remained positive during the year, as evidenced by the stable manufacturing purchasing managers index (PMI) and producer price index (PPI) throughout the year. These brought along the stable growth in the demand for radial tyres from the automobile and transportation sectors that boosted the growth in demand for steel cord. Compared with sales growth in previous years, the Steel cord segment continued to record solid growth in sales volume during the year under review, whereas raw material costs substantially increased due to de-capacitation in the wire rod industry, and the Group recognised a full impairment of prepaid lease payments amounting to HK$72,523,000 as a result of possible forfeiture of land use rights, details of which would be discussed under the section "*Impairment loss recognised in respect of prepaid lease payments*", this segment recorded a decrease in gross profit and increase of operation loss during the year under review.

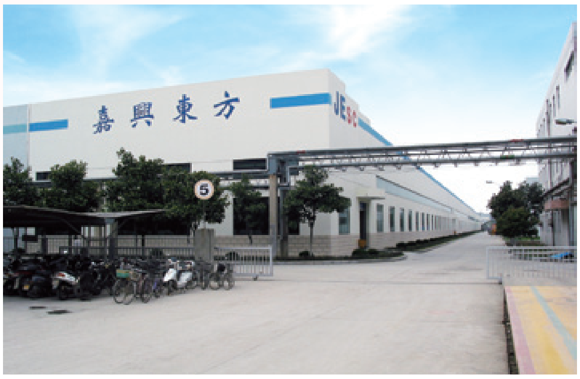
In respect of Copper and brass products segment, notwithstanding that average selling price had a moderate increase attributable to the double-digit increase in copper price, sale volume and revenue declined during the year in both PRC and Hong Kong. Management continued to adopt strict operating cost control, and this segment achieved slightly increase in operating profit from HK$1,990,000 in previous year to HK$2,127,000 during the year.

For the Group as a whole, attributable to the decrease in gross profit and recognition of impairment loss in respect of prepaid lease payments as mentioned above, the Group recorded profit of HK$10,103,000 in the previous year to loss of HK$68,518,000 for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Steel cord

Overall performance



The growth of the automobile industry in the PRC remained stable during the year under review. According to the information from China Association of Automobile Manufacturers, the production of new vehicles amounted to 29 million units in 2017, represented an annual growth of 3.2% over that of the previous year, as compared to a 14.5% growth in 2015/2016. During the year under review, the production volume of passenger cars increased by 1.6% over the previous year; whereas the production volume of commercial vehicles increased by 13.8% over the previous year. In addition, based on the information from the Tyre Branch of China Rubber Industry Association, the production of radial tyres amounted to approximately 613 million units in 2017, increased by 8.5% as compared to 565 million units produced in the previous year.

This segment achieved a solid growth in sales volume of steel cord of 15.2% over the previous year, which was driven by the increase in demand for radial tyres as mentioned above; and also reflected the result of our strategy to increase focus on large scale and multinational tyre manufacturers and the fine-tuning of sales mix to meet our customers' requirements flexibly. In respect of selling price, the average selling price of steel cord for the year recorded a moderate increase of 10% as compared to the previous year. The increase in sales volume and average selling price therefore contributed to the increase in revenue of this segment by 28.5% over the previous year.

Despite our two steel cord manufacturing plants kept other auxiliary production costs down from improved operating efficiencies and higher production volume, the total unit cost of production of steel cord increased substantially as compared to the previous year, which was the result of the substantial increase in raw material prices. On the other hand, the rise of raw material prices was driven from the de-capacitation in the wire rod industry in particular during the second half year resulted from notwithstanding the year-on-year increase in sales volume of steel cord of 15.2%, cost of sales of this segment for the year significantly increased by 34.7% over the previous year and gross profit of this segment decreased by 8.4% as compared to the previous year of HK$186,543,000 (2016: HK$203,587,000) for the year.

Due to the decrease in gross profit and the recognition of impairment loss in respect of prepaid lease payments which is illustrated under the section with heading "*Impairment loss recognised in respect of prepaid lease payments*" here below, this segment recorded decrease in EBITDA for the year. EBITDA amounted to HK$78,929,000 for the year, decreased by 66% as compared to HK$232,489,000 over the previous year.

In addition to the decrease in EBITDA, this segment recorded an operating loss of HK$47,106,000 for the year, as compared to an operating profit of HK$110,191,000 over the previous year.

Revenue

This segment sold 173,986 tonnes of steel cord during the year, which is an increase of 15.2% as compared to 150,990 tonnes for the previous year. In respect of other steel wire business, this segment sold an aggregate of 7,376 tonnes of wire products during the year, significantly increased by 69.9 times as compared to 104 tonnes for the previous year. The analysis of sales volume of this segment for the year is as follows:

	2017		2016		
	Sales volume (Tonne)	**% of total sales volume of steel cords**	Sales volume (Tonne)	% of total sales volume of steel cords	**% change**
Steel cords for					
– truck tyres	**116,327**	**66.9**	99,372	65.8	**+17.1**
– off the road truck tyres	**3,556**	**2.0**	3,324	2.2	**+7.0**
– passenger car tyres	**54,103**	**31.1**	48,294	32.0	**+12.0**
Total for steel cords	**173,986**	**100.0**	150,990	100.0	**+15.2**
Sawing wire products	**389**		491		**–20.8**
Other steel wires	**7,376**		104		**+6992.3**
Total	**181,751**		151,585		**+19.9**

The sales volume of steel cord for all aforesaid types of tyres recorded a solid growth. In respect of sale mix, there was no significant change during the year, the proportion of sales of steel cord for truck tyres accounted for 66.9% of the total sales volume of steel cord for the year, increased by 1.1 percentage points as compared to the previous year, it still amounted to the largest share of sales of steel cord of the Group for the year.

In respect of sales of steel cord by region, the volume of export sales of steel cord amounted to 33,892 tonnes for the year, increased by 42% as compared with 23,873 tonnes for the previous year. The volume of export sales represented 19.5% of total sales volume of steel cord for the year, increased by 3.7 percentage points as compared to 15.8% for the previous year. The breakdown of sales volume of steel cord for the year by geographical location is as follows:

	2017		2016		
	Sales volume (tonne)	**% of total sales volume of steel cords**	Sales volume (tonne)	% of total sales volume of steel cords	**% change**
PRC	**140,094**	**80.5**	127,117	84.2	**+10.2**
Export sales:					
Asia (other than PRC)	**17,589**	**10.1**	15,412	10.2	**+14.1**
EMEA (Europe, Middle East and Africa)	**10,938**	**6.3**	5,463	3.6	**+100.2**
North America	**2,024**	**1.2**	1,904	1.3	**+6.3**
Latin America	**3,341**	**1.9**	1,094	0.7	**+205.4**
Total export sales	**33,892**	**19.5**	23,873	15.8	**+42.0**
Total	**173,986**	**100.0**	150,990	100.0	**+15.2**

In respect of selling price, we were able to raise selling price practically across the board, due to the rebound in steel prices, the relief in overcapacity situation of steel cord industry together with the introduction of new products and expansion of exports during the year. As such, the average selling price of steel cords for the year increased by approximately 10% as compared to the previous year.

The sales volume growth of 15.2% in steel cord and the increase in average selling price of 10% caused the revenue of this segment increased by 28.5% over the previous year to HK$1,805,523,000 (2016: HK$1,405,483,000) for the year.

Cost of sales

Cost of sales of this segment increased substantially by 34.7% to HK$1,618,980,000 (2016: HK$1,201,897,000) for the year, which was driven by the significant corresponding increase of 15.2% in tonnage and the sharply rising price of major raw materials, wire rod.

The rising wire rod prices especially in the second half of the year resulted in the increase in costs of production of steel cord in the year and the average unit cost of production of steel cord increased by approximately 16% as compared to the previous year.

Gross profit

Despite revenue increased by 28.5% as compared with the previous year, gross profit of this segment recorded a decrease of 8.4% as compared to the previous year to HK$186,543,000 (2016: HK$203,587,000) for the year. The decrease was mainly attributable to the increase in cost of sales of 34.7% as compared to the previous year and therefore gross profit margin dropped from 14.5% in the previous year to 10.3% for the year.

Investment and other income

Investment and other income amounted to HK$3,585,000 for the year, increased by 2.4 times as compared to HK$1,050,000 for the previous year, mainly because of the amount of sales of scrap materials increased by 20 times over the previous year to HK$3,007,000 (2016: HK$143,000) for the year.

Allowance for bad and doubtful debts reversed, net and bad debts recovered

We continued to enhance credit control on sales and collection of trade receivables, and incessantly pursue on the collection of long overdue trade receivables since previous years. Bad debts of HK$1,700,000 was recovered and net allowance for bad and doubtful debts of HK$728,000 was reversed during the year, whilst bad debts of HK$508,000 was recovered and net allowance for bad and doubtful debts of HK$29,587,000 was reversed during the previous year.

Impairment loss recognised in respect of property, plant and equipment

Based on the impairment assessments of property, plant and equipment of both JESC and TESC, their recoverable amounts exceeded the carrying amounts as of 31 December 2017, we are of the view that no further impairment loss is required to be recognised in respect of property, plant and equipment of both JESC and TESC.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment loss recognised in respect of prepaid lease payments

TESC acquired the land use rights of three parcels of land situated at Tengzhou Economic Development Zone, Shangdong Province, PRC (the "Lands") through public auctions in 2010 and 2011. However, given the changes in the market of steel cord and strategic review of the expansion plan, TESC has yet to utilize the Lands since its acquisition, nor received the relevant land use right certificates. In late November 2017, TESC received a notice regarding the rescission of confirmation letter in respect of Successful Bidding of State-owned Land for Construction from Tengzhou Municipal State-owned Land Resources Bureau (the "Rescission Notice"). If the Rescission Notice is being carried out, TESC is required to surrender the Lands and forfeit the land use rights attached thereto. As at 31 December 2017, the aggregate carrying amount of the prepaid lease payments for the Lands amounted to approximately RMB60,623,000, equivalent to approximately HK$72,523,000.

Subsequently, TESC negotiated with the relevant Tengzhou government authorities with an aim to reach a consensus for TESC to continue utilizing the Lands to proceed with the construction plan in pursuit of obtaining the land use right certificates. In the process of obtaining the land use right certificates, TESC has been requested to pay compensation payments for attachments to land and green sprout during land acquisition, land deed tax and farmland occupancy tax (collectively referred to as the "Compensation and Tax Payments") regarding the Lands with an estimated aggregate amount of approximately RMB33,300,000 in early February 2018. As at the date of this report, the management is still seeking for a solution, including but not limited to, withdrawn of the Rescission Notice and a waiver of the Compensation and Tax Payments.

As the negotiations between the management and Tengzhou government authorities are still ongoing and there is no formal and concrete outcome in respect of the withdrawal of the Rescission Notice or the grant of waiver of the Compensation and Tax Payments, the Group has recognised a full impairment on the carrying amount of the prepaid lease payments for the Lands of HK$72,523,000 during the year under review.

Distribution and selling expenses

Distribution and selling expenses increased by 34.9% over the last year to HK$63,389,000 (2016: HK$46,986,000) for the year, as the total sales volume of this segment increased by 28.5% over the previous year.

Administrative expenses

Administrative expenses amounted to HK$35,478,000 for the year, increased by 7.8% as compared to HK$32,919,000 for the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

Research and development expenses amounted to HK$62,385,000 (2016: HK$47,998,000) for the year, increased by 30% over the previous year which is deemed linear to the revenue growth over the previous year.

Copper and brass products

Overall performance

The sale volume of this segment decreased by 21.9% as compared to the previous year while the revenue decreased by 4.1%. Management continued to adopt strict operating cost control, and this segment achieved an operating profit of HK$2,127,000 during the year, increased by 6.9% as compared to HK$1,990,000 for the previous year. In view of the lackluster demand and cost considerations, we had ceased our Hong Kong operation during the year and shifted the focus to Mainland China.

Revenue

This segment sold a total of 6,627 tonnes of copper and brass products during the year, decreased by 21.9% as compared to 8,482 tonnes for the previous year. Sales to customers in the PRC decreased year-on-year by 13.7%; and sales to customers in Hong Kong declined by 51.4% as compared to the previous year. The breakdown of sales volume of this segment for the year by geographical regions is as follows:

	2017		2016		
	Sales volume (Tonne)	**% of total sales volume**	Sales volume (Tonne)	% of total sales volume	**% change**
PRC	**5,733**	**86.5**	6,641	78.3	**–13.7**
Hong Kong	**894**	**13.5**	1,841	21.7	**–51.4**
Total	**6,627**	**100.0**	8,482	100.0	**–21.9**

Copper price increased during the year, in which the 3-month copper price as quoted by the London Metals Exchange recorded an increase of approximately 31% throughout the year. The average selling price of this segment for the year recorded a year-on-year increase of 22.7% as compared to the previous year. The contribution from increased sales price was fully offset by the decline in sale volume. Therefore, this segment recorded a decrease in revenue of 4.1% as compared to the previous year to HK$305,405,000 (2016: HK$318,434,000) for the year.

Gross profit

Attributable to the reduced sale volume and higher unit cost of sales, gross profit recorded a significant decrease of 27.6% over the previous year to HK$7,412,000 (2016: HK$10,238,000) for the year. Gross profit margin decreased by 0.8 percentage point from 3.2% of the previous year to 2.4% for the year.

Relationship with key customers and suppliers

The revenue from sales to top five customers of the Group accounted for 42.2% (2016: 43.4%) of total revenue of the Group for the year, while the revenue from sales to the largest customer accounted for 14.4% (2016: 13.4%) of the Group for the year.

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

The Group had concentration risk of reliance on major customers as the percentage of sales to top five customers accounted for 42.2% (2016: 43.4%) for the year. Any changes in the business operations, financial conditions or purchasing patterns of these customers that result to the termination of business with our Steel cord segment, may have material impact to the results of the Group. The management of the Group values the long term relationships with these customers. We will mitigate these risks by monitoring their respective financial position and purchasing pattern, and the delivery of high and persistent stable quality products and keeping pace with these customers' new products development through our ongoing research and development activities. We will also exert more efforts on development of new customers and/or ripening the product mix to other customers to reduce the reliance to these major customers. In addition, we will look for and/or develop any opportunity to diversify our business in related industry as shown in the discernible increase in sales volume of our wire products.

Regarding suppliers, the purchases from the Group's five largest suppliers accounted for approximately 47.1% (2016: 39.9%) of the total purchases of the Group for the year, while the purchases from the largest supplier accounted for 24.5% (2016: 13.8%) of the total purchases of the Group for the year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

The Group reported net loss of HK$68,518,000 for the year, as compared to the profit of HK$10,103,000 for the previous year. The key financial information which the management of the Group is of the opinion that can best measure the performance in respect of profitability, operating cashflow and financial position of the Group for the year is depicted as follows and key performance indicators are illustrated in "REPORT OF THE DIRECTORS" thereafter:

	2017	2016	
	HK$'000	HK$'000	**Change**
OPERATING PERFORMANCE			
Revenue	**2,113,258**	1,703,255	**+24.1%**
Gross profit margin (%)	**9.3**	12.6	**–3.3pp**
EBITDA	**104,096**	175,264	**–40.6%**
EBITDA margin (%)	**4.9**	10.3	**–5.4pp**
(Loss) profit for the year	**(68,518)**	10,103	**N/A**
Net (loss) profit margin (%)	**–3.2**	0.6	**–3.8pp**
Basic (loss) earnings per share (HK cents)	**(3.56)**	0.53	**N/A**

	At 31 December		
	2017	2016	
	HK$'000	HK$'000	**Change**
KEY FINANCIAL INFORMATION			
Total assets	**3,444,076**	3,037,042	**+13.4%**
Total liabilities	**2,052,548**	1,715,077	**+19.7%**
Equity attributable to equity holders of the Company	**1,391,528**	1,321,965	**+5.3%**
Net current assets	**300,480**	26,160	**+1048.6%**
Bank balances and cash (including pledged deposits)	**270,339**	308,355	**–12.3%**
Total interest bearing borrowings	**1,049,010**	1,133,763	**–7.5%**
Net interest bearing borrowings (Note)	**778,671**	825,408	**–5.7%**

Note: Net interest bearing borrowings represents total interest bearing borrowings less bank balances and cash (including pledged bank deposits).

The Group recorded EBITDA of HK$104,096,000 for the year, decreased by 40.6% as compared to HK$175,264,000 for the previous year.

Revenue

Revenue of the Group amounted to HK$2,113,258,000 (2016: HK$1,703,255,000) for the year, increased by 24.1% over the previous year. The breakdown of revenue of the Group for the year is as follows:

	2017		2016		
	HK$'000	**% of total revenue**	HK$'000	% of total revenue	**% change**
Steel cord	**1,805,523**	**85.4**	1,405,483	82.5	**+28.5**
Copper and brass products	**305,405**	**14.5**	318,434	18.7	**–4.1**
Sub-total	**2,110,928**	**99.9**	1,723,917	101.2	**+22.4**
Elimination of sales by Copper and brass products segment to Steel cord segment	**–**	**–**	(22,452)	(1.3)	**N/A**
Property rental	**2,330**	**0.1**	1,790	0.1	**+30.2**
Total	**2,113,258**	**100.0**	1,703,255	100.0	**+24.1**

Gross profit

Gross profit of the Group decreased by 9% over the previous year to HK$196,065,000 (2016: HK$215,414,000) for the year, which was mainly attributable to the substantial increase of raw material cost. The Group's gross profit margin also decreased by 3.3 percentage points over the previous year to 9.3% for the year. The breakdown of gross profit of the Group for the year is as follows:

	2017		2016		
	HK$'000	**Gross profit margin (%)**	HK$'000	Gross profit margin (%)	**% change**
Steel cord	**186,543**	**10.3**	203,587	14.5	**–8.4**
Copper and brass products	**7,412**	**2.4**	10,238	3.2	**–27.6**
Property rental	**2,110**	**90.6**	1,589	88.8	**+32.8**
Total	**196,065**	**9.3**	215,414	12.6	**–9.0**

Investment and other income

Investment and other income increased by 1.3 times over the last year to HK$3,817,000 (2016: HK$1,694,000) for the year, mainly because the amount of sales of scrap materials increased by 20 times over the previous year to HK$3,007,000 (2016: HK$143,000) for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains and losses

The Group recorded net loss of HK$22,873,000 on other gains and losses for the year, as compared to net gain of HK$4,491,000 for the previous year. The breakdown of other gains and losses for the year is as follows:

	Notes	**2017** **HK$'000**	2016 HK$'000	**% change**
Foreign exchange gain (losses), net	1	**24,158**	(27,528)	**N/A**
Changes in fair value of investment properties		**23,820**	2,890	**+724.2**
Reversal of allowance for bad and doubtful debts, net and bad debts recovered		**2,428**	29,439	**–91.8**
Impairment loss recognised in respect of prepaid lease payments	2	**(72,523)**	–	**+100.0**
Change in fair value of financial liabilities designated as at fair value through profit or loss	3	**(1,467)**	–	**+100.0**
Others		**711**	(310)	**N/A**
Total (loss) gain		**(22,873)**	4,491	**N/A**

Notes:

1. The exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") recorded an increase of approximately 7% against HKD over the year, against a decrease of 6.3% in the previous year. Attributable to the increase in the official RMB exchange rate during the year, the Group recorded foreign exchange gain on its HKD and USD denominated bank borrowings. Therefore, the Group reported foreign exchange gain of HK$24,158,000 (2016: foreign exchange loss of HK$27,528,000) during the year.

2. This represented impairment loss recognised in respect of prepaid lease payments in relation to TESC during the year, details of which is illustrated above under the heading "*Impairment loss recognised in respect of prepaid lease payments*".

3. Please refer to the section "**FOREIGN CURRENCY AND INTEREST RATE EXPOSURE**" for details.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution and selling expenses

Distribution and selling expenses amounted to HK$65,579,000 (2016: HK$49,877,000) for the year, increased by 31.5% over the previous year, as the sales revenue of Steel cord segment increased by 28.5%.

Administrative expenses

Administrative expenses amounted to HK$71,771,000 (2016: HK$71,899,000) for the year, decreased by 0.2% as compared to the previous year. As the revenue of the Group increased by 24.1% over the previous year, the ratio of administrative expenses to revenue therefore lowered from 4.2% in the previous year to 3.4% for the year.

Research and development expenses

Research and development expenses of the Group amounted to HK$62,385,000 (2016: HK$47,998,000) for the year, increased by 30% over the previous year. Such expenses were all incurred by Steel cord segment, which have been mentioned in "**Steel cord**" section above.

Segment results

Resulted from the decrease of gross profit and recognition of impairment loss in respect of prepaid lease payments, the Group recorded operating loss of HK$44,979,000 from its business segments for the year, as compared to operating profit of HK$112,181,000 for the previous year. The breakdown of the operating (loss) profit of the Group's business segments for the year is as follows:

	2017 **HK$'000**	2016 HK$'000	**%** **change**
Steel cord	**(47,106)**	110,191	**N/A**
Copper and brass products	**2,127**	1,990	**+6.9**
Total	**(44,979)**	112,181	**N/A**

Finance costs

Finance costs amounted to HK$52,487,000 for the year, increased by 14.4% as compared to HK$45,888,000 for the previous year. The increase was mainly attributable to the higher borrowing rates charged for the borrowings denominated in RMB as compared to those of the HKD and USD. The proportion of average interest bearing borrowings of the Group that are denominated in RMB increased from 39.2% for the previous year to 51.2% for the year.

Income tax credit

Income tax credit amounted to HK$6,695,000 for the year, increased by 60.7% as compared to HK$4,166,000 for the previous year. The increase was mainly attributable to a reversal of tax over-provision in prior years.

In respect of income tax rates, JESC has been recognised as a state-encouraged high-new technology enterprise in 2017 (2016: 2014) and thus entitled to a preferential tax rate of 15% in 2017, 2018 and 2019 (2016: 2014, 2015 and 2016). For the Company and subsidiaries operating in Hong Kong, they are subject to Hong Kong Profits Tax at a rate of 16.5% (2016: 16.5%) for the year. For subsidiaries operating in the PRC, pursuant to the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law (the "Implementation Regulation"), the subsidiaries operating in the PRC other than JESC are subject to a tax rate of 25% (2016: 25%) for the year.

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

Trade receivables

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK$708,075,000 at 31 December 2017, increased by 21.6% as compared to HK$582,291,000 at the end of 2016. The increase was in line with the revenue growth of 24.1% during the year. The amount of allowance for bad and doubtful debts increased by HK$613,000 mainly due to the appreciation of RMB exchange rate of approximately 7% over the year, the amount of allowance for bad and doubtful debts therefore increased from HK$19,129,000 at the end of 2016 to HK$19,742,000 at 31 December 2017.

The aged analysis of trade receivables (after allowance for bad and doubtful debts) of the Group as at 31 December 2017 and the comparison with the end of 2016 is as follows:

	31 December 2017		31 December 2016		
Age	**HK$'000**	**%**	HK$'000	%	**% change**
0 – 90 days	**535,777**	**77.8**	433,128	76.9	**+23.7**
91 – 180 days	**145,993**	**21.2**	115,298	20.5	**+26.6**
Over 180 days	**6,563**	**1.0**	14,736	2.6	**–55.5**
Total	**688,333**	**100.0**	563,162	100.0	**+22.2**

The overall quality of trade receivables had improved and was in manageable condition, as trade receivables aged within 180 days accounted for 99% of total trade receivables at 31 December 2017, increased by 1.6 percentage points as compared to 97.4% at the end of 2016. Further, the percentage of trade receivables which are past due but not impaired to total trade receivables decreased from 23.7% at the end of 2016 to 23.2% at 31 December 2017.

Regarding the balance of the allowance for bad and doubtful debts of HK$19,742,000 at 31 December 2017, they are mainly the receivables from sales of steel cord products, while we have doggedly pursued the recovery of these trade receivables, regrettably we consider that chances of a material recovery are scanty.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of the trade receivables at 31 December 2017, approximately 57.5% has been subsequently settled by cash or bills receivable up to 22 March 2018. The details of subsequent settlement of trade receivables of the Group and from top five customers for the year are as follows:

	Total trade receivables of the Group		Trade receivables from top five customers of the Group	
Age	Amount at 31 December 2017 HK$'000	% of subsequent settlement	Amount at 31 December 2017 HK$'000	% of subsequent settlement
0-90 days	535,777	49.5	233,930	55.9
91-180 days	145,993	86.9	96,771	86.0
Over 180 days	6,563	55.9	199	91.6
Total	688,333	57.5	330,900	64.7

TREASURY AND FUNDING POLICIES

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

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

SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

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

MANAGEMENT DISCUSSION AND ANALYSIS

There was no change in the total number of share capital of the Company during the year. The total number of issued share capital of the Company remained at 1,922,900,556 Shares at 31 December 2017. Net asset value of the Group was HK$1,391,528,000 at 31 December 2017, increased by 5.3% as compared to HK$1,321,965,000 at 31 December 2016. The increase in net asset value was attributable to the positive impact on appreciation of RMB exchange rate against HKD of approximately 7% throughout the year. Net asset value per Share was HK$0.724 at 31 December 2017, also increased by 5.3% as compared to HK$0.687 at 31 December 2016.

Cash flows

The Group generated net cash operating inflow of HK$110,247,000 for the year as follows:

	HK$'000
Net cash used in operating activities as per consolidated statement of cash flows	(155,678)
Add: Operating cash inflows not reflected in consolidated statement of cash flows (non-cash transactions):	
Bills receivable with full recourse that has been discounted to banks during the year	199,039
Bills receivable with full recourse that has been endorsed to creditors of the Group to settle payable for acquisition of property, plant and equipment during the year	66,886
Net operating cash inflow for the year	110,247

In respect of cash flows on other activities:

1. The Group incurred net cash outflow on investing activities of HK$53,542,000 during the year, in which HK$28,046,000 incurred mainly on the capital expenditures incurred by Steel cord segment; and

2. The Group recorded net cash inflow on financing activities of HK$90,959,000 during the year. When bank advances for discounted bills of HK$199,039,000 were excluded, the Group incurred net cash outflow of HK$108,080,000 on financing activities during the year, that represented net reduction of interest bearing borrowings during the year.

Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash (including pledged bank deposits) amounted to HK$270,339,000 at 31 December 2017, decreased by 12.3% as compared to HK$308,355,000 at 31 December 2016. Total interest bearing borrowings of the Group (comprised of loans from related companies and bank borrowings) were HK$1,049,010,000 at 31 December 2017, decreased by 7.5% as compared to HK$1,133,763,000 at 31 December 2016. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash (including pledged bank deposits)) therefore decreased from HK$825,408,000 at 31 December 2016 to HK$778,671,000 at 31 December 2017.

At 31 December 2017, HK$331,211,000 of these interest bearing borrowings were floating-rate borrowings, while HK$717,799,000 of interest bearing borrowings were collared at rates ranging from 4.77% to 6% per annum. The nature and maturing profile of the Group's interest bearing borrowings at 31 December 2017, based on contracted repayment schedules were as follows:

	HK$'000	% of total interest bearing borrowings
Due in 2018 or on demand:		
– Short term bank loans	465,361	44.3
– Bank advances for discounted bills	37,403	3.6
– Loans from related companies	228,754	21.8
Total due in 2018	731,518	69.7
Due in 2019 or after		
– Non-current bank loans	300,000	28.6
– Loan from a related company	22,170	2.1
Total	1,053,688	100.4
Unamortised loan arrangement fees	(4,678)	(0.4)
Total	1,049,010	100.0

The Group planned to service the interest bearing borrowings due in 2018 by cash flow generated from its operations and refinancing from banks.

Debt and liquidity ratios

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash (including pledged bank deposits) divided by Shareholders' equity) of the Group lowered from 62.4% at 31 December 2016 to 56% at 31 December 2017. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.18 times at 31 December 2017 as compared with to 1.02 times at 31 December 2016.

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

Both the Group's sources of revenue and purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimize the risk of significant mismatch between the sources of revenue with bank borrowings. The respective currency composition of the Group's bank balances and cash (including pledged bank deposits) and interest bearing borrowings are as follows:

Bank balances and cash (including pledged bank deposits)

	31 December 2017		31 December 2016	
	HK$'000	**% of total bank balances and cash (including pledged bank deposits)**	HK$'000	% of total bank balances and cash (including pledged bank deposits)
RMB	**155,644**	**57.6**	90,941	29.5
HKD	**58,396**	**21.6**	184,735	59.9
USD	**40,193**	**14.9**	26,733	8.7
Other currencies	**16,106**	**5.9**	5,946	1.9
Total	**270,339**	**100.0**	308,355	100.0

Interest bearing borrowings

	31 December 2017		31 December 2016	
	HK$'000	**% of interest bearing borrowings**	HK$'000	% of interest bearing borrowings
RMB	**553,031**	**52.7**	565,959	49.9
HKD	**495,979**	**47.3**	566,338	50.0
USD	**–**	**–**	1,466	0.1
Total	**1,049,010**	**100.0**	1,133,763	100.0

In respect of exposure to interest rate risk, even though the Group had HK$331,211,000 of interest bearing borrowings at 31 December 2017 that are at floating rates, the Group had not entered into any interest rate swaps to contain any upside risks on interest rate to the results and cash flows of the Group. While the interest rate of USD is expected to rise, we do not anticipate an aggregate level of magnitude arisen in 2018 that justifies the cost of entering a hedging mechanism.

During the year under review, the exchange rate of RMB has appreciated by approximately 7% against HKD. The appreciation of RMB exchange rate will have positive impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD and USD, and the Group has entered into derivative financial instruments to hedge against foreign currency risk. The Group has recorded losses of HK$1,467,000 from change in fair value of derivative financial instruments due to appreciation of RMB during the year. Furthermore, we will review and adjust, when necessary, the currency composition of our interest bearing borrowings from time to time to minimize our risks on exchange and interest rate in respect of our interest bearing borrowings. In any event, we would keep monitoring the currency and interest rate composition of the Group's interest bearing borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Capital expenditures incurred by the Group during the year amounted to HK$109,458,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in 2018 are estimated to be approximately HK$21,762,000, which are to be incurred by Steel cord segment mainly for enhancement of production efficiency of the two manufacturing plants. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

Further, the Steel cord segment will continue to invest in research and development expenses for development of new specifications of steel cord and wire products. The research and development expenses to be incurred in 2018 are estimated to be maintained at a similar level to the year under review, i.e. within the range of 3% to 4% of total revenue of Steel cord segment for the year 2018.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 31 December 2017, the Group had a total of 2,270 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to consolidated statement of profit or loss for the year amounted to approximately HK$24,227,000.

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

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

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

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

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

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities at 31 December 2017.

At 31 December 2017, the following assets had been pledged to the Group's bankers and a related company for banking facilities and bills payable issued and to secure loan from a related company granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK$215,187,000;

2. Plant and machinery with an aggregate amount of HK$100,004,000;

3. Bank deposit amounting to HK$59,780,000;

4. Pledged deposits on loan from a related company amounting to HK$8,374,000; and

5. Prepaid lease payments with an aggregate amount of HK$69,211,000.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

The management of the Company will seek further dialogue with the current counterpart of Zaozhuang Mining in the near future to clarify if the MOU is to be further extended or the proposal of capital injection and the strategic cooperation should cease.

The Company will comply with any applicable requirements prescribed by the Listing Rules and/or the Inside Information Provisions as and when appropriate and further announcement(s) will be made by the Company with respect to any material development as and when required.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

The risks associated with a faster United States ("US") interest rate normalization cycle, the fluctuation in RMB exchange rate, continuous consolidation within industries with over-capacity, and last but not least, the knock-on effect of the rise of protectionism triggered by the US administration are making the operating environment constantly in flux. On the other side of the globe, we believe that China will enjoy broader space for its economic development and investment given the launching of the "One-Belt-One-Road" initiative. However, we stay watchful on the price fluctuation of the commodities central to the cost of sales of our Steel cord and Copper and brass products segments. The RMB/USD exchange rate is expected to undulate further and together with increasingly stringent requirements on environmental protection, we expect the market climate in 2018 to be mercurial. In view of these macro-challenges, the Group has made personnel and capital investment plan changes at the beginning of the year with a "Quality over Quantity" focus and the following steps will continue to be implemented:

- Use our best endeavors to minimize costs, amass cash and restore profitability;
- Maintain its receivable collection effort;
- Monitor currency and interest rate fluctuations, and execute appropriate hedging measures to reduce our exposure; and
- Persistence in research and development.

CORPORATE GOVERNANCE REPORT

The Board is committed to practicing and achieving a high standard of corporate governance and also recognises that effective risk management and internal control systems are crucial to the long term development of the Company. In order to maintain sound and effective risk management and internal control systems, the Board periodically reviews the daily corporate governance practices and procedures of the Company and its subsidiaries and procures the Company and its subsidiaries to strictly comply with the relevant laws and regulations, and the rules and guidelines of regulatory bodies.

CORPORATE GOVERNANCE PRACTICES

The Company has made detailed disclosures in relation to the accounting period covered in this annual report in compliance with the requirements of Corporate Governance Report set out in the Code of Appendix 14 of the Listing Rules. Also, the Company has applied and complied with all the principles and code provisions of the Code throughout the year ended 31 December 2017, except for the deviation from code provisions A.1.1 and D.1.4 of the Code.

However, the code provision A.2.1, has been deviated after a change of directorship on 18 January 2018 and 31 January 2018, which the details are explained under the heading "**THE BOARD**" below.

DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Board has adopted a SCCHL Code on terms no less exacting than the required standard of the Model Code as the Company's code of conduct and rules governing dealing by all Directors and Specified Individuals in the securities of the Company. In order to keep the SCCHL Code in line with the changes brought upon by the relevant amendments to laws, rules and regulations, the Board will revise the SCCHL Code from time to time and the latest version which was revised on 17 December 2014 is an annexed to the Internal Control Manual. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and SCCHL Code for the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board currently consists of seven members, including two executive Directors (namely Messrs. Su Fanrong (chairman and managing Director) and Tang Cornor Kwok Kau (deputy managing Director)), two non-executive Directors (namely Messrs. Leung Shun Sang, Tony and Liao Jun) and three independent non-executive Directors (namely Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Lam Yiu Kin). The Directors' biographical details are set out on pages 7 to 13 under the heading "**BIOGRAPHICAL DETAILS OF DIRECTORS**".

The major duties of the Board are set out below:

- Develop business model and business goals of the Company;
- Formulate the strategies, planning and development of the Company;
- Set up objectives of management;
- Monitor the performance of management;
- Ensure that a framework of prudent and effective controls are in place to enable risks to be assessed and managed;
- Review and approve the Company's results and operations to be disclosed on a regular basis to the public; and
- Approve the Group's operating strategies, budget and strategies in collaboration with various jurisdictions enterprises, as well as other major investments, application of funds and other substantial exercises with other enterprises.

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Although two of the independent non-executive Directors, Messrs. Yip Kin Man, Raymond and Law, Yui Lun have been serving the Board for more than nine years, they have not engaged in any executive management of the Group and Mr. Yip's solicitors firm and Mr. Law Certified Public Accountant (Practising) have never provided any service to the Group. Their familiarity and extensive experience with the Company's business may place them in a better position to contribute independent views to the Company, and continue to demonstrate a firm commitment to their role.

Taking into consideration of their independent scope of works and their high integrity when performing duties as independent non-executive directors over the past years, there is no evidence that length of tenure is having an adverse impact on their independence. The Company therefore considers all of independent non-executive Directors (including Messrs. Yip and Law) are independent throughout the year under review. Furthermore, all Directors, including independent non-executive Directors, should be re-elected at least once every three years at the annual general meeting of the Company and the reasons the Board believes that the individual to be independent are set out in the relevant circulars. In addition to the above, to the best knowledge of the Directors, there is no financial, business, family or other material/relevant relationship among members of the Board.

Deviation from code provision A.1.1 of the Code

During the year under review, the Company held three regular board meetings instead of holding at least four regular board meetings a year as required under the code provision A.1.1 of the Code. However, the three regular board meetings had maintained a high attendance rate and active participation had been achieved by all Directors throughout the year. Further, the Directors consider it is more efficient to hold board meetings to address emerging or ad hoc issues as appropriate and sufficient measures have been taken to ensure there is efficient communication among the Directors.

Deviation from code provision D.1.4 of the Code

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

Note: Mr. Li Shaofeng and Mr. Yang Kaiyu had resigned as the chairman and the managing Director on 18 January 2018 and 31 January 2018 respectively, thereafter Mr. Su Fanrong had taken up the two roles altogether, therefore deviated from the code provision A.2.1 of the Code which stipulates that the roles of chairman and managing director should be separate and should not be performed by the same person. In consideration of Mr. Su Fanrong's extensive knowledge and experience in various aspects, in particular the management in the steel industry and sales area, the Board considers this present arrangement still enables the Company to make decisions promptly in the formulation and implementation of the Company's strategies in achieving corporate goals. Notwithstanding the deviation, the Board is of the view that there are sufficient checks and balances amongst the Board to reach decisions in the interests of the Company and its Shareholders as a whole. The Board will review the management structure from time to time and the need to separate the roles of the chairman of the Board and the managing director into two individuals.

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

Record of attendance of Directors at the meetings held during the year ("Attendance Record")

	Number of Meetings Attended and Held				
Name of Director	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meeting**	**Annual General Meeting**
Li Shaofeng*	3/3	N/A	2/2	1/1	1/1
Yang Kaiyu*	3/3	N/A	N/A	N/A	1/1
Su Fanrong	3/3	N/A	N/A	N/A	1/1
Leung Shun Sang, Tony	3/3	N/A	2/2	1/1	1/1
Tang Cornor Kwok Kau	3/3	5/5	N/A	N/A	1/1
Liao Jun	3/3	N/A	N/A	N/A	0/1
Yip Kin Man, Raymond	3/3	5/5	2/2	1/1	1/1
Law, Yui Lun	3/3	5/5	2/2	1/1	1/1
Lam Yiu Kin	3/3	5/5	2/2	1/1	1/1

* Mr. Li Shaofeng resigned as the executive Director and chairman of the Company on 18 January 2018 and Mr. Yang Kaiyu resigned as the executive Director and managing Director on 31 January 2018.

During the year, two risk assessment meetings were held to deal with risk management issues of the Group and a budget meeting was held to review the business performance of 2017 and planning of 2018 business by executive Directors and the management of the Group.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company will provide a comprehensive, formal and tailored induction package to each newly appointed Director to ensure that he/she is sufficiently aware of his/her duties, responsibilities and obligations as a Director under the Companies Ordinance, the Listing Rules and other regulatory requirement and ensure he/she has a proper understanding of the Company's operations and business. In compliance with the code provision A.6.5 of the Code during the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills. The Directors have attended programmes or seminar(s) organised by the Company, other qualified professional bodies and regulatory authorities. In particular, all Directors had actively participated in the Director Training Webcast launched by the Stock Exchange in the early 2017, which enhances their understanding on their duties and responsibility in the issuer as a director through real-life case studies.

Furthermore, in order to ensure that the contribution of all Directors to the Board remains informed and relevant, the functional departments of the Company have, from time to time provide Directors with relevant reading materials to keep them informed of the latest updates in the relevant industry and market and the latest changes on the legal and regulatory environment. The records of the training received by the respective Directors are kept and updated by the company secretarial department of the Company. Areas of their training activities provided by the Company are summarised as follows:

Name of Director	Accounting and legal professional trainings	Legal, Regulatory and corporate governance updates	Group's policies/ businesses	Director's roles, company secretary's roles, qualification, duties and functions	Other professional development programs	Risk management and internal control, ESG reporting
Li Shaofeng*	–	✓	✓	✓	–	✓
Yang Kaiyu*	–	✓	✓	✓	–	✓
Su Fanrong	–	✓	✓	✓	–	✓
Leung Shun Sang, Tony	–	✓	✓	✓	–	✓
Tang Cornor Kwok Kau	–	✓	✓	✓	–	✓
Liao Jun	–	✓	✓	✓	–	✓
Yip Kin Man, Raymond	✓	✓	✓	✓	✓	✓
Law, Yui Lun	✓	✓	✓	✓	✓	✓
Lam Yiu Kin	✓	✓	✓	✓	✓	✓

* Mr. Li Shaofeng resigned as the executive Director and chairman of the Company on 18 January 2018 and Mr. Yang Kaiyu resigned as the executive Director and managing Director on 31 January 2018.

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

CHAIRMAN AND MANAGING DIRECTOR

During the year under review, the roles of Chairman and managing Director were separate and performed by Mr. Li Shaofeng and Mr. Yang Kaiyu. The former Chairman, Mr. Li Shaofeng, was responsible for determination of the formulation of the overall strategies and policies of the Company, while the former managing Director, Mr. Yang Kaiyu, who was the chief operating decision maker, was authorised by the Board to execute policies of the Company and manage the day-to-day business operations of the Company in accordance with business model and goals set up by the Board and the guidance of the Internal Control Manual. He was also fully supported by the Board members and management.

Nevertheless, the roles of Chairman and managing Director were combined together following the resignation of Messrs. Li Shaofeng and Yang Kaiyu on 18 January 2018 and 31 January 2018 respectively and are solely performed by Mr. Su Fanrong, since 31 January 2018, and thus deviated from the Code Provision A.2.1 of the Code. Further details of such deviation has been set out in page 43 under the heading "**THE BOARD**" above.

NON-EXECUTIVE DIRECTORS

Non-executive Directors (including independent non-executive Directors) of the Company, except Messrs. Lam Yiu Kin and Liao Jun are appointed for a specific term of three years commencing from 1 January 2017; Mr. Lam Yiu Kin, who was appointed for a term commencing from 1 January 2017 and expiring on 31 December 2020 and Mr. Liao Jun (Non-executive Director), who was nominated by Bekaert group without any letter of appointment setting out the key terms and conditions of his appointment as Director with the Company. They are all subject to retirement by rotation and re-election at least every three years at annual general meeting in accordance with the Articles.

BOARD COMMITTEES

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

To comply with the Code in relation to the requirements of the establishment of internal audit function and appropriate and effective risk management and internal control systems, the Company reappointed Moore Stephens Advisory Services Limited as the internal auditor of the Company on 16 December 2016 and 1 January 2018 in relation to the provision of internal audit services to the Company throughout the accounting years of 2017 and 2018 respectively. The audit committee takes the responsibility to review the risk management and internal control systems, the effectiveness of the Company's risk management and internal audit function and its other duties under the Code.

No corporate governance committee has been established but respective board committees (as disclosed below) are responsible for performing corporate governance functions set out in the terms of reference in code provision D.3.1 of the Code.

Remuneration committee

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

Mr. Yip Kin Man, Raymond *(Chairman)*
Mr. Su Fanrong* *(Vice Chairman)*
Mr. Leung Shun Sang, Tony *(Non-executive Director)*
Mr. Law, Yui Lun *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*

* Mr. Su Fanrong was appointed as the chairman of the remuneration committee on 18 January 2018 and Mr. Li Shaofeng resigned from the same position on the same date.

and its terms of reference are summarised as follows:

i) to make recommendations to the Board on the Company's policy and structure for all Directors', and senior management's (if any) remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

ii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management (if any), including benefits in kind, pension rights, compensation payments (including any compensation payable for loss or termination of their office or appointment), or to make recommendations to the Board on the remuneration of non-executive Directors, and also to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

iii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

iv) to review and approve compensation payable to executive Directors and senior management (if any) for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

vi) to consider the annual performance bonus for executive Directors and senior management (if any), having regard to their achievements against the performance criteria, and make recommendation to the Board;

vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

viii) to exercise such other powers, authorities and discretion, and perform such other duties, of the Directors in relation to the remuneration as the Board may from time to time delegate to it, having regard to the Code.

During the year under review, two remuneration committee meetings were held and the works performed by the remuneration committee included: (i) the consideration and review of the performance-based remuneration of executive, non-executive and independent non-executive Directors; (ii) the review of the directors' fees of non-executive Directors (including independent non-executive Directors) (iii) the consideration of the renewal of service contracts of an executive Director and an independent non-executive Director; and (iv) the review of the terms of reference of remuneration committee. The emoluments of the Directors are decided by the remuneration committee, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition. The attendance record of the remuneration committee members at the meetings held during the year is set out in the "**Attendance Record**" on page 44 of this report.

The information in respect of emolument policy of the Group is set out in the relevant sections of the Report of the Directors and a separate report, 2017 Environmental, Social and Governance Report (the "2017 ESG Report").

Nomination committee

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

Mr. Su Fanrong* *(Chairman)*
Mr. Leung Shun Sang, Tony *(Vice Chairman)*
Mr. Yip Kin Man, Raymond *(Independent Non-executive Director)*
Mr. Law, Yui Lun *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*

* Mr. Su Fanrong was appointed as the chairman of the nomination committee on 18 January 2018 and Mr. Li Shaofeng resigned from the same position on the same date.

Terms of reference of nomination committee are summarised as follows:

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

ii) to identify and/or nominate and then select or make recommendation to the Board on the selection of qualified individuals for appointment as additional Directors or to fill Board vacancies as and when they arise with due regard for the benefits of diversity on the Board. Such appointment is subject to the approval of the Board;

iii) to make recommendations (taking into account the Company's corporate strategy and need of diversity in the future) to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

iv) to assess and review the independence of independent non-executive Directors annually;

v) to review the Board Diversity Policy concerning diversity of Board members, including any measurable objectives and progress on achieving those objectives, and make disclosure of the policy or a summary of the policy in the corporate governance report annually;

vi) for corporate governance issues, the nomination committee should (i) review and monitor the training and continuous professional development of Directors and senior management (if any); and (ii) develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Company's employees and Directors;

vii) the nomination committee shall make a statement or report to the Board after each meeting about its activities, the process used for appointments and explain if external advice has been used and disclose and publish in the annual report or other report as required subject to the Listing Rules which is amended from time to time; and

viii) to exercise such other powers, authorities and discretion, and perform such other duties, of the Directors in relation to the nomination as the Board may from time to time delegate to it, having regard to the Code.

During the year under review, a nomination committee meeting was held and the works performed by the nomination committee included (i) the review of the independence of independent non-executive Directors; (ii) the review of the Board Diversity Policy, the progress of achieving measurable objective for 2017 and determine new measurable objective for year 2018 and the timetable in relation thereto; (iii) the review of the 2017 training and continuous professional development of Directors; (iv) the consideration of renewal of the service contracts for an executive Director and an independent non-executive Director; and (v) the review of terms of reference of nomination committee.

The Board Diversity Policy has been adopted in compliance with code provision A.5.6 of the Code on 26 August 2013. Other than the elements of board diversity, in considering the nomination of new directors, the nomination committee members will also take into account the qualification, ability, working experience and professional ethics of the candidates, especially their experience in the business/industry of the Group and/or other professional areas. The nomination committee then put forward the recommendation in respect of the above factors, where appropriate, to the Board for consideration and adoption. The attendance record of the nomination committee members at the meetings during the year is set out in the "**Attendance Record**" on page 44 of this report.

The summary of Board Diversity Policy and its measurable objectives

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

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

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

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

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

The following are the measurable objectives in years 2017 and 2018:

Progress of Measurable Objective in 2017	Completion date of the goal
Sound recruitment methods, including removal of sexual orientation, age bias (through reading presentation materials or trainings).	Hong Kong 28 June 2017 China 5 July 2017

Measurable Objective in 2018	Timeline of the goal
Promote gender mainstreaming under a gender-sensitive approach for the enhancement of gender equality at workplace (through reading presentation materials or trainings).	Before the end of 2018

Audit Committee

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

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

Terms of reference of audit committee are summarised as follows:

Relationship with the Company's external auditor

i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

ii) to review and monitor the external auditor's independence and objectivity;

iii) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

iv) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally;

v) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

vi) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports (if applicable) before submission to the Board, the audit committee should focus particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

vii) in regard to (vi) above:

(a) members of the audit committee should liaise with the Board and senior management (if any);

(b) the audit committee must meet, at least twice a year, with the Company's external auditor;

(c) the audit committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer (if any) (or person occupying the same position), or external auditor;

Oversight of the Company's financial reporting system, risk management and internal control systems

viii) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;

ix) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function;

x) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

xi) to ensure co-ordination between the internal auditors (if any) or the professional firm performing internal audit function and external auditor and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

xii) to review and assess the annual internal audit plan of the Company;

xiii) to provide comments and recommendations on the enhancement of the risk management and internal control systems of the Group;

xiv) to meet with the internal auditor (if any) or the representative of the professional firm performing internal audit function, if required, to ensure that there are no unresolved issues or concerns relating to risk management and internal control function;

xv) to seek assurance from internal auditor or the professional firm performing internal audit function that internal control processes for risk management are in place for the strategy determined by the Board;

xvi) to review the content of the confirmation made by the management in relation to the effectiveness of the Group's risk management and internal control systems prior to submission to the Board;

xvii) to review the Group's financial and accounting policies and practices;

xviii) to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and the management's response;

xix) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

xx) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

xxi) to act as the key representative body for overseeing the Company's relations with the external auditor;

xxii) to report on all of the above matters in the code provisions of the Code to the Board;

xxiii) to consider any other matters specifically referred to the audit committee by the Board;

Corporate Governance Issues

xxiv) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board, and implement the corporate governance policies laid down by the Board;

xxv) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and

xxvi) to review the Company's compliance with the Code and related rules.

During the year under review, five audit committee meetings were held and the attendance record of the audit committee members at the meetings held during the year is set out in the "**Attendance Record**" on page 44 of this report.

The works performed by the audit committee included (i) discussion on and review of the half year and annual financial statements of the Group (including but not limited to financial and accounting policies and practices); (ii) meeting with the representatives of the professional firm performing internal audit function (the internal auditor) to discuss risk management process and the effectiveness of internal control system of the Group and make recommendations in relation thereto; (iii) review of the findings in respect of the internal audit service together with the recommendations to the Company; (iv) review of the internal audit plan prepared by the internal auditor; (v) review of the internal audit report on continuing connected transaction of the Group; (vi) meeting with external auditor in the absence of management to discuss any issue arising from the audit and the other matters the external auditor may raise; (vii) recommend the re-appointment of external auditor and review of the audit fees; (viii) respond to the external auditor their knowledge of any actual, suspected or alleged fraud affecting the Group; (ix) discuss matters in relation to the compliance of law, rules and regulations, and accounting policies and practice of the Group; and (x) review of the audit service plan prepared by the external auditor.

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

During the financial year of 2017, the audit committee members had made valuable and positive contribution, and delivered independent and informed comments for the formulation and implementation of the Company's operational strategies and policies. Apart from meeting with the internal auditor, the audit committee members had also reviewed certain areas of the risk management and internal control systems in accordance with the code of corporate governance and reviewed the risk assessment reports, required the management of the Group to confirm the effectiveness of risk management and internal control systems and advised them to pay attention to those areas associated with high risks and take relevant measures to further improve the risk management and internal control systems of the Group. The concerns raised and discussed in respect of risk assessment and internal control systems had also been put forward to the Board to consider whether the measures to mitigate those risks are effective and adequate during the year under review.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining, reviewing and monitoring risk management and internal control systems of the Company and to ensure their effectiveness. We believe effective risk management and internal control systems are essential for the success of the operation of business and good corporate governance. The Internal Control Manual, which sets out the guidelines for the operation of the internal control system and risk management system, had been adopted by the Company since 1999. These systems cover all main aspects, including financial, operational, compliance control and risk management. In order to align with the amendments made to relevant laws, rules and regulations, and further improve the risk management and internal control systems, the Board is responsible to review and improve the systems from time to time, if necessary.

In fact, the Board has set out five objectives for the management to achieve, details are as below:

1. Maximise profitability by increasing the profit margin of each of the business segments and at the same time minimize the production costs

2. Maintain a strong cash flow position of the Group

3. Enhance product quality

4. Attract new customers and develop markets for each of the business segments

5. Full compliance with laws, rules and regulations and financial reporting requirement

Hence, a risk assessment on the existing or potential risks that may affect the achievement of the above objectives would be conducted from time to time, at least twice a year by the management during the course of business operation and management.

The framework of the risk management and internal control systems of the Group:

Establish risk context → Identify risks → Assess risks → Monitor risks

The Board

- Evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's objectives
- Maintain an appropriate and effective risk management and internal control systems of the Company
- Delegate the responsibility to the management to design, implement and assess the risk management and internal control systems of the Group
- Delegate the responsibility to the audit committee to review and oversee the effectiveness of the risk management and internal control systems of the Group

Audit Committee

- Perform the duties delegated by the Board, that is, review and oversee the effectiveness of the risk management and internal control systems of the Group
- Discuss with the internal auditor the major findings in respect of internal audit services and review the annual internal audit plan
- Review the confirmation from the management of the Group and the comments and recommendations from the internal auditor in relation to the effectiveness of the Group's risk management and internal control systems prior to submission to the Board

Internal Auditor

- Perform internal control services for the Group
- Deliver internal audit reports to the audit committee and the Board
- Meet with the audit committee members to discuss the major findings and make recommendations to improve the risk management and internal control systems of the Group

Heads of core business units/ departments

- Assess the risk level based on potential impact and likelihood of risks in different aspects at least semi-annually
- Identify the material risks and discuss measures to mitigate risks
- Give a confirmation annually on the effectiveness of the risk management and internal control systems of its business unit/department and submit it to the audit committee

Process to identify, evaluate and manage significant risks

Two risk assessment meetings were held during the year, at approximately half year intervals. The heads of the core business units/departments of the Company and/or its subsidiaries assessed the risk level based on potential impact and likelihood of risks in different aspects including business risk, financial risk, compliance risk and operational and other risk that may be exposed to. They fill out the risk assessment form which was devised with reference to the guidance entitled “Internal Control and Risk Management – A Basic Framework” issued by Hong Kong Institute of Certified Public Accountants before the meetings were held. The Board members (mainly the executive Directors) together with the management of the core business units/departments of the Company and/or its subsidiaries participated in the risk assessment meetings. The meetings aimed to identify the material risks and to discuss the measures to manage risks. Besides, the status and effectiveness on implementation of internal control measures taken after the last risk assessment meeting would be followed up in the risk assessment meetings.

In fact, the Company had incorporated the recommendations from the internal auditor to maintain an effective and adequate risk management and internal control systems of the Company, and introduced a new risk level assessment method and the quantitative elements which had been applied since 2017. The risk level calculation matrix is newly introduced which the level of likelihood of a particular risk is multiplied by the level of impact in assessing risk tolerance level. If the risk tolerance level is considered to be moderate or higher, the quantitative elements, for instance, the expected financial loss has to be filled out and further action is required to monitor the risk. In addition, the risk assessment form has been further revised by the Group in the second half of 2017 by introducing more quantitative elements on the impact on the cost/expenses/losses on the respective risks and adopting a new calculation method for finding out the cost/expenses/losses impact level in order to compare the changes in the estimated cost/expenses incurred with those in the last corresponding period. These amendments enable us to streamline the assessment method and make it more understandable for the management to assess and quantify the impact of the risks.

Subject to the Code and terms of reference of the audit committee of the Company, the management of each core business unit/department of the Group will provide the internal auditor with their written confirmation annually in relation to the effectiveness and adequacy of their risk management and internal control systems for further review, comment and recommendation and thereafter the audit committee will review the same prior to submission to the Board. The internal auditor will base on the nature and extent of the risks of each individual core business unit/department to perform further review and recommendation.

In addition to the above assessment process, the management report and discuss in the monthly meeting and weekly capital management meeting on the existing risk and potential risks of business operation and allocation of funds and cash flow positions of the Group has to face and monitor respectively.

The Company has respectively engaged and reappointed Moore Stephens Advisory Services Limited, as the internal auditor of the Company on 16 December 2016 and 1 January 2018 in relation to the provision of internal audit services to the Company throughout the years of 2017 and 2018. During the year, the internal auditor had met with the audit committee to (i) discuss and provide recommendations on improving the risk assessment process of the Group; (ii) to discuss the major findings in respect of internal audit services with the audit committee and provided recommendations for improvement on internal control; (iii) to deliver the audit committee the internal audit reports regarding the main risk areas of the business segments of the Group and internal audit plan in relation thereto; and (iv) to consider and review the control procedures regarding the continuing connected transaction entered into by the Company. Apart from taking part in advising the maintenance of an effective and adequate risk management and internal control systems of the Company, they also reviewed and monitored the internal operation of the Group through the testing and controls performed after arranging site visits of the two steel cord plants.

On 12 March 2018, all relevant confirmations from the management on the effectiveness and adequacy of the Company's risk management and internal controls systems had been received. The audit committee members reviewed the content of the confirmations and submitted the same to the Board. The Board had reviewed and confirmed the effectiveness and adequacy of the Group's risk management and internal control systems at the Board meeting.

In view of the foregoing, the Board had duly ensured the review of the effectiveness and adequacy of the risk management and internal control systems of the Group was conducted at least annually and the Board therefore considered that the risk management and internal control systems of the Group were effective and adequate throughout the year of 2017. However, there is room for improvement in certain areas, for instance, the measures of managing liquidity risk.

Procedures for handling and dissemination of inside information

The Company complied with the Listing Rules, SFO and other regulatory requirements regarding the handling and dissemination of inside information. Directors and senior management of the Company oblige to take all reasonable measures to ensure that proper safeguards exist to prevent the Company from breaching the statutory disclosure requirement. Directors and senior management of the Company follow the guidelines stipulated in Continuous Disclosure Obligation Policy of the Company which has been adopted by the Board on 28 March 2011 and the revised version was and approved by Board on 28 January 2013. Some principles of dissemination of inside information of the Company were stated in the said policy, details are as follows:

The heads of business units/individual departments identify and assess whether a potential event or transaction may constitute inside information. If that is the case the potential event or transaction should be reported to the senior management/managing Director of the Company, through the Company Secretarial Department. The Board will consider whether the information may constitute inside information and whether disclosure and/or trading halt would be required. If this constitutes inside information, company secretarial department of the Company would have to make a request of a trading halt, prepare and publish an announcement after approval by the Board.

Below flow chart illustrates the internal control and reporting system of the Company relating to inside information:–

Heads of Business units/ individual departments to identify and assess whether potential event or development may constitute inside information

↓ If yes, report to **senior management/managing Director** (the usual channel is through **company secretary** of the Company)

Responsible **senior management** to consider with **managing Director** to consider whether the information may constitute inside information with the assistance of the **company secretary.**

↓ If yes, report to the **Board** with supporting documents through the channel of **company secretarial department** of the Company. The **company secretarial department** of the Company to consider potential disclosure implications (with assistance of legal counsel if appropriate) and arrange for collating and circulation of relevant information to **Board** for consideration.

The **Board** to consider whether the information may constitute inside information and whether disclosure and/or request of trading halt would be required

↓ If yes, the **company secretarial department** of the Company would arrange for making a request of trading halt, prepare and publish an announcement.

Trading halt is made and announcement is published on the websites of the Company and the Stock Exchange after obtaining the approval from the **Board**

Directors or employees of the Group in possession of the inside information must maintain strict confidentiality of unpublished inside information until it is announced and ensure this is the strictest security of the information is observed within the Company and its advisers and if the necessary degree of confidentiality cannot be maintained, an announcement shall be made as soon as reasonably practicable; or if inside information has been advertently divulged, an announcement shall be issued immediately so as to disseminate such information to the market as a whole.

The Board monitors the inside information disclosure having regard to the SFO and Listing Rules requirements and the Company ensure that the dissemination of inside information to the Shareholders and other stakeholders is dealt fairly in order to avoid any person having a privileged dealing position.

AUDITORS' REMUNERATION

During the year ended 31 December 2017, the fees paid/payable to the external auditors in respect of their audit and non-audit services to the Group were as follows:

The fees charged by the external auditor of the Company, Deloitte Touche Tohmatsu amounted to HK$1,495,000 for audit services for audit of annual financial statements and HK$428,000 for non-audit services comprising fees for review of interim financial statements.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

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

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

The Board recognises the importance of effective communication with Shareholders. In order to maintain an ongoing dialogue with Shareholders, the Company has opportunities to directly communicate with Shareholders at various annual general meetings and other general meetings where Shareholders are encouraged to actively attend. In addition, the chairman of the Board and the chairman of each of remuneration committee, nomination committee and audit committee were present to answer any Shareholder's questions at the 2017 annual general meeting (the "2017 AGM"). The external auditor had also attended the 2017 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

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

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

The request:–

(a) must state the general nature of the business to be dealt with at the GM;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the GM;

(c) may be deposited at the registered office of the Company at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of Company Secretary in hard copy form or in electronic form by email to ir@shougangcentury.com.hk;

(d) may consist of several documents in like form;

(e) must be authenticated by the person or persons making it; and

(f) must be verified with the share registrar of the Company, and upon the share registrar's confirmation that the request is proper and in order, the company secretary of the Company will notify the Board to convene a GM by serving proper notice in accordance with the statutory requirements to all the registered members/shareholders of the Company. On the contrary, if the request has been verified as not in order, the requesting members/shareholders will be informed of this outcome and accordingly, a GM will not be convened as requested.

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

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

(a) by post at the registered office of the Company situated at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of the Company Secretary; or

(b) by email to ir@shougangcentury.com.hk for the attention of our Investor Relations section; or

(c) by filling out the sign up form on the Company's website if they would like to be kept up-to-date on the latest information of the Company.

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

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

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

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

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

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

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

(b) at least 50 members/shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The request:–

(a) must be sent to the registered office of the Company at 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong for the attention of the company secretary in hard copy form or in electronic form to ir@shougangcentury.com.hk;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than (i) 6 weeks before the AGM to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

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

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

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

Shareholders' power to request circulation of statement

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

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

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

INVESTOR RELATIONS

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

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

During the year, the 2017 AGM was held on 26 May 2017 to approve ordinary and special businesses of annual general meeting. The resolutions of 2017 AGM were duly passed by way of poll.

During the year ended 31 December 2017, there was no significant change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 40 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the financial statements on pages 99 to 193.

BUSINESS REVIEW

Business model and strategy

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

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

Review of operations

For the Group as a whole, attributable to the decrease in gross profit and recognition of impairment loss in respect of prepaid lease payments of HK$72,523,000, the Group recorded profit of HK$10,103,000 in the previous year to loss of HK$68,518,000 for the year. Further details in respect of the fair review of the Group's businesses, please refer to the sections "**CHAIRMAN'S STATEMENT**" and "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's businesses, results of operations and financial position may be affected by risks and uncertainties relating to the Group's businesses. These risks and uncertainties could result in the Group's businesses, results of operations and financial position to defer materially from expected or historical results. The risks and uncertainties set out below are known to the Group during the year under review:

Risks and uncertainties relating to the Group's business operations

1. As the majority of sales of steel cords of the Group are domestic, the business and prospect of Steel cord segment is therefore highly dependent on the economic performance of the PRC, in particular, the performance of automotive and transportation industries and those that involve high volume of road transportation for commercial and industrial purposes, such as property development and import/export. Therefore, any downturn in the economy of the PRC may cause lower demand for steel cords and hence may have material adverse impact to the operations of Steel cord segment.

2. The average selling price of steel cords increased during the year under review, attributable to the relief in over capacity situation of steel cord industry together with the introduction of new products and expansion of exports. The selling price of steel cords is highly dependent on the supply and demand situation in the PRC as well as the price of its major material – steel wire rod; therefore, any change in these two factors will have material impact to the Steel cord segment.

3. The copper products sold by Copper and brass products segment are mainly used in industries and consumer products. The revenue of this segment is highly susceptible to changes in global economic and financial conditions and purchasing power, which will have significant impact to the business of this segment.

4. The selling price of the products sold by Copper and brass products segment are determined with reference to prevailing international copper price, which is beyond the control of the Group. Any significant change to the copper price will have palpable impact to the revenue of this segment.

5. The revenue from sales to top five customers of the Group accounted for 42.2% of total revenue of the Group for the year under review. Any change to the business operations, financial conditions or purchasing patterns of these customers may have adverse impact to the revenue of the Group.

The measures to manage the impact on these potential risks and uncertainties are described in the heading "**BUSINESS REVIEW**" of the section of the "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risks and uncertainties relating to the Group's results and financial position

1. The following factors may have negative impact on the revenue and net results of the Group:

    a. Change in the mix of revenue contributions, such as the income of Steel cord segment from sales of steel cord for truck tyres, off the road truck tyres and passenger car tyres;

    b. Unfavorable economic development in the PRC and worldwide markets that may have negative impact on our Steel cord and Copper and brass products segments;

    c. Increased market and price competition for both Steel cord and Copper and brass products segments; and

    d. Failure to reduce production and operating costs, in particular, certain unit fixed production costs of Steel cord segment can be lowered by increase in sales and production volume.

2. The Group had HK$331,211,000 (approximately 31.6%) of interest bearing borrowings at 31 December 2017 that are at floating rates, therefore the Group's finance costs and interest expenses in respect of these borrowings will fluctuate with changes in interest rates. The Group's borrowings in Hong Kong are denominated in HKD, and bear interest rate at a margin above Hong Kong interbank offered rates. In respect of the Group's borrowings in RMB, the interest rates are mainly determined by the benchmark lending rates of the People's Bank of China ("PBOC"). Any increase in these benchmark interest rates in the future will increase the interest expenses of the Group. In addition to the changes in these benchmark lending rates which will not only affect the Group's borrowings, but the margin on costs of borrowings of the Group will also be affected by changes in availability of funding and prevailing interest rate of the credit market. Any change in the interest rate in connection with the currencies the Group borrows will increase the Group's finance costs, and therefore will have adverse impact to the results of operations and financial position of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risks and uncertainties relating to the Group's results and financial position (continued)

3. The majority of the revenue of the Group is denominated in RMB, while approximately 47.3% of the interest bearing borrowings of the Group at 31 December 2017 was in HKD. Attributable to the appreciation of the exchange rate of RMB by approximately 7% (2016: depreciation of approximately 6.3%) against HKD during the year under review, the Group incurred foreign exchange gain of HK$24,158,000 (2016: foreign exchange loss of HK$27,528,000) for the year. Hence, any movement of the exchange rate of RMB will have material impact to the results of operations of the Group. Furthermore, the results and financial position of the Group are denominated in RMB but presented in HKD for reporting purposes, therefore, the movement of the exchange rate of RMB will have impact to the financial position of the Group when translating the Group's results and financial position into HKD.

4. The Group is required to conduct an impairment assessment on its property, plant and equipment on a regular basis in accordance with the Hong Kong Financial Reporting Standards. Any future impairment loss to be recognised or reversed depends on various factors including the general economic and financial conditions, market competitions, prevailing product selling price and market interest rates. Such impairment loss to be recognised or reversed will have material impact to the results of the Group, however, it is a non-cash item and therefore will not affect the future business operations and financial conditions of the Group.

5. The Group utilized a certain extent of borrowings to finance its operations. As at 31 December 2017, the gearing ratio of the Group was 56%, and the percentage of borrowings due within one year accounted for 69.7% of total borrowings of the Group, therefore the Group will be exposed to the liquidity risks of inability of repaying these borrowings when due. The Group is expected to service the debt repayments due in 2018 by utilizing cash generated from its operations and refinancing from banks, with an objective to gradually reduce the amount of interest bearing borrowings of the Group. However, the Group's ability to generate sufficient cash to service its outstanding debts and obligations will depend on the operating performance of its various business segments in the future, which will be affected by factors such as the prevailing economic and liquidity conditions, the demand of its products and prevailing selling prices. Whether the Group can refinance its borrowings also depends on a number of factors, including the operating performance and financial conditions of the Group, the prevailing economic conditions, the prevailing credit policy of respective lender and the liquidity of the financial markets. If the Group is unable to service any of its borrowings due in 2018, this may result in a default and will have significant adverse impact to the financial position of the Group as the Group will be requested to repay full or part of its outstanding borrowings on an accelerated basis. The management of the Company is seeking for various banks refinancing to mitigate these potential risks.

REPORT OF THE DIRECTORS

FINANCIAL KEY PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the years ended 31 December 2017 and 2016 are summarised as follows:

		2017	2016	**Change**
1.	Current ratio (times)	**1.18**	1.02	**N/A**
2.	Liquid ratio (times)	**1.00**	0.87	**N/A**
3.	Gearing ratio (%)	**56.0**	62.4	**-6.4pp**
4.	Average turnover period on trade receivables (days)	**94**	95	**-1**
5.	Percentage of past due trade receivables (%)	**23.2**	23.7	**-0.5pp**
6.	Average turnover period on inventories (days)	**51**	58	**-7**
7.	Average turnover period on trade payables (days)	**94**	81	**+13**
8.	Steel cord production capacity utilisation ratio (%)	**94.0**	86.3	**+7.7pp**

Current ratio

Current ratio (calculated as current assets divided by current liabilities) of the Group was 1.18 times at 31 December 2017, higher than 1.02 times at 31 December 2016.

Liquid ratio

Liquid ratio (calculated as current assets less inventories divided by current liabilities) of the Group was 1 time at 31 December 2017, higher than 0.87 time at 31 December 2016.

Gearing ratio

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash (included pledged bank deposits) divided by Shareholders' equity) of the Group lowered from 62.4% at 31 December 2016 to 56% at 31 December 2017, as the Group endeavored to reduce its level of net borrowings during the year.

Average turnover period of trade receivables

Average turnover period on trade receivables (calculated as average trade receivables for the year (exclusive of value-added tax in respect of sales in the PRC) divided by gross revenue times 365 days) was 94 days for the year, shorter by 1 day as compared to 95 days for the previous year.

FINANCIAL KEY PERFORMANCE INDICATORS (continued)

Percentage of past due trade receivables

The percentage of past due trade receivables (calculated as the amount of past due trade receivables divided by total amount of trade receivables) was 23.2% at 31 December 2017, decreased by 0.5 percentage points as compared to 23.7% at 31 December 2016.

Average turnover period on inventories

Average turnover period on inventories (calculated as average amount of inventories for the year divided by cost of sales times 365 days) was 51 days for the year, shorter by 7 days as compared to 58 days for the previous year, reflected the results of our efforts to reduce the level of inventories during the year.

Average turnover period on trade payables

Average turnover period on trade payables (calculated as average trade payables for the year divided by cost of sales (inclusive of value-added tax in respect of cost of sales in the PRC) times 365 days) was 94 days for the year, which was 13 days longer as compared to 81 days for the previous year, as we obtained longer credit period from certain suppliers of the Group during the year.

Steel cord production capacity utilization ratio

As the sales volume of steel cords recorded an year-on-year growth of 15.2% to 173,986 tonnes for the year, therefore the capacity utilization ratio in respect of Steel cord segment (calculated as total sales volume of steel cords for the year divided by total production capacity of steel cords of 185,000 tonnes per annum) increased from 86.3% in the previous year to 94% for the year.

Further details regarding the above and other financial information, please refer to the section "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report. Key performance indicators mean factors by reference to which the development, performance or position of the business of the Group can be measured effectively which we can use to monitor progress against out strategies while figures reporting under accounting standards could not serve such purpose.

FUTURE DEVELOPMENT OF THE COMPANY'S BUSINESS

In the view that uncertainty is one of the main challenges facing by the Chinese economy, the performance of the steel cord industry might be affected unless a strong cash flow is maintained as well as cost saving and risk mitigation measures are implemented in order. Details of future development of the Company's business, please refer to the sections "**CHAIRMAN'S STATEMENT**" and "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of the environment and community in which it engages by controlling and minimizing the generation of wastes, waste gases emissions and sewage discharges, and at the same time, complies with the applicable environmental laws, rules and regulations on the prevention and control of wastage, waste gases emissions and sewage discharges in Hong Kong and PRC during the production process.

In order to attach the importance to environmental protection, the Group has formally adopted an Environmental Policy (the"Policy") on 27 November 2017, which has already been implemented all along as part of the Internal Control Manual. The underlying principle of the Policy is to reduce, reuse and recycle resources used in the production lines and offices so as to mitigate wastes and use energy and resources effectively. Various measures have been implemented within the Group and are monitored from time to time, for example, measures on effective energy conservation to reduce the use of energy, water and other resources; measures on managing the reduction of waste and reduction of greenhouse gas emissions, had been taken and complied with since 2015. Detailed discussion on the environmental policies and performance of the Group is set out in the 2017 Environmental, Social and Governance ("ESG") Report.

In addition to the above measures, further trainings are provided to Directors and employees to emphasize the importance of environmental protection and to promote occupational health and safety in offices and production lines. These measures and trainings taken and provided by the Group in supporting the Policy are based on the needs and actual circumstances of the Group and would be reviewed by the management annually.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to comply with the laws and regulations in which it operates its businesses. During the year under review, there was no material breach of or non-compliance with the laws and regulations applicable to the Group. Apart from complying with Hong Kong laws such as the Companies Ordinance, Listing Rules, SFO, Employment Ordinance and Anti-Money Laundering and Counter-Terrorist Financing Ordinance, we have also complied with laws of the PRC, including the Company Law of the PRC (《中國公司法》), Labour Law of the PRC (《中國勞動法》), Labour Contract Law of the PRC (《中國勞動合同法》), relevant laws, rules and regulations in relation to child and forced labour including the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) and the Law of the PRC on the Protection of Minors (《中國未成年人保護法》), as well as other environmental laws, relevant rules, ordinances and regulations on the prevention and control of wastage, waste gases and sewage emission. These laws, ordinances and regulations include but not limited to the Environmental Protection Law of the PRC (《中國環境保護法》), the Environmental Protection Tax Law of the PRC (《環境保護稅法》), the Prevention and Control of Atmospheric Pollution of the PRC (《中國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中國水污染防治法》), the Waste Disposal Ordinance, the Product Eco-responsibility Ordinance, Environmental Quality Standard for Surface Water (《地表水環境品質標準》), Wastewater Quality Standards for Discharge to Municipal Sewers (《污水排入城鎮下水道水質標準》), Measures for Hazardous Waste Operation Administration (《危險廢物經營授權管理辦法》) and Solid Wastes of Prevention and Control Law of the PRC (《中國固體廢物污染環境防治法》) etc.. These environmental laws will have impact on the Group's operation since if we do not dispose all wastages, discharges and waste gases properly, we might have to bear heavy environmental protection tax and so increase the cost of disposal of wastages.

COMPLIANCE WITH LAWS AND REGULATIONS (continued)

Furthermore, in the light of the growing focus on the protection of women's interests and gender equality, the Group has noted the importance of the compliance with the laws of Hong Kong such as the Sex Discrimination Ordinance, which the underlying principle is also enshrined in the Basic Law, and laws of PRC such as the Law on the Protection of Women's Rights and Interests (《婦女權益保障法》) and Special Rules on the Labour Protection of Female Employees (《女職工勞動保護特別規定》). To acquire further knowledge on this topic, we have nominated a representative to participate in activities related to gender equality, gender mainstreaming and prevention of sexual harassment such as the Talk on Unleashing Women's Potential for All-Round Development, the Seminar on Enhancing Awareness of Sexual Harassment in Different Sectors and the Seminar on Gender Mainstreaming and Sexual Harassment organised by the Women's Commission (An organization which actively engages in activities in relation to women empowerment and advancement) in 2017 for the purpose of understanding the current role and status of women in business sector and different parties' concerns on gender mainstreaming, and enhancing awareness of sexual harassment. In the light of the need to address these issues and to put our knowledge into practice, the "Policy on Prevention on Sexual Harassment at Workplace" has been formulated as a way of the Company to show respect to our employees, especially female employees, and the measureable objectives of 2018 has been adopted by the Board to promote gender mainstreaming under a gender-sensitive approach for the enhancement of gender equality at workplace.

To ensure compliance with these requirements of laws, rules and regulations, the Company has implemented an effective internal control and approval procedures, and to obtain high level oversight of various business units. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and/or business units of the Group immediately. Certain discussion regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group is also contained in the "**CORPORATE GOVERNANCE REPORT**" section on pages 40 to 67 of this annual report and the 2017 ESG Report.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers, Shareholders, government and regulators, as well as banks and financial institutions.

Employees

Employees are regarded as the most important and valuable assets of the Group. Most of the management have been serving the Group for a long period of time. However, young talents are also provided with opportunities to work in the Group. The Group does not only offers competitive salaries and benefits, but also provides training programmes or courses for the mainland employees at all levels from different departments, as well as Directors and employees of the Company in order to further enhance their management skills, expertise and knowledge, and at the same time, make continual contribution to the Group. Different activities such as celebration of Chinese New Year and celebration of the 9th anniversary since operation of steel cord plant of TESC had been organized by various business units of the Group for general staffs together with the management to participate in order to strengthening their partnership and communication.

Customers

The major customers of Steel cord segment are the radial tyres manufacturers and the major customers of Copper and brass products segment are the industrial and consumer goods manufacturers. Most of them have been customers for more than 5 years and in return of their loyalty, we provided them with good quality products and after-sale services.

Suppliers

The major suppliers of Steel cord segment are the steel wire rod suppliers and the major suppliers of Copper and brass products segment are the copper and brass materials suppliers. We have co-operated with most of the suppliers for more than 5 years and have maintained good relationship with them through regular face-to-face meetings and visits in order to achieve cost-effectiveness and obtain long-term commercial benefits.

Shareholders

The ultimate operational goal of the Group is to maximize our Shareholders' return. The major Shareholders are Shougang Group Co., Ltd. and its controlled corporations, Bekaert and Li Ka Shing Foundation and minority Shareholders. It is grateful to have Shareholders who are being supportive to the Group for a long period of time in particular the times when market conditions are adverse and challenging.

RELATIONSHIPS WITH KEY STAKEHOLDERS (continued)

Government and Regulators

Decisions made by the government and regulators can significantly affect our Group's operations. It is important, therefore, for us to maintain good relationships with local officials to anticipate legal or regulatory changes or community developments that may affect our business. In view of the need to maintain good relationships, we have arranged occasional visits and face-to-face meetings whenever necessary.

Banks and Financial Institutions

Banks and financial institutions are lenders of our Group who help us to finance our businesses, asset purchases and supply purchases. As a trustworthy borrower, we always try our best to meet every payment deadlines responsibly and consistently, and at the same time, we strive to improve our financial performance so that we have a greater chance to receive quality financing in the future. Through regular meetings and visits, we have maintained stable relationships with them.

For further details regarding the above, please refer to the sections "**MANAGEMENT DISCUSSION AND ANALYSIS**" and "**CORPORATE GOVERNANCE REPORT**" in this annual report and the section "**STAKEHOLDERS' ENGAGEMENT AND MATERIALITY ASSESSMENT**" in the 2017 ESG Report.

SUMMARY OF FINANCIAL INFORMATION

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

	2017 **HK$'000**	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
(LOSS) PROFIT FOR THE YEAR	**(68,518)**	10,103	(376,985)	(275,774)	(16,590)
TOTAL ASSETS	**3,444,076**	3,037,042	3,006,147	3,610,120	4,123,008
TOTAL LIABILITIES	**(2,052,548)**	(1,715,077)	(1,610,277)	(1,748,238)	(1,997,754)
SHAREHOLDERS' EQUITY	**1,391,528**	1,321,965	1,395,870	1,861,882	2,125,254

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 15 and 16, respectively, to the consolidated financial statements.

Particulars of the Group's investment properties as at 31 December 2017 are summarised on page 194 of this annual report.

REPORT OF THE DIRECTORS

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 30 to the consolidated financial statements. Share options granted under the 2002 Scheme remain valid and exercisable in accordance with the terms of issue. No share options were granted, exercised, lapsed or cancelled under the 2012 Scheme. Details of share options of the 2002 Scheme are set out under the headings "**EQUITY-LINKED AGREEMENT**", "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereunder and in note 37 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 103 of this annual report and in note 39 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, as calculated in accordance with the provisions of Sections 291, 297 and 299 of the Companies Ordinance, amounted to HK$33,992,000.

DONATIONS

During the year, the Group made certain amount of charitable donations.

DIRECTORS

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

Li Shaofeng *(Chairman) (resigned on 18 January 2018)*
Yang Kaiyu* *(Managing Director) (resigned on 31 January 2018)*
Su Fanrong *(Executive Deputy Managing Director) (re-designated as Chairman on 18 January 2018 and appointed as Managing Director on 31 January 2018)*
Leung Shun Sang, Tony *(Non-executive Director)*
Tang Cornor Kwok Kau *(Deputy Managing Director)*
Liao Jun *(Non-executive Director)*
Yip Kin Man, Raymond *(Independent Non-executive Director)*
Law, Yui Lun *(Independent Non-executive Director)*
Lam Yiu Kin *(Independent Non-executive Director)*

The Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 101 and 102 of the Articles. Messrs. Yip Kin Man, Raymond, Law, Yui Lun, Lam Yiu Kin and Leung Shun Sang, Tony will retire from office by rotation and, being eligible, offer themselves (except Mr. Leung Shun Sang, Tony) for re-election at the forthcoming annual general meeting.

DIRECTORS OF SUBSIDIARIES

Messrs. Yang Kaiyu*, Su Fanrong and Tang Cornor Kwok Kau serve as directors of all subsidiaries of the Company during the year and up to the date of this report. Other than the above directors, the persons who serve/had served as directors of subsidiaries of the Company during the year and/or up to the date of this report include Messrs. Cheung Ngai, Tam Yui Ki and Yu Zhigao.

* Mr. Yang Kaiyu resigned as the directors of all subsidiaries of the Company with effect from 31 January 2018.

The list of subsidiaries of the Company is set out in the note 40 "**PRINCIPAL SUBSIDIARIES**" to the financial statements and below.

- Rise Boom International Limited
- Clear Vision Investments Limited
- Efficient Investments Limited
- Endless Inc.
- Messiah Investments Limited
- Shougang Century Metal Products (Holdings) Limited (deregistered on 26 May 2017)

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from information disclosed under the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" and in note 37 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Messrs. Yip Kin Man, Raymond and Law, Yui Lun have served the Board for more than nine years. Messrs. Yip and Law have not engaged in any executive management of the Group and Mr. Yip's solicitors firm and Mr. Law's Certified Public Accountant (Practising) have never provided any service to the Group. They believe their familiarity and extensive experience with the Company's business may place them in a better position to contribute independent views to the Company and continue to demonstrate a firm commitment to their role. Taking into consideration of their independent scope of works and their high integrity when performing duties as independent non-executive Directors over the past years, there is no evidence that length of tenure is having an adverse impact on their independence.

EQUITY-LINKED AGREEMENT

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereunder and in note 37 to the financial statements.

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

As at 31 December 2017, save for the interest of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

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

Long position in Shares

(a) Ordinary Shares of the Company

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

Notes:

(i) All those Shares were beneficially owned by Mr. Yang's wife.

(ii) Those Shares were beneficially owned by Mr. Tang and in which of 200,000 Shares were also jointly owned by his wife.

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

Long position in Shares (continued)

(b) Share options

As at 31 December 2017, there were a total of 57,400,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarised as follows:

	Options to subscribe for Shares										
Name of Director	Number of outstanding share options held at the beginning of the year	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed/ cancelled during the year	Date of exercise	Number of outstanding share options held at the end of the year	Date of grant *Note (i)*	Exercise period	Exercise price per Share *HK$*	Capacity in which interests are held	Approximate % of the total number of issued shares
Mr. Li*	13,800,000	–	–	–	–	13,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.71
Mr. Yang*	5,400,000	–	–	–	–	5,400,000	13/7/2009	13/7/2009 to 12/7/2019	0.680		
	5,400,000	–	–	–	–	5,400,000 *Note (ii)*	13/7/2009	1/1/2010 to 12/7/2019	0.680		
	7,200,000	–	–	–	–	7,200,000 *Note (ii)*	13/7/2009	1/1/2011 to 12/7/2019	0.680		
	18,000,000	–	–	–		18,000,000				Beneficial owner	0.93
Mr. Leung	12,000,000	–	–	–	–	12,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.62
Mr. Tang	10,000,000	–	–	–	–	10,000,000	28/1/2008	28/1/2008 to 27/1/2018	0.864	Beneficial owner	0.52
Yip Kin Man, Raymond	252,000	–	–	(252,000) *Note (iii)*	–	–	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	1,800,000	–	–	–	–	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	2,052,000	–	–	(252,000)		1,800,000				Beneficial owner	0.09
Law, Yui Lun	1,016,000	–	–	(1,016,000) *Note (iii)*	–	–	26/1/2007	26/1/2007 to 25/1/2017	0.656		
	1,800,000	–	–	–	–	1,800,000	28/1/2008	28/1/2008 to 27/1/2018	0.864		
	2,816,000	–	–	(1,016,000)		1,800,000				Beneficial owner	0.09
	58,668,000	–	–	(1,268,000)		57,400,000					

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

Long position in Shares (continued)

(b) Share options (continued)

Notes:

(i) The vesting period of the share options is from the date of grant to the beginning of the exercise period except for the share options set out under *Note (ii)* below.

(ii) 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010.

(iii) A total of 1,268,000 share options at the exercise price of HK$0.656 held by Mr. Yip Kin Man, Raymond and Mr. Law, Yui Lun lapsed during the year.

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

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 31 December 2017.

* Mr. Li Shaofeng resigned as the chairman of the Company and executive Director, on 18 January 2018 and Mr. Yang Kaiyu resigned as the managing Director and executive Director on 31 January 2018.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No Director or his entity connected had a material interest, directly or indirectly, in a transaction, arrangement or contract or a proposed transaction, arrangement or contract that is significant in relation to the Company's business to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entity
Li Shaofeng *(Note 1)*	BeijingWest Industries	Manufacture and sale of automotive parts and components and the trading of automotive parts and components	Executive director
Liao Jun *(Note 2)*	Bekaert	Manufacturing and sale of steel wire and/or cord products	Senior Vice President of Bekaert, General Manager of Rubber Reinforcement North Asia
Yip Kin Man, Raymond *(Note 3)*	BeijingWest Industries	Manufacture and sale of automotive parts and components and the trading of automotive parts and components	Independent non-executive director

Notes:

1. Mr. Li Shaofeng was appointed as executive director of BeijingWest Industries on 27 January 2014. He is the chairman of the Company and should perform his duties towards the interest of the Company. Mr. Li resigned as the chairman of the Company and executive Director on 18 January 2018.

2. Pursuant to a subscription agreement entered into by the Company and Bekaert in September 2006 and further agreement between Bekaert and the Company in February 2015, Mr. Liao Jun was nominated by Bekaert group as a non-executive Director and was appointed on 25 February 2015.

3. Mr. Yip Kin Man, Raymond was appointed as independent non-executive director of BeijingWest Industries on 27 January 2014 and does not participate in any decision making on daily operation of BeijingWest Industries.

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

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

As at 31 December 2017, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

Long position in Shares or underlying Shares

Name of Shareholder	Total number of Shares/ underlying Shares held	Approximate % of the total number of issued shares	Capacity in which interests are held
Richson	148,537,939	7.72	Beneficial owner
Fair Union	686,655,179	35.70	Beneficial owner and interests of controlled corporations Note (1)
Casula	402,395,304	20.92	Beneficial owner
Shougang International	686,655,179	35.70	Interests of controlled corporations Note (2)
Able Legend	126,984,000	6.60	Beneficial owner
Shougang HK	906,719,179	47.15	Beneficial owner and interests of controlled corporations Note (3)
Shougang Group	906,719,179	47.15	Interests of controlled corporations Note (4)
Bekaert Combustion	250,000,000	13.00	Beneficial owner Note (5)
Bekaert	250,000,000	13.00	Interests of controlled corporations Note (6)
Li Ka Shing Foundation	100,000,000	5.20	Beneficial owner Note (7)

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.

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

Long position in Shares or underlying Shares (continued)

Notes: (continued)

(3) Shougang HK is beneficially interested in 6,456,000 Shares and by virtue of the SFO, it is deemed to be interested in the 126,984,000 Shares and the 74,254,000 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 12,370,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang HK is the holding company of Shougang Grand. It is also deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as it is the holding company of Shougang International.

(4) Shougang Group is the ultimate holding company of Shougang HK, it is deemed to be interested in the 6,456,000 Shares held by Shougang HK and by virtue of the SFO, it is deemed to be interested in the 126,984,000 Shares and the 74,254,000 Shares held by Able Legend and Prime Success respectively as Able Legend and Prime Success are Shougang HK's wholly owned subsidiaries and Shougang Group is deemed to be interested in the 12,370,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang Group is the ultimate holding company of Shougang Grand. Shougang Group 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 Shougang Group is the ultimate holding company of Shougang International.

(5) Bekaert Combustion is beneficially interested in 250,000,000 Shares.

(6) By virtue of the SFO, Bekaert is deemed to be interested in 250,000,000 Shares held by Bekaert Combustion, which is a wholly owned subsidiary of Bekaert.

(7) Li Ka Shing Foundation is beneficially interested in 100,000,000 Shares. By virtue of the terms of the constituent documents of Li Ka Shing Foundation, each of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of Li Ka Shing Foundation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contract of significance between the Group, Shougang HK and its subsidiaries are set out under the heading "**RELATED PARTY TRANSACTIONS**" hereunder and/or in note 38 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to practicing and achieving a high standard of corporate governance and the Board has approved and adopted the SCCHL Corporate Governance Code on terms no less exacting than those set out in the provisions of the Code. Further information on the Company's Corporate Governance Code is set out in the "**CORPORATE GOVERNANCE REPORT**" on pages 40 to 67 of this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate Directors' and officers' liability insurance coverage in respect of legal actions brought for committed or alleged wrongful acts against the Directors and officers of the Group throughout the year, but exclude any criminal, dishonest or fraudulent acts or omission.

The Articles provide that every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any legal proceedings, whether civil or criminal, which relate to anything done or omitted to be done by him as Director or officer of the Company and in which judgment is given in his favour or in which he is acquitted, or incurred in connection with any application in which relief is granted to him by the court from liability in respect of any such act or omission or from liability to pay any amount in respect of shares acquired by a nominee of the Company.

The permitted indemnity provision is in force for the benefit of the Directors as required by Section 470 of the Companies Ordinance when the report of the directors prepared by the Directors is approved in accordance with Section 391(1)(a) of the Companies Ordinance.

REPORT OF THE DIRECTORS

DISPOSAL OF ASSETS

Taking into account the prevailing property market conditions in commercial properties in Hong Kong, on 9 October 2017, Hing Cheong Metals (China & Hong Kong) Limited, a direct wholly-owned subsidiary of the Company, as a vendor, entered into sale and purchase agreements with Yau Man Investment Ltd., Tam Bros & Sis Ltd. and Extra Billion Investment Ltd., as purchasers, to dispose of workshop 2 and 3 on the ground floor, and lorry parking space No. L3 on the basement, of TCL Tower, No. 8 Tai Chung Road, Tsuen Wan, New Territories (the "Properties") respectively, at an aggregate consideration of HK$28,000,000. The Board was of the view that the disposal of the Properties (the "Disposal") provided a good opportunity for the Group to realise the investment in the Properties at a gain and the proceeds from the Disposal would further enhance the financial position of the Group. The proceeds from the Disposal were intended to be applied as general working capital and repayment of debts of the Group.

The Disposal constituted a discloseable transaction of the Company under the Listing Rules and was subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. For further details regarding the Disposal, please refer to the announcement of the Company dated 9 October 2017.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These transactions mainly relate to contracts entered into by the Group in the ordinary and usual course of business which were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 38 to the financial statements. The Group has entered into a continuing connected transaction during the year, details are illustrated below.

Continuing connected transaction

During the year under review, the following transaction constituted continuing connected transaction and is subject to annual review requirement under the Chapter 14A of the Listing Rules:

Tenancy Agreement

A tenancy agreement (the "Tenancy Agreement") was entered into on 23 December 2016 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (the "Premises") with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited ("Billioncorp"), an indirect wholly owned subsidiary of Shougang HK, to a wholly owned subsidiary of the Company for a term of thirty-six (36) months commencing from 1 January 2017 and expiring on 31 December 2019 at a monthly rental of HK$282,000. The annual cap for the financial year ended 31 December 2017 is HK$3,384,000.

RELATED PARTY TRANSACTIONS (continued)

Continuing connected transaction (continued)

Tenancy Agreement *(continued)*

Shougang HK is a substantial Shareholder and therefore a connected person of the Company under the Listing Rules. Accordingly, the transaction under the Tenancy Agreement constituted a continuing connected transaction (the "Continuing Connected Transaction").

Regarding the Continuing Connected Transaction in respect of the Tenancy Agreement which took place in 2017, as the applicable percentage ratios (other than the profits ratio) calculated with reference to the annual rent payable under the Tenancy Agreement, being HK$3,384,000, exceeds 0.1% but less than 5%, the Company is subject to annual review requirements pursuant to Chapter 14A of the Listing Rules. The Continuing Connected Transaction has been reviewed by the independent non-executive Directors who have confirmed that the Continuing Connected Transaction has been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties;

(c) according to the tenancy agreement and relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole; and

(d) the aggregate amount of rent payable by the Group to Shougang HK and its subsidiaries ("Shougang HK group"), was HK$3,384,000 during the year of 2017. The said rent payable by the Group to Shougang HK group did not exceed the limit of annual cap of HK$3,384,000.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the external auditor of the Company to report on the Continuing Connected Transaction. The external auditor of the Company has issued an unqualified letter containing their conclusions in respect of the Continuing Connected Transaction. The independent non-executive Directors have reviewed the Continuing Connected Transaction and the auditor's letter confirmed that the transaction had been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties, and in accordance with the agreement governing such transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

RELATED PARTY TRANSACTIONS (continued)

Continuing connected transaction (continued)

Tenancy Agreement *(continued)*

In addition, the internal auditor had conducted an internal control review on continuing connected transaction of the Group and checked whether internal control procedures were sufficient to ensure that the transaction could be conducted on normal commercial terms and not prejudicial to the interests of the Company's minority Shareholders, and had provided the findings to the independent non-executive Directors to assist them in performing their annual review. Based on the information provided by the management of the Company and findings from internal auditor, the independent non-executive Directors confirmed that the internal control procedures governing the control of continuing connected transaction were appropriate and in place, and also noted that the continuing connected transaction had been reviewed the Company' internal auditor.

Details of the Tenancy Agreement were also disclosed in the announcement of the Company dated 23 December 2016.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. The emoluments of the Directors are decided by the remuneration committee, having regard to individual performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Company has adopted a share option scheme as incentive/reward to Directors and eligible participants/qualifying grantees, details of the scheme are set out in note 37 to the financial statements and the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" here above.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 21 March 2018 prior to the issue of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, the revenue from sales to the Group's five largest customers accounted for approximately 42.2% (2016: 43.4%) of total revenue of the Group and the revenue from sales to the largest customer included therein amounted to approximately 14.4% (2016: 13.4%) of total revenue of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 47.1% (2016: 39.9%) of total purchases of the Group for the year and purchases from the largest supplier, included therein amounted to approximately 24.5% (2016: 13.8%) of total purchases of the Group for the year.

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

Further details related to relationship with customers and suppliers, please refer to sections "**MANAGEMENT DISCUSSION AND ANALYSIS**" in this annual report and in the 2017 ESG Report.

AUDITORS

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

By order of the Board

Su Fanrong
Chairman and Managing Director
Hong Kong
22 March 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF
SHOUGANG CONCORD CENTURY HOLDINGS LIMITED
首長寶佳集團有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Shougang Concord Century Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 99 to 193, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Impairment assessments of property, plant and equipment and prepaid lease payments	
We identified the impairment assessments of property, plant and equipment and prepaid lease payments of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC") and Jiaxing Eastern Steel Cord Co., Ltd. ("JESC") (the "Relevant Fixed Assets") as a key audit matter due to significance of the balance to the consolidated financial statements as a whole; and the significant judgement and assumptions involved on the future performance of TESC and JESC which were included in steel cord segment. As at 31 December 2017, the carrying amount of the Relevant Fixed Assets was HK$1,343 million. The management performed impairment assessments in which take into consideration the estimation of the recoverable amounts of the Relevant Fixed Assets which were determined based on value in use calculation and certain key assumptions. Value in use calculation used cash flow projections based on financial budgets approved by the management and an appropriate discount rate. Where the recoverable amount of the Relevant Fixed Assets is lower/higher than respective carry amount, impairment loss may be recognised/reversed.	Our procedures in relation to impairment assessments of the Relevant Fixed Assets included: • Obtaining an understanding of internal controls over impairment assessments of the Relevant Fixed Assets performed by the management; • Testing the key controls in place over impairment assessments of the Relevant Fixed Assets; • Reconciling the input data used in the cash flow projections prepared and provided by the management to the relevant supporting evidences and approved budgets; and evaluating their reasonableness; • Challenging the reasonableness of key assumptions used in the cash flow projections based on the historical financial performance of the Group and our knowledge of the Group and steel cord industry;

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Impairment assessments of property, plant and equipment and prepaid lease payments (continued)	
Details relating to the management impairment assessments on the Relevant Fixed Assets are set out in Notes 16 and 17 to the consolidated financial statements.	• Evaluating the appropriateness of the management assessment of the legal possession status, practical situation, future expected cash flows and other uncertainties in respect of the prepaid lease payments; • Meeting with the independent professional valuer engaged by the management to understand the assumptions used in building up the discount rates used; and • Performing sensitivity analysis on the growth rates and discount rates adopted to evaluate the extent of impacts on the value in use on the Relevant Fixed Assets.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Recoverability of trade receivables	
We identified the recoverability of trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole; and the significant judgement and assumptions involved on the identification of impaired trade receivables and the estimation of future cash inflows from individual customers. At the end of each reporting period, the management estimates the allowance for bad and doubtful debts by assessing the recoverability of the Group's trade receivables based on credit history, settlement records, aging analysis, estimated future cash inflows and prevailing market conditions. As at 31 December 2017, the carrying amount of the Group's trade receivables was HK$688 million. Details relating to the Group's trade receivables are set out in Note 21 to the consolidated financial statements.	Our procedures in relation to recoverability of trade receivables included: • Obtaining an understanding of internal controls over impairment assessment of trade receivables; • Inquiring with the management on their basis and assumptions in relation to the impairment assessment of trade receivables; • Evaluating the sufficiency and appropriateness of the allowance for bad and doubtful debts by checking arithmetic accuracy of allowance for bad and doubtful debts prepared by the management based on their estimates on future cash inflows. Analysing the credit history, settlement records and aging analysis; and • Assessing the reasonableness of reversal of allowance for bad and doubtful debts previously recognised by testing the settlements from respective customers, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Chi Kin, Kinson.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**2,113,258**	1,703,255
Cost of sales		**(1,917,193)**	(1,487,841)
Gross profit		**196,065**	215,414
Investment and other income	7	**3,817**	1,694
Other gains and losses	8	**(22,873)**	4,491
Distribution and selling expenses		**(65,579)**	(49,877)
Administrative expenses		**(71,771)**	(71,899)
Research and development expenses		**(62,385)**	(47,998)
Finance costs	9	**(52,487)**	(45,888)
(Loss) profit before tax		**(75,213)**	5,937
Income tax credit	10	**6,695**	4,166
(Loss) profit for the year	11	**(68,518)**	10,103
(Loss) earnings per share	14		
Basic and diluted		**(HK3.56 cents)**	HK0.53 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
(Loss) profit for the year	**(68,518)**	10,103
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss		
Exchange differences arising on translation into presentation currency	**107,416**	(100,606)
Surplus on revaluation upon transfer of property, plant and equipment to investment property	**3**	887
Surplus on revaluation of properties	**34,200**	19,337
Recognition of deferred tax liability on revaluation of properties	**(3,538)**	(3,626)
Other comprehensive income (expense) for the year (net of tax)	**138,081**	(84,008)
Total comprehensive income (expense) for the year	**69,563**	(73,905)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties	15	**70,790**	58,675
Property, plant and equipment	16	**1,273,927**	1,169,092
Prepaid lease payments	17	**74,314**	141,636
Pledged deposit on loan from a related company	27	**8,374**	7,825
Club memberships	19	**331**	714
Deposits paid for the acquisition of property, plant and equipment		**8,967**	336
		1,436,703	1,378,278
Current assets			
Inventories	20	**306,232**	233,121
Trade receivables	21	**688,333**	563,162
Bills receivable	21	**683,954**	479,206
Prepayments, deposits and other receivables	23	**52,466**	67,249
Prepaid lease payments	17	**4,728**	7,671
Tax recoverable		**1,321**	–
Pledged bank deposits	25	**59,780**	1,006
Bank balances and cash	25	**210,559**	307,349
		2,007,373	1,658,764
Current liabilities			
Trade and bills payables	26	**830,269**	440,608
Other payables and accruals	26	**139,563**	95,050
Tax payable		**5,543**	10,304
Loans from related companies	27	**228,754**	186,090
Bank borrowings – due within one year	28	**502,764**	900,552
		1,706,893	1,632,604
Net current assets		**300,480**	26,160
Total assets less current liabilities		**1,737,183**	1,404,438

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Other payable		**1,119**	1,129
Loan from a related company	27	**22,170**	47,121
Bank borrowings – due after one year	28	**295,322**	–
Deferred tax liabilities	29	**27,044**	34,223
		345,655	82,473
		1,391,528	1,321,965
Capital and reserves			
Share capital	30	**1,191,798**	1,191,798
Reserves		**199,730**	130,167
		1,391,528	1,321,965

The consolidated financial statements on pages 99 to 193 were approved and authorised for issue by the board of directors on 22 March 2018 and are signed on its behalf by:

Su Fanrong
DIRECTOR

Tang Cornor Kwok Kau
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital HK$'000	Capital reserve HK$'000 (Note i)	Property revaluation reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	PRC reserve funds HK$'000 (Note ii)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	1,191,798	23,990	89,868	302,020	30,765	45,468	(288,039)	1,395,870
Profit for the year	–	–	–	–	–	–	10,103	10,103
Exchange differences arising on translation into presentation currency	–	–	–	(100,606)	–	–	–	(100,606)
Surplus on revaluation upon transfer from property, plant and equipment to investment property	–	–	887	–	–	–	–	887
Surplus on revaluation of properties	–	–	19,337	–	–	–	–	19,337
Recognition of deferred tax liability on revaluation of properties	–	–	(3,626)	–	–	–	–	(3,626)
Other comprehensive income (expense) for the year	–	–	16,598	(100,606)	–	–	–	(84,008)
Total comprehensive income (expense) for the year	–	–	16,598	(100,606)	–	–	10,103	(73,905)
Lapse of share options	–	–	–	–	(884)	–	884	–
At 31 December 2016	**1,191,798**	**23,990**	**106,466**	**201,414**	**29,881**	**45,468**	**(277,052)**	**1,321,965**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(68,518)**	**(68,518)**
Exchange differences arising on translation into presentation currency	**–**	**–**	**–**	**107,416**	**–**	**–**	**–**	**107,416**
Surplus on revaluation upon transfer from property, plant and equipment to investment property	**–**	**–**	**3**	**–**	**–**	**–**	**–**	**3**
Surplus on revaluation of properties	**–**	**–**	**34,200**	**–**	**–**	**–**	**–**	**34,200**
Recognition of deferred tax liability on revaluation of properties	**–**	**–**	**(3,538)**	**–**	**–**	**–**	**–**	**(3,538)**
Other comprehensive income for the year	**–**	**–**	**30,665**	**107,416**	**–**	**–**	**–**	**138,081**
Total comprehensive income (expense) for the year	**–**	**–**	**30,665**	**107,416**	**–**	**–**	**(68,518)**	**69,563**
Lapse of share options	**–**	**–**	**–**	**–**	**(987)**	**–**	**987**	**–**
Transfer to PRC reserve funds	**–**	**–**	**–**	**–**	**–**	**25,677**	**(25,677)**	**–**
Release of property revaluation reserve upon disposal of a property	**–**	**–**	**(14,272)**	**–**	**–**	**–**	**14,272**	**–**
At 31 December 2017	**1,191,798**	**23,990**	**122,859**	**308,830**	**28,894**	**71,145**	**(355,988)**	**1,391,528**

Notes:

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

ii. In accordance with the articles of association of the subsidiaries established in the People's Republic of China (the "PRC") and relevant PRC laws and regulations, these subsidiaries are required to transfer at least 10% of their profit after taxation, which is determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund (including the general reserve fund and enterprise expansion fund, where appropriate). Transfer to this statutory reserve fund is subject to the approval of the respective board of directors, and is discretionary when the balance of such fund has reached 50% of the registered capital of the respective company. Statutory reserve fund can only be used to offset accumulated losses or to increase capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(75,213)**	5,937
Adjustments for:			
Allowance for bad and doubtful debts reversed, net		**(728)**	(28,931)
Allowance for inventories recognised, net		**1,851**	1,024
Amortisation of prepaid lease payments		**7,919**	8,024
Bad debts recovered		**(1,700)**	(508)
Changes in fair value of investment properties		**(23,820)**	(2,890)
Depreciation of property, plant and equipment		**118,903**	115,415
Finance costs		**52,487**	45,888
Gain on disposal of club memberships, net		**(395)**	–
Impairment losses recognised in respect of prepaid lease payments	17	**72,523**	–
Interest income		**(399)**	(492)
Loss on disposal of property, plant and equipment, net		**110**	20
Operating cash flows before movements in working capital		**151,538**	143,487
Increase in inventories		**(61,593)**	(8,848)
Increase in trade receivables		**(87,597)**	(99,388)
Increase in bills receivable		**(786,034)**	(417,111)
Decrease in prepayments, deposits and other receivables		**13,651**	44,714
Increase in trade and bills payables		**645,361**	392,337
(Decrease) increase in other payables and accruals		**(19,668)**	20,374
Cash (used in) generated from operations		**(144,342)**	75,565
PRC Enterprise Income Tax paid, net		**(11,336)**	(2,450)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(155,678)**	73,115

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
Placement of pledged bank deposits	(83,065)	(3,820)
Purchase of property, plant and equipment	(22,815)	(17,920)
Deposit paid for the acquisition of property, plant and equipment	(5,231)	(234)
Withdrawal of pledged bank deposits	25,880	2,814
Proceeds from disposal of property, plant and equipment	16,307	1,607
Proceeds from disposal of investment properties	14,181	–
Proceeds from disposal of club memberships	802	–
Interest received	399	492
Pledged deposit paid for loan from a related company	–	(7,825)
NET CASH USED IN INVESTING ACTIVITIES	(53,542)	(24,886)
FINANCING ACTIVITIES		
New bank loans raised	820,020	704,280
Loans advanced from related companies	200,000	264,159
Bank advances for discounted bills	199,039	141,872
Trust receipt loans raised	34,151	62,194
Repayment of bank loans	(883,391)	(914,807)
Repayment of loans to related companies	(185,980)	(79,105)
Interest paid	(48,650)	(41,726)
Repayment of trust receipt loans	(44,230)	(74,618)
NET CASH FROM FINANCING ACTIVITIES	90,959	62,249
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(118,261)	110,478
CASH AND CASH EQUIVALENTS AT 1 JANUARY	307,349	209,889
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	21,471	(13,018)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by		
Bank balances and cash	210,559	307,349

1. GENERAL

Shougang Concord Century Holdings Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's substantial shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), and the ultimate holding company of Shougang HK is Shougang Group Co., Ltd., a company established in the PRC. The address of the registered office of the Company is situated at 5th Floor, Bank of East Asia Harbour View Centres, 51-57 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") is principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 7 *Disclosure Initiative* (continued)

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 35, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 *Financial Instruments* (continued)

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate that the following potential impact on initial application of HKFRS 9:

Classification and measurement

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39 on initial application of HKFRS 9.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would increase the opening accumulated losses and increase the deferred tax assets at 1 January 2018.

HKFRS 15 *Revenue from Contracts with Customers*

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 *Revenue from Contracts with Customers* (continued)

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

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases*

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases* (continued)

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$13,779,000 as disclosed in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$1,005,000 and refundable rental deposits received of approximately HK$524,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segments.

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Club memberships

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

A club membership is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of a club membership is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Government grants

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

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated discounts, sales related taxes and returns.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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

Service income is recognised when services are provided.

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

A series of transactions that involve the legal form of a lease is linked and accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The accounting reflects the substance of the arrangement.

An arrangement that involves a legal form of a lease is not, in substance, accounted for as a lease if:

(a) the Group retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;

(b) the primary reason for the arrangement is not to convey the right to use an asset; and

(c) an option is included on terms that make its exercise almost certain.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

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

Leasehold land and buildings

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

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

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Loan transaction costs

Loan transaction costs incurred in negotiating and arranging bank borrowings are set-off against the carrying amount of the bank borrowings and recognised as an expense on an effective interest method over the loan period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables

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

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

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FTVPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading(or contingent consideration that may be paid by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the other gains and losses line item.

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Financial guarantee contracts

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

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

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant day.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Deferred taxation on investment properties

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

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

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

Key sources of estimation uncertainty

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

Estimated impairment of property, plant and equipment and prepaid lease payments

The directors of the Company review the carrying values of its property, plant and equipment and prepaid lease payments to determine whether there is any indication that those assets are impaired. If it is not possible to estimate the recoverable amounts of the property, plant and equipment and prepaid lease payments individually, the directors of the Company determine the recoverable amount of the CGU to which the property, plant and equipment and prepaid lease payments belong. The recoverable amount of the CGU to which those assets belong is measured at the higher of value in use and fair value less costs to sell.

The value in use is based on estimate of future expected cash flows of the CGU and a suitable discount rate. The directors of the Company necessarily apply its judgment in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. In addition, the directors of the Company assessed the legal possession status, practical situation and other uncertainties in respect of the property, plant and equipment and prepaid lease payments. Where the actual future cash flows are less than or more than expected, or there are favourable or unfavourable events and changes in facts and circumstances which result in revision of future estimated cash flows, a material impairment loss may arise or reverse.

There is no impairment loss recognised or reversed in respect of property, plant and equipment during the years ended 31 December 2017 and 2016. Details of the calculation of recoverable amount are disclosed in Note 16.

During the year ended 31 December 2017, impairment loss of HK$72,523,000 (2016: Nil) is recognised in respect of prepaid lease payments with details disclosed in Note 17.

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

Key sources of estimation uncertainty (continued)

Estimated allowance for bad and doubtful debts

The directors of the Company estimate the allowance for bad and doubtful debts by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowance is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. Reversal of allowance for bad and doubtful debts is recognised when the related settlements of the trade receivables with allowance applied are subsequently received from that customer or the realisation of the related assets pledged by that customer subsequently became highly probable and its fair value can be reliably measured. The directors of the Company reassess the allowance for bad and doubtful debts at the end of the reporting period. As at 31 December 2017, the carrying amount of trade receivables is HK$688,333,000, net of allowance of approximately HK$19,742,000 (2016: HK$563,162,000, net of allowance of approximately HK$19,129,000).

Allowance for inventories

As at 31 December 2017, the carrying amount of the Group's inventories is HK$306,232,000, net of allowance of HK$5,316,000 (2016: HK$233,121,000, net of allowance of HK$6,605,000). At the end of the reporting period, the directors of the Company review an aging analysis of inventories and carries out an inventory review on a product-by-product basis. The directors of the Company provide allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of the Company also estimate the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Fair value measurements and valuation processes

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties and property, plant and equipment. Details are disclosed in Notes 15 and 16, respectively.

5. REVENUE

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

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

	2017	2016
	HK$'000	HK$'000
Sales of goods		
Manufacturing of steel cords	**1,805,523**	1,405,483
Processing and trading of copper and brass products	**305,405**	295,982
	2,110,928	1,701,465
Rental income	**2,330**	1,790
	2,113,258	1,703,255

6. SEGMENT INFORMATION

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

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

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

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

6. SEGMENT INFORMATION (continued)

(a) Segment revenues and results

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

For the year ended 31 December 2017

	Steel cord HK$'000	Copper and brass products HK$'000	Segment total HK$'000
Segment revenue			
External sales	**1,805,523**	**305,405**	**2,110,928**
Segment results	**(47,106)**	**2,127**	**(44,979)**

Reconciliation of revenue

	HK$'000
Total revenue for operating segments	**2,110,928**
Rental income	**2,330**
Group revenue	**2,113,258**

6. SEGMENT INFORMATION (continued)

(a) Segment revenues and results (continued)

For the year ended 31 December 2017 (continued)

Reconciliation of loss before tax

	HK$'000
Total loss for operating segments	(44,979)
Profit arising from property investment	25,691
Unallocated amounts	
Unallocated income	373
Unallocated foreign exchange gains, net	29,838
Unallocated expenses	(33,649)
Unallocated finance costs	(52,487)
Loss before tax	(75,213)

For the year ended 31 December 2016

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

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

6. SEGMENT INFORMATION (continued)

(a) Segment revenues and results (continued)

For the year ended 31 December 2016 (continued)

Reconciliation of revenue

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

Reconciliation of profit before tax

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit or loss of each segment without allocation of profit arising from property investment, certain foreign exchange gains or losses, central administration costs, the emoluments of directors of the Company, interest income on bank deposits, finance costs and other income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities

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

Segment assets

	2017 HK$'000	2016 HK$'000
Steel cord	**3,012,828**	2,560,817
Copper and brass products	**69,421**	99,244
Total segment assets	**3,082,249**	2,660,061
Bank balances and cash	**210,559**	307,349
Pledged deposit on loan from a related company	**8,374**	7,825
Pledged bank deposits	**59,780**	1,006
Unallocated assets	**83,114**	60,801
Consolidated assets	**3,444,076**	3,037,042

Segment liabilities

	2017 HK$'000	2016 HK$'000
Steel cord	**950,176**	508,985
Copper and brass products	**9,744**	20,652
Total segment liabilities	**959,920**	529,637
Bank borrowings	**798,086**	900,552
Loans from related companies	**250,924**	233,211
Unallocated liabilities	**43,618**	51,677
Consolidated liabilities	**2,052,548**	1,715,077

6. SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities (continued)

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

- all assets are allocated to operating segments other than certain property, plant and equipment, investment properties, club memberships, certain prepayments, deposits and other receivables, tax recoverable, pledged deposit on loan from a related company, pledged bank deposits and bank balances and cash.

- all liabilities are allocated to operating segments other than tax payable, bank borrowings, loans from related companies, deferred tax liabilities and other unallocated payables and accruals.

(c) Other segment information

For the year ended 31 December 2017

	Steel cord HK$'000	Copper and brass products HK$'000	Segment total HK$'000
Amounts included in the measure of segment assets or segment profit or loss:			
Property, plant and equipment	1,264,575	1,306	1,265,881
Capital expenditure	109,003	–	109,003
Depreciation	117,772	609	118,381
Allowance for bad and doubtful debts reversed, net	(728)	–	(728)
Allowance for inventories recognised, net	1,851	–	1,851
Loss on disposal of property, plant and equipment, net	77	33	110
Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:			
Income tax (credit) expense	(9,088)	406	(8,682)

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

For the year ended 31 December 2016

	Steel cord HK$'000	Copper and brass products HK$'000	Segment total HK$'000
Amounts included in the measure of segment assets or segment profit or loss:			
Property, plant and equipment	1,153,810	9,122	1,162,932
Capital expenditure	10,917	117	11,034
Depreciation	113,940	843	114,783
Allowance for bad and doubtful debts (reversed) recognised, net	(29,587)	656	(28,931)
Allowance for inventories recognised (reversed), net	1,073	(49)	1,024
Loss (gain) on disposal of property, plant and equipment, net	42	(63)	(21)
Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:			
Income tax (credit) expense	(5,513)	553	(4,960)

(d) Geographical information

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

6. SEGMENT INFORMATION (continued)

(e) Information about major customer

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

	2017 HK$'000	2016 HK$'000
Customer A[1]	**304,372**	228,171

[1] Revenue from steel cord segment.

7. INVESTMENT AND OTHER INCOME

	2017 HK$'000	2016 HK$'000
Investment income		
Interest income on bank deposits	**399**	492
Other income		
Government grants (Note)	**411**	1,059
Sales of scrap materials	**3,007**	143
	3,418	1,202
	3,817	1,694

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

8. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Foreign exchange gains (losses), net	**24,158**	(27,528)
Changes in fair value of investment properties (Note 15)	**23,820**	2,890
Bad debts recovered	**1,700**	508
Allowance for bad and doubtful debts reversed, net	**728**	28,931
Gain on disposal of club memberships, net	**395**	–
Impairment loss recognised in respect of prepaid lease payments	**(72,523)**	–
Change in fair value of financial liabilities designated as at FVTPL (Note)	**(1,467)**	–
Loss on disposal of property, plant and equipment, net	**(110)**	(20)
Others	**426**	(290)
	(22,873)	4,491

Note: During the year ended 31 December 2017, the Group entered into foreign currency future contracts to minimise its exposure to the fluctuation of RMB with an aggregate notional amount of United States dollars ("USD") 3,000,000 and at future rates of RMB7.0621 to USD1, RMB7.0485 to USD1 and RMB7.0440 to USD1. These contracts were classified as financial liabilities designated as at FVTPL and were fully settled on 20 December 2017.

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on bank borrowings	**42,665**	37,970
Interest expenses on loans from related companies	**5,169**	3,007
Amortisation of loan transaction costs	**4,653**	4,911
	52,487	45,888

10. INCOME TAX CREDIT

	2017 HK$'000	2016 HK$'000
Current tax:		
PRC EIT	**622**	691
Overprovision in prior years:		
PRC EIT	**(7,047)**	(5,506)
Deferred tax (Note 29)	**(270)**	649
	(6,695)	(4,166)

No provision for Hong Kong Profits Tax for the years ended 31 December 2017 and 2016 as there is no assessable profit subject to Hong Kong Profits Tax for both years.

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

Jiaxing Eastern Steel Cord Co., Ltd. ("JESC"), an indirect wholly-owned subsidiary of the Company, has been recognised as a state-encouraged high-new technology enterprise in 2017 (2016: 2014), and the status is valid for a period of three years. JESC is thus entitled to a preferential tax rate of 15% in 2017, 2018 and 2019 (2016: 2014, 2015 and 2016), subject to annual review by the relevant tax authority in the PRC. As such the EIT rate for JESC is 15% for the years ended 31 December 2017 and 2016.

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

10. INCOME TAX CREDIT (continued)

The tax provision reversed during the year represents the overprovision of taxation in prior years in connection with a tax concession on qualified domestic fixed assets purchased in the PRC pursuant to the relevant laws and regulations.

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

	2017 **HK$'000**	2016 HK$'000
(Loss) profit before tax	**(75,213)**	5,937
Tax at PRC EIT rate of 25% (Note i)	**(18,803)**	1,484
Tax effect of expenses not deductible in determining taxable profit	**34,397**	21,195
Tax effect of income not taxable in determining taxable profit	**(11,754)**	(2,334)
Tax effect of tax losses not recognised	**9,797**	5,987
Tax effect on utilisation of tax losses previously not recognised	**(5,766)**	(16,347)
Tax effect on deductible temporary differences not recognised	**31**	130
Tax effect on utilisation of deductible temporary differences previously not recognised	**(6,181)**	(6,255)
Tax effect on withholding tax on distributable profit of subsidiaries in the PRC	**188**	1,767
Tax effect on concessionary policy on research and development expenses (Note ii)	**(3,155)**	–
Effect of different tax rates in other jurisdiction	**(107)**	18
Effect of different tax rates for interest income (Note iii)	**(750)**	(863)
Overprovision in respect of prior years	**(7,047)**	(5,506)
Effect on different tax rate resulting from an entitlement of preferential tax rate of a subsidiary	**1,598**	(3,999)
Effect of different tax rates for LAT in respect of changes in fair value of investment properties located in the PRC	**857**	552
Others	**–**	5
Income tax credit for the year	**(6,695)**	(4,166)

10. INCOME TAX CREDIT (continued)

Notes:

i. The PRC EIT rate of 25% is used as the PRC is where the operation of the Group is substantially based.

ii. It represents additional 50% tax deduction in respect of qualifying research and development expenses incurred for the year.

iii. The withholding tax rates on interest income earned from entities in the PRC was 7%.

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

11. (LOSS) PROFIT FOR THE YEAR

	2017	2016
	HK$'000	HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments (Note 12):		
– Salaries, wages, allowances and other benefits	**170,383**	168,121
– Retirement benefit scheme contributions	**24,227**	22,139
Total staff costs	**194,610**	190,260
Cost of inventories recognised as an expense (including allowance for inventories recognised of approximately HK$1,851,000 (2016: HK$1,024,000))	**1,898,939**	1,469,312
Depreciation of property, plant and equipment	**118,903**	115,415
Auditor's remuneration		
– Audit services	**1,495**	1,450
– Non-audit services	**428**	417
Amortisation of prepaid lease payments (included in "Cost of sales")	**7,919**	8,024
Gross rental income from investment properties	**(2,330)**	(1,790)
Less: direct operating expenses for investment properties that generate rental income during the year	**221**	202
Net rental income	**(2,109)**	(1,588)

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Director's emoluments for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

For the year ended 31 December 2017

Executive directors

	Li Shaofeng HK$'000 (resigned on 18 January 2018)	Yang Kaiyu HK$'000 (resigned on 31 January 2018)	Su Fanrong HK$'000	Tang Cornor Kwok Kau HK$'000	Total HK$'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and other benefits	–	2,647	2,170	1,990	6,807
Retirement benefit scheme contributions	–	154	18	99	271
Discretionary bonus	–	440	360	–	800
Sub-total	–	3,241	2,548	2,089	7,878

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Group (including the Company).

Non-executive directors

	Leung Shun Sang, Tony HK$'000	Liao Jun HK$'000	Total HK$'000
Fees	190	150	340
Other emoluments:			
Salaries, allowances and other benefits	–	–	–
Retirement benefit scheme contributions	–	–	–
Discretionary bonus	–	–	–
Sub-total	190	150	340

The non-executive directors' emoluments shown above were for their services as directors of the Company.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

For the year ended 31 December 2017 (continued)

Independent non-executive directors

	Yip Kin Man, Raymond HK$'000	Law Yui Lun HK$'000	Lam Yiu Kin HK$'000	Total HK$'000
Fees	240	240	240	720
Other emoluments:				
Salaries, allowances and other benefits	–	–	–	–
Retirement benefit scheme contributions	–	–	–	–
Discretionary bonus	–	–	–	–
Sub-total	240	240	240	720

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

	HK$'000
Total	8,938

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

For the year ended 31 December 2016

Executive directors

	Li Shaofeng HK$'000	Yang Kaiyu HK$'000	Su Fanrong HK$'000	Tang Cornor Kwok Kau HK$'000	Total HK$'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and other benefits	–	2,648	2,167	1,990	6,805
Retirement benefit scheme contributions	–	132	18	99	249
Sub-total	–	2,780	2,185	2,089	7,054

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Group (including the Company).

Non-executive directors

	Leung Shun Sang, Tony HK$'000	Liao Jun HK$'000	Total HK$'000
Fees	190	150	340
Other emoluments:			
Salaries, allowances and other benefits	–	–	–
Retirement benefit scheme contributions	–	–	–
Sub-total	190	150	340

The non-executive directors' emoluments shown above were for their services as directors of the Company.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

For the year ended 31 December 2016 (continued)

Independent non-executive directors

	Yip Kin Man, Raymond HK$'000	Law Yui Lun HK$'000	Lam Yiu Kin HK$'000	Total HK$'000
Fees	240	240	240	720
Other emoluments:				
Salaries, allowances and other benefits	–	–	–	–
Retirement benefit scheme contributions	–	–	–	–
Sub-total	240	240	240	720

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

	HK$'000
Total	8,114

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

During the year ended 31 December 2017, Mr. Li Shaofeng waived 12 months emoluments of HK$3,150,000 (2016: HK$3,150,000).

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees of the Group during the year included three (2016: three) directors of the company, details of whose emoluments are set out in disclosure above.

For the year ended 31 December 2017, details of the emoluments of the remaining two (2016: two) highest paid individuals who are neither a director nor chief executive of the Company were as follows:

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and other benefits	**3,124**	1,209
Retirement benefit scheme contributions	**36**	303
Performances related bonuses	**9**	2,149
	3,169	3,661

For the year ended 31 December 2017, the emoluments of the remaining two (2016: two) highest paid individuals who are neither a director nor chief executive of the Company were within the following bands:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	**2**	2

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(c) Executive directors' emoluments

Three (2016: Three) executive directors of the Company, constitute senior management of the Company, their emoluments were within the following bands:

	2017	2016
HK$2,000,001 to HK$2,500,000	1	2
HK$2,500,001 to HK$3,000,000	1	1
HK$3,000,001 to HK$3,500,000	1	–
	3	3

13. DIVIDENDS

No interim or final dividend was paid or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

14. (LOSS) EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
(Loss) profit		
(Loss) profit for the purposes of calculation of basic and diluted (loss) earnings per share	(68,518)	10,103

14. (LOSS) EARNINGS PER SHARE (continued)

	2017	2016
Number of shares		
Number of ordinary shares for the purposes of calculation of basic and diluted (loss) earnings per share	**1,922,900,556**	1,922,900,556

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share. For the year ended 31 December 2016, the computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares in 2016.

15. INVESTMENT PROPERTIES

	HK$'000
AT FAIR VALUE	
At 1 January 2016	50,727
Exchange realignment	(1,142)
Transferred from property, plant and equipment (Note 16)	6,200
Changes in fair value recognised in profit or loss	2,890
At 31 December 2016	58,675
Exchange realignment	1,476
Transferred from property, plant and equipment (Note 16)	1,000
Changes in fair value recognised in profit or loss	23,820
Disposals	(14,181)
At 31 December 2017	70,790

15. INVESTMENT PROPERTIES (continued)

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

The fair values of the Group's investment properties as at 31 December 2017 have been arrived at on the basis of valuations carried out on that date by Vigers Appraisal and Consulting Limited ("Vigers") (2016: Grant Sherman Appraisal Limited ("Grant Sherman")), an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the recent transactions for similar premises in the proximity and there has been no change from the valuation technique used in the prior year.

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

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

In determining the Group's industrial property units and residential property units value, adjusted market price per square foot/square meter, taking into account the differences in time, location and individual factors, such as floor and size, between the comparables and the corresponding properties, was approximately HK$5,700 (2016: ranged from HK$4,800 to HK$5,300) per square foot and ranged from HK$39,000 to HK$50,500 (2016: HK$25,000 to HK$34,500) per square meter. An increase in the market price per square foot/square meter used would result in an increase in fair value measurement of the industrial property units and residential property units, and vice versa.

15. INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy are as follows:

As at 31 December 2017

	Level 3	**Fair value**
	HK$'000	**HK$'000**
Industrial property units located in Hong Kong	**41,600**	**41,600**
Residential property units located in the PRC	**29,190**	**29,190**
	70,790	**70,790**

As at 31 December 2016

	Level 3	Fair value
	HK$'000	HK$'000
Industrial property units located in Hong Kong	40,900	40,900
Residential property units located in the PRC	17,775	17,775
	58,675	58,675

As at 31 December 2016, an investment property located in Hong Kong with a net book value of HK$6,200,000 (2017: Nil) was pledged to secure bank borrowings as set out in Note 24. There were no transfers into or out of Level 3 during both years.

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

	2017	2016
	HK$'000	HK$'000
Hong Kong	**41,600**	40,900
PRC	**29,190**	17,775
	70,790	58,675

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000 (Note)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION							
At 1 January 2016	378,531	4,792	2,300,070	32,244	22,714	14,129	2,752,480
Exchange realignment	(22,824)	(207)	(144,602)	(1,876)	(1,121)	(1,486)	(172,116)
Additions	34	–	1,609	334	17	9,061	11,055
Reclassification	–	–	–	224	–	(224)	–
Transferred to investment property	(5,500)	–	–	–	–	–	(5,500)
Adjustment on revaluation of property, plant and equipment transferred to investment property	(700)	–	–	–	–	–	(700)
Disposals	–	–	(4,177)	(397)	(3,298)	–	(7,872)
Adjustment on revaluation	(7,216)	–	–	–	–	–	(7,216)
At 31 December 2016	342,325	4,585	2,152,900	30,529	18,312	21,480	2,570,131
Exchange realignment	22,976	214	152,426	1,973	1,139	2,732	181,460
Additions	–	441	509	76	–	108,432	109,458
Reclassification	387	–	81,040	721	1,060	(83,208)	–
Transferred to investment property	(1,000)	–	–	–	–	–	(1,000)
Disposals	(13,502)	(927)	(5,160)	(536)	–	–	(20,125)
Adjustment on revaluation	1,347	–	–	–	–	–	1,347
At 31 December 2017	352,533	4,313	2,381,715	32,763	20,511	49,436	2,841,271
Comprising:							
At 31 December 2017							
At cost	–	4,313	2,381,715	32,763	20,511	49,436	2,488,738
At valuation	352,533	–	–	–	–	–	352,533
	352,533	4,313	2,381,715	32,763	20,511	49,436	2,841,271
At 31 December 2016							
At cost	–	4,585	2,152,900	30,529	18,312	21,480	2,227,806
At valuation	342,325	–	–	–	–	–	342,325
	342,325	4,585	2,152,900	30,529	18,312	21,480	2,570,131

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000 (Note)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	–	4,221	1,341,203	26,693	20,376	2,026	1,394,519
Exchange realignment	(611)	(184)	(71,886)	(1,547)	(982)	–	(75,210)
Provided for the year	28,051	228	85,711	1,263	162	–	115,415
Transferred to investment property	(187)	–	–	–	–	–	(187)
Eliminated on disposals	–	–	(2,740)	(365)	(3,140)	–	(6,245)
Write back on revaluation	(27,253)	–	–	–	–	–	(27,253)
At 31 December 2016	–	4,265	1,352,288	26,044	16,416	2,026	1,401,039
Exchange realignment	522	201	80,613	1,653	977	–	83,966
Provided for the year	32,334	249	85,240	847	233	–	118,903
Transferred to investment property	(3)	–	–	–	–	–	(3)
Reclassification	–	–	2,026	–	–	(2,026)	–
Eliminated on disposals	–	(927)	(2,284)	(497)	–	–	(3,708)
Write back on revaluation	(32,853)	–	–	–	–	–	(32,853)
At 31 December 2017	–	3,788	1,517,883	28,047	17,626	–	1,567,344
CARRYING VALUES							
At 31 December 2017	352,533	525	863,832	4,716	2,885	49,436	1,273,927
At 31 December 2016	342,325	320	800,612	4,485	1,896	19,454	1,169,092

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

16. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2017, leasehold land and building with carrying value of HK$997,000 (2016: HK$5,313,000) was transferred to investment property as it was rented out to independent third party to earn rental income during the year. The fair value of the leasehold land and building at the date of transfer was HK$1,000,000 (2016: HK$6,200,000), resulting in recognition of surplus on revaluation of HK$3,000 (2016: HK$887,000) in other comprehensive income and accumulated in property revaluation reserve.

The fair value of the leasehold land and buildings at date of transfer has been determined using market comparable approach by Grant Sherman, an independent qualified professional valuer not connected with the Group.

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

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

Due to the decline in financial performance of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC") and JESC, indirect wholly-owned subsidiaries of the Company, attributable to the increase in raw material cost during the year ended 31 December 2017, the management conducted reviews on the recoverable amounts of the property, plant and equipment of TESC and JESC, and determined that there was no impairment to the carrying amounts of these property, plant and equipment. The recoverable amounts of the relevant assets as at 31 December 2017 and 2016 were determined based on value in use calculation and certain key assumptions. Value in use calculations used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rates used for the value in use calculations are at 11.82% and 11.30% (2016: 10.94% and 10.45%), respectively. Cash flows beyond the five-year period were extrapolated using a zero growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development. No impairment loss was recognised in both current and prior years.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	2017	2016
	HK$'000	HK$'000
The carrying value of leasehold land and buildings comprises:		
Leasehold land and buildings in Hong Kong	**6,300**	12,200
Buildings in other regions in the PRC	**346,233**	330,125
	352,533	342,325

As at 31 December 2017, leasehold land and buildings located in the PRC (2016: Hong Kong) with an aggregate net book value of HK$215,187,000 (2016: HK$7,500,000) are pledged to secure bank borrowings as set out in Note 24. As at 31 December 2017, leasehold land and buildings of the Group were valued by Vigers (2016: Grant Sherman), an independent qualified professional valuer not connect with the Group.

The fair value of the leasehold land and buildings was determined based on either: (i) an open market value basis by reference to recent market transactions for comparable properties or (ii) on basis of depreciated replacement costs for certain properties in the absence of a known market based on comparable sales method.

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

As at 31 December 2017, plant and machinery with an aggregate amount of HK$100,004,000 (2016: HK$96,178,000) are pledged to secure bank borrowings as set out in Note 24.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Leasehold land and buildings	Carrying values as at 31 December 2017 HK$'000	2016 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Sensitivity
Industrial property units in Hong Kong	**6,300**	12,200	Level 3	Market Comparable Approach The key input is price per square foot.	Adjusted market price per square foot, taking into account the differences in time, location and individual factors, such as floor and size, between comparables and the property which was approximately HK$6,400 (2016: ranged from HK$4,800 to HK$5,000) per square foot.	An increase in the price per square foot used would result in an increase in fair value measurement of the property, and vice versa.
Commercial property unit in the PRC	**957**	894	Level 3	Market Comparable Approach The key input is price per square meter.	Adjusted market price per square meter, taking into account the differences in time, location and individual factors, such as floor and size, between comparables and the property which was approximately HK$21,500 (2016: HK$20,100) per square meter.	An increase in the price per square meter used would result in an increase in fair value measurement of the property, and vice versa.
Industrial property units in the PRC	**345,276**	329,231	Level 3	Depreciated Replacement Cost Approach The key inputs are: (1) Unit replacement cost; and (2) Adopted depreciation rate.	Unit replacement cost, based on current cost of replacement (reproduction) of a property which ranged from HK$1,356 to HK$3,154 (2016: HK$847 to HK$1,889) per square meter. Adopted depreciation rate, based on valuer's professional judgement.	If the unit replacement cost to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would increase/decrease by approximately HK$17.3 million (2016: HK$16.5 million), respectively. If the adopted depreciation rate to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would decrease/increase by approximately HK$3.2 million (2016: HK$2.8 million), respectively.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Details of leasehold land and buildings and information about the fair value hierarchy are as follows:

As at 31 December 2017

	Level 3	**Fair value**
	HK$'000	**HK$'000**
Industrial property units located in Hong Kong	**6,300**	**6,300**
Commercial property unit located in the PRC	**957**	**957**
Industrial property units located in the PRC	**345,276**	**345,276**
	352,533	**352,533**

As at 31 December 2016

	Level 3	Fair value
	HK$'000	HK$'000
Industrial property units located in Hong Kong	12,200	12,200
Commercial property unit located in the PRC	894	894
Industrial property units located in the PRC	329,231	329,231
	342,325	342,325

There were no transfers into or out of Level 3 during both years.

If leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK$272,645,000 (2016: HK$274,884,000).

Applications for property ownership certificates of the buildings located in the PRC with aggregate carrying values of approximately HK$1,771,000 (2016: HK$2,047,000) are still in progress as at 31 December 2017. In spite of the above, the directors of the Company are of the opinion that the Group has acquired the beneficial title of these properties and corresponding legal titles will be obtained in due time.

17. PREPAID LEASE PAYMENTS

	2017	2016
	HK$'000	HK$'000
Leasehold land located in the PRC analysed for reporting purposes as:		
Current asset	4,728	7,671
Non-current asset	74,314	141,636
	79,042	149,307

In late November 2017, TESC received a notice regarding the rescission of Confirmation Letter in respect of Successful Bidding of State-owned Land for Construction (the "Rescission Notice") from Tengzhou Municipal State-owned Land Resources Bureau (the "State-owned Land Resources Bureau") regarding three parcels of idle land with area of brownfield sites reaching 237,855 square meters (the "Lands"). The Lands were acquired through public auctions with a total consideration of RMB81,120,000 as plant site for the expansion of production capacity of TESC in 2010 and 2011 and recognised as prepaid lease payments. However, given the changes in the market of steel cord and strategic review of the expansion plan, TESC has yet to utilize the Lands since its acquisition, nor received the relevant land use right certificates. As at 31 December 2017, the aggregate carrying amount of the prepaid lease payments was RMB60,623,000 (equivalent to approximately HK$72,523,000). If the Rescission Notice is being carried out, TESC is required to surrender the Lands and forfeit the land use rights attached thereto.

Subsequently, TESC negotiated with the relevant Tengzhou government authorities with an aim to reach a consensus for TESC to continue utilizing the Lands to proceed with the construction plan in pursuit of obtaining the land use right certificates. In the process of obtaining the land use right certificates, TESC has been requested to pay compensation payments for attachments to land and green sprout during land acquisition, land deed tax and farmland occupancy tax (collectively referred to as the "Compensation and Tax Payments") regarding the Lands with an estimated aggregate amount of approximately RMB33,300,000 in early February 2018. As at the date of this report, the management is still seeking for a solution, including but not limited to, withdrawn of the Rescission Notice and the grant of a waiver of the Compensation and Tax Payments.

17. PREPAID LEASE PAYMENTS (continued)

In the view that the negotiations between the management and Tengzhou government authorities are still ongoing and there is no formal and concrete outcome in respect of the withdrawal of the Rescission Notice or the grant of waiver of the Compensation and Tax Payments, the Group has recognised a full impairment on the carrying amount of the prepaid lease payments for the Lands of HK$72,523,000.

As at 31 December 2017, prepaid lease payments with an aggregate amount of HK$69,211,000 (2016: Nil) are pledged to secure bank borrowings as set out in Note 24.

18. GOODWILL

	HK$'000
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	41,672
IMPAIRMENT	
At 1 January 2016, 31 December 2016 and 31 December 2017	41,672
CARRYING VALUE	
At 31 December 2016 and 31 December 2017	–

For the purposes of impairment assessment, goodwill had been allocated to one CGU, comprising a subsidiary in the steel cord segment, JESC. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The carrying amount of goodwill associated with the CGU as at 31 December 2017 and 2016 had been fully impaired.

19. CLUB MEMBERSHIPS

	2017	2016
	HK$'000	HK$'000
Club memberships, at cost	**874**	2,174
Exchange realignment	**24**	(24)
Less: impairment losses	**(567)**	(1,436)
	331	714

20. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**128,181**	84,528
Work in progress	**61,888**	43,590
Finished goods	**116,163**	105,003
	306,232	233,121

21. TRADE RECEIVABLES/BILLS RECEIVABLE

	2017 HK$'000	2016 HK$'000
Trade receivables	**708,075**	582,291
Less: allowance for bad and doubtful debts	**(19,742)**	(19,129)
	688,333	563,162
Bills receivable	**683,954**	479,206
	1,372,287	1,042,368

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

21. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

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

	2017	2016
	HK$'000	HK$'000
0 – 90 days	**535,777**	433,128
91 – 180 days	**145,993**	115,298
Over 180 days	**6,563**	14,736
	688,333	563,162

An aged analysis of bills receivable at the end of the reporting period presented based on sales invoice date, which approximated the respective revenue recognition dates, is as follows:

	2017	2016
	HK$'000	HK$'000
0 – 90 days	**50,595**	22,036
91 – 180 days	**266,311**	134,139
Over 180 days	**367,048**	323,031
	683,954	479,206

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

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

21. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

Included in the Group's trade receivables balances are debtors with an aggregate carrying amount of approximately HK$159,453,000 (2016: HK$133,707,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as they have been substantially settled subsequent to the end of the reporting period or there were no historical default of payments by the respective customers. The Group does not hold any collateral over these balances.

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

	2017	2016
	HK$'000	HK$'000
0 – 90 days	**150,646**	111,686
91 – 180 days	**7,060**	10,908
Over 180 days	**1,747**	11,113
	159,453	133,707

At the end of reporting period, the trade receivables that are denominated in currencies other than the functional currency of respective group entities are set out below:

		Denominated in	
	HKD	**USD**	**Others**
	HK$'000	**HK$'000**	**HK$'000**
		Equivalent	**Equivalent**
As at 31 December 2017	**–**	**62,859**	**21,024**
As at 31 December 2016	7,967	39,774	17,485

21. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

Movement in the allowance for bad and doubtful debts:

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	19,129	51,028
Exchange realignment	1,341	(2,968)
Impairment loss recognised on receivables	415	658
Impairment loss reversed on receivables	(1,143)	(29,589)
Balance at end of the year	19,742	19,129

During the year, there were settlements of the trade receivables with allowance applied subsequently received from that customer or the realisation of the related assets pledged by that customer subsequently became highly probable and its fair value can be reliably measured. As a result, a reversal of allowance for bad and doubtful debts with an amount of HK$1,143,000 (2016: HK$29,589,000) has been recognised and included in other gain or loss in the current year.

22. TRANSFERS OF FINANCIAL ASSETS

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

22. TRANSFERS OF FINANCIAL ASSETS (continued)

As at 31 December 2017

	Bills receivable discounted to banks with full recourse HK$'000	Bills receivable endorsed to suppliers with full recourse HK$'000
Carrying amount of bills receivable	**37,403**	**523,648**
Carrying amount of associated secured borrowings	**(37,403)**	**–**
Carrying amount of associated trade payables	**–**	**(484,189)**
Carrying amount of associated other payables	**–**	**(31,314)**
Carrying amount of associated prepayments	**–**	**(5,618)**
Carrying amount of associated deposit paid for the acquisition of property, plant and equipment	**–**	**(2,527)**

As at 31 December 2016

	Bills receivable discounted to banks with full recourse HK$'000	Bills receivable endorsed to suppliers with full recourse HK$'000
Carrying amount of bills receivable	92,411	300,418
Carrying amount of associated secured borrowings	(92,411)	–
Carrying amount of associated trade payables	–	(286,410)
Carrying amount of associated other payables	–	(14,008)

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Other receivables are unsecured and interest free. Except for value added tax receivables of approximately HK$20,987,000 (2016: HK$38,708,000) as at 31 December 2017, the remaining balances are repayable on demand.

24. PLEDGE OF ASSETS

At the end of the reporting period, the following assets are pledged to secure certain bills payable, loans from related companies and bank borrowings issued as set out in Notes 26, 27 and 28, respectively:

(i) leasehold land and buildings with an aggregate net book value of HK$215,187,000 (2016: HK$7,500,000);

(ii) investment property with an aggregate net book value of Nil (2016: HK$6,200,000);

(iii) plant and machinery with an aggregate amount of HK$100,004,000 (2016: HK$96,178,000);

(iv) bank deposits amounting to HK$59,780,000 (2016: HK$1,006,000);

(v) pledged deposit on loan from a related company amounting to HK$8,374,000 (2016: HK$7,825,000); and

(vi) prepaid lease payments with an aggregate amount of HK$69,211,000 (2016: Nil).

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

As at 31 December 2017, bank balances carry interest at market rates which ranging from 0.01% to 1.5% (2016: 0.01% to 0.35%) per annum. The pledged bank deposits carry fixed interest rate of 0.3% (2016: 0.3%) per annum. At the end of the reporting period, the bank balances and cash that are denominated in currencies other than the functional currency of respective group entities are set out below:

	Denominated in		
	HKD	**USD**	**Others**
	HK$'000	**HK$'000**	**HK$'000**
		Equivalent	**Equivalent**
As at 31 December 2017	**58,396**	**40,193**	**16,106**
As at 31 December 2016	184,735	26,733	5,946

Deposits amounting to HK$59,780,000 (2016: HK$1,006,000) have been pledged to secure credit facilities on bills payable granted to subsidiaries of the Company for the purchase of raw materials which is expected to be settled within 12 months. The pledged bank deposits will be released upon the full settlement of relevant bills payable.

26. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Trade payables	705,298	437,254
Bills payable	124,971	3,354
	830,269	440,608

The bills payable are secured by pledged bank deposits as disclosed in Note 25.

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

	2017 HK$'000	2016 HK$'000
0 – 30 days	208,686	142,287
31 – 90 days	236,611	121,497
91 – 180 days	227,788	140,691
181 – 365 days	24,377	22,004
Over 1 year	7,836	10,775
	705,298	437,254

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

Included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK$70,444,000 (2016: HK$28,099,000).

26. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS (continued)

At the end of reporting period, the trade and other payables that are denominated in currencies other than the functional currency of respective group entities are set out below:

	Denominated in		
	HKD	**USD**	**Others**
	HK$'000	**HK$'000**	**HK$'000**
		Equivalent	**Equivalent**
As at 31 December 2017	**6,073**	**19,545**	**3,782**
As at 31 December 2016	5,033	18,080	1,556

27. LOANS FROM RELATED COMPANIES

	2017	2016
	HK$'000	HK$'000
Loan from a related company (Note i)	**200,657**	161,000
Loan from a related company (Note ii)	**50,267**	72,211
	250,924	233,211
Less: Amount shown under current liabilities	**(228,754)**	(186,090)
Amount shown under non-current liabilities	**22,170**	47,121

Notes:

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

(ii) On 29 June 2016, TESC had entered into agreements (the "Agreement") with South China International Leasing Co., Ltd. ("South China Leasing") whereby TESC had drawn down a loan of RMB70,000,000 (equivalent to approximately HK$81,159,000) from South China Leasing on 16 August 2016 which is to be repayable by 12 quarterly instalments plus interest at 5.13% per annum and obligated to pay lease handling fee of RMB2,100,000 (equivalent to approximately HK$2,454,000). South China Leasing is an indirect 75% owned subsidiary of Shougang Concord Grand (Group) Limited, which is in turn held as to approximately 50.53% by Shougang HK. As such, South China Leasing is an associate of Shougang HK.

27. LOANS FROM RELATED COMPANIES (continued)

Notes: (continued)

(ii) (continued)

As collaterals for the above financing,

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

(ii) TESC placed a pledged deposit of RMB7,000,000 (equivalent to approximately HK$8,374,000 (2016: HK$7,825,000)) to South China Leasing; and

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

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

28. BANK BORROWINGS

	2017 **HK$'000**	2016 HK$'000
Other bank loans	**765,361**	801,337
Less: loan transaction costs	**(4,678)**	(3,321)
	760,683	798,016
Trust receipt loans	**–**	10,125
Discounted bills with recourse	**37,403**	92,411
	798,086	900,552
Secured	**134,303**	101,070
Unsecured	**663,783**	799,482
	798,086	900,552

28. BANK BORROWINGS (continued)

The above amounts are repayable as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**502,764**	900,552
In the second year	**26,914**	–
In the third to fifth year inclusive	**268,408**	–
	798,086	900,552
Less: Amount shown under current liabilities	**(502,764)**	(900,552)
Amount shown under non-current liabilities	**295,322**	–

As at 31 December 2017, the carrying amount of fixed-rate borrowings and variable-rate borrowings are HK$466,875,000 (2016: HK$470,335,000) and HK$331,211,000 (2016: HK$430,217,000), respectively.

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

The range of effective interest rates (which are also equal to contractual interest rates) on bank borrowings are as follows:

	2017	2016
Effective interest rate per annum:		
Fixed-rate borrowings	**4.77% to 5.64%**	2.81% to 5.79%
Variable-rate borrowings	**3.97% to 5.87%**	3.20% to 4.10%

Bank borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2017 HK$'000 Equivalent	2016 HK$'000 Equivalent
HKD	**295,322**	405,338
USD	**–**	1,466

29. DEFERRED TAX

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

	Accelerated tax depreciation	Allowance for bad and doubtful debts	Allowance for inventories	Revaluation of properties	Tax losses	Withholding tax on distributable profit of subsidiaries in the PRC	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	1,673	(9,823)	(2,041)	22,239	(1,237)	18,242	1,785	30,838
Exchange realignment	(1,033)	954	93	(1,368)	467	–	(3)	(890)
(Credit) charge to profit or loss for the year	(1,208)	4,890	211	676	(5,330)	1,767	(357)	649
Charge to equity for the year	–	–	–	3,626	–	–	–	3,626
At 31 December 2016	(568)	(3,979)	(1,737)	25,173	(6,100)	20,009	1,425	34,223
Exchange realignment	565	(583)	(5)	1,850	(720)	–	1	1,108
(Credit) charge to profit or loss for the year	(1,025)	(927)	(520)	1,540	944	75	(357)	(270)
Charge to equity for the year	–	–	–	3,538	–	–	–	3,538
Withholding Tax paid on profit distributions	–	–	–	–	–	(11,555)	–	(11,555)
At 31 December 2017	(1,028)	(5,489)	(2,262)	32,101	(5,876)	8,529	1,069	27,044

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$609,227,000 (2016: HK$611,032,000) available for offset against future profits. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$299,533,000 (2016: HK$315,591,000). A deferred tax asset has been recognised in respect of approximately HK$34,820,000 (2016: HK$26,278,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK$264,713,000 (2016: HK$289,313,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

29. DEFERRED TAX (continued)

Under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004.

30. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Issued and fully paid		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,922,901	1,191,798

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes loans from related companies and bank borrowings disclosed in Notes 27 and 28, respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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

32. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,654,190**	1,360,465
Financial liabilities		
Amortised cost	**1,982,191**	1,639,545

b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

Certain bank balances and cash, trade receivables, other receivables, trade and bills payables, other payables, loans from related companies and bank borrowings are denominated in currencies other than the functional currency of the relevant group entities. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rates and will consider hedging significant foreign currency exposure should the need arises.

32. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

(i) Currency risk (continued)

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

	2017 HK$'000 Equivalent	2016 HK$'000 Equivalent
Monetary assets denominated in		
HKD	**59,119**	193,439
USD	**103,090**	66,546
Others	**37,131**	23,431
Monetary liabilities denominated in		
HKD	**502,128**	571,371
USD	**19,545**	19,546
Others	**3,782**	1,556

Sensitivity analysis for non-derivative financial instruments

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

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

	HKD Impact		**USD Impact**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
(Loss) profit before tax	**22,150**	18,897	**(4,177)**	(2,350)

32. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

***Market risk** (continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate deposits (see Note 25) and fixed-rate borrowings (see Notes 27 and 28 for details of these borrowings). The Group currently does not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 28 for details of these bank borrowings) and bank balances. It is the Group's policy to reduce its exposure to cash flow interest rate risk for borrowings by hedging should the need arises.

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease for variable-rate bank borrowings used represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

At the end of the reporting period if interest rates had been 50 basis points (2016: 50 basis points) higher/lower for variable-rate bank borrowings, and all other variables were held constant, pre-tax losses for the year ended 31 December 2017 would increase/decrease by HK$1,656,000 (year ended 31 December 2016: pre-tax profit for the year would decrease/increase by approximately HK$2,151,000).

32. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

Maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

Concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 87.8% (2016: 88.4%) of the total trade receivables as at 31 December 2017.

Liquidity risk

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

32. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

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

Liquidity and interest rate risk tables

	Weighted average effective interest rate % (Note)	On demand HK$'000	Less than 3 months HK$'000	4 – 6 months HK$'000	7 – 12 months HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2017 HK$'000
2017								
Non-derivative financial liabilities								
Trade, bills and other payables	–	–	902,961	30,220	–	–	933,181	933,181
Loans from related companies	5.85	–	7,146	213,548	15,065	24,764	260,523	250,924
Bank borrowings								
– fixed rate	5.11	–	159,643	145,380	176,033	–	481,056	466,875
– variable rate	4.21	–	–	24,429	12,466	320,166	357,061	331,211
		–	1,069,750	413,577	203,564	344,930	2,031,821	1,982,191

	Weighted average effective interest rate % (Note)	On demand HK$'000	Less than 3 months HK$'000	4 – 6 months HK$'000	7 – 12 months HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2016 HK$'000
2016								
Non-derivative financial liabilities								
Trade, bills and other payables	–	–	505,782	–	–	–	505,782	505,782
Loans from related companies	5.80	–	169,844	6,228	13,353	52,588	242,013	233,211
Bank borrowings								
– fixed rate	4.50	–	175,662	169,565	136,688	–	481,915	470,335
– variable rate	4.02	–	22,584	11,404	412,642	–	446,630	430,217
		–	873,872	187,197	562,683	52,588	1,676,340	1,639,545

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

32. FINANCIAL INSTRUMENTS (continued)

c. Fair values

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

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

33. OPERATING LEASES

The Group as lessee

	2017 HK$'000	2016 HK$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	**7,776**	7,456

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

	2017 HK$'000	2016 HK$'000
Within one year	**7,132**	5,684
In the second to fifth year inclusive	**6,647**	6,768
	13,779	12,452

Operating lease payments represents rental payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms of three years (2016: one to three years).

33. OPERATING LEASES (continued)

The Group as lessor

Property rental income earned during the year was HK$2,330,000 (2016: HK$1,790,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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

	2017	2016
	HK$'000	HK$'000
Within one year	**1,885**	1,874
In the second to fifth year inclusive	**2,111**	2,817
	3,996	4,691

34. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment – contracted for but not provided in the consolidated financial statements	**21,762**	340

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans HK$'000 Note 28	Trust receipt loans HK$'000 Note 28	Discounted bills with recourse HK$'000 Note 28	Loans from related companies HK$'000 Note 27	Total HK$'000 HK$'000
At 1 January 2017	798,016	10,125	92,411	233,211	1,133,763
Financing cash flows	(106,327)	(10,079)	199,039	8,326	90,959
Foreign exchange translation	27,395	(46)	6,695	4,218	38,262
Interest expenses	42,956	–	–	5,169	48,125
Loan transaction costs	(1,357)	–	–	–	(1,357)
Settlement upon maturity of bills	–	–	(260,742)	–	(260,742)
At 31 December 2017	760,683	–	37,403	250,924	1,049,010

36. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme with maximum amount of HK$1,500 per month per employee (2016: HK$1,500 per month per employee) (save for certain directors of the Company), which contribution is matched by employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the respective local municipal government. These PRC subsidiaries are required to contribute 9% to 21% (2016: 9% to 21%) of its basic payroll costs to the scheme/fund. The contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme/fund.

37. SHARE-BASED PAYMENT TRANSACTIONS

a) The Company's share option scheme

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company. A new share option scheme (the "2012 Scheme") was adopted and the 2002 Scheme was terminated by the shareholders of the Company at the annual general meeting held on 25 May 2012.

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

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

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

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

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

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

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

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

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

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

No share options were granted under the 2002 Scheme during the years ended 31 December 2017 and 2016, since the 2002 scheme had terminated. During the year ended 31 December 2017, no share options granted under the 2002 Scheme had been exercised or cancelled while 3,268,000 (2016: 3,300,000) share options lapsed.

No share options were granted, exercised, cancelled or lapsed under the 2012 Scheme during the years ended 31 December 2017 and 2016.

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

The following table discloses details of the Company's share options granted under 2002 Scheme held by eligible participants and movements in such holdings in relation thereto during the years ended 31 December 2017 and 2016:

Grantees	Number of share options for 2017 At 1.1.2017	Lapsed during the year	At 31.12.2017	Date of grant (Note c)	Exercise period	Exercise price per share HK$
Directors of the Company	1,268,000	(1,268,000) (Note a)	–	26.1.2007	26.1.2007-25.1.2017	0.656
	5,400,000	–	5,400,000	13.7.2009	13.7.2009-12.7.2019	0.680
	5,400,000	–	5,400,000 (Note d)	13.7.2009	1.1.2010-12.7.2019	0.680
	7,200,000	–	7,200,000 (Note d)	13.7.2009	1.1.2011-12.7.2019	0.680
	39,400,000	–	39,400,000	28.1.2008	28.1.2008-27.1.2018	0.864
	58,668,000	(1,268,000)	57,400,000			
Employees other than directors of the Company	30,700,000	(2,000,000) (Note b)	28,700,000	28.1.2008	28.1.2008-27.1.2018	0.864
	100,000	–	100,000 (Note e)	28.1.2008	28.1.2011-27.1.2018	0.864
	1,350,000	–	1,350,000	13.7.2009	13.7.2009-12.7.2019	0.680
	1,350,000	–	1,350,000 (Note d)	13.7.2009	1.1.2010-12.7.2019	0.680
	1,800,000	–	1,800,000 (Note d)	13.7.2009	1.1.2011-12.7.2019	0.680
	35,300,000	(2,000,000)	33,300,000			
All other eligible participants	17,000,000	–	17,000,000	28.1.2008	28.1.2008-27.1.2018	0.864
	110,968,000	(3,268,000)	107,700,000			
Exercisable at year end			107,700,000			
Weighted average exercise price	0.824	0.783	0.826			

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

Grantees	Number of share options for 2016 At 1.1.2016	Lapsed during the year	At 31.12.2016	Date of grant (Note c)	Exercise period	Exercise price per share HK$
Directors of the Company	1,268,000	–	1,268,000	26.1.2007	26.1.2007-25.1.2017	0.656
	5,400,000	–	5,400,000	13.7.2009	13.7.2009-12.7.2019	0.680
	5,400,000	–	5,400,000 (Note d)	13.7.2009	1.1.2010-12.7.2019	0.680
	7,200,000	–	7,200,000 (Note d)	13.7.2009	1.1.2011-12.7.2019	0.680
	39,400,000	–	39,400,000	28.1.2008	28.1.2008-27.1.2018	0.864
	58,668,000	–	58,668,000			
Employees other than directors of the Company	32,200,000	(1,500,000) (Note f)	30,700,000	28.1.2008	28.1.2008-27.1.2018	0.864
	100,000	–	100,000 (Note e)	28.1.2008	28.1.2011-27.1.2018	0.864
	1,350,000	–	1,350,000	13.7.2009	13.7.2009-12.7.2019	0.680
	1,350,000	–	1,350,000 (Note d)	13.7.2009	1.1.2010-12.7.2019	0.680
	1,800,000	–	1,800,000 (Note d)	13.7.2009	1.1.2011-12.7.2019	0.680
	36,800,000	(1,500,000)	35,300,000			
All other eligible participants	18,800,000	(1,800,000) (Note g)	17,000,000	28.1.2008	28.1.2008-27.1.2018	0.864
	114,268,000	(3,300,000)	110,968,000			
Exercisable at year end			110,968,000			
Weighted average exercise price	0.825	0.864	0.824			

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

Notes:

a. A total of 1,268,000 share options at the exercise price of HK$0.656 held by Mr. Yip Kin Man, Raymond and Mr. Law, Yui Lun lapsed during the year.

b. A total of 2,000,000 share options at the exercise price of HK$0.864 lapsed during the year due to the resignation and retirement of certain employees.

c. The vesting period of the share options is from the date of grant to the beginning of the exercise period except for the share options set out under Notes (d) and (e) below.

d. 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Directors of the Company". 1,350,000 share options have a vesting period from the date of grant to 31 December 2009 and 1,800,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Employees other than the directors of the Company".

e. 100,000 share options have a vesting period of three years from the date of grant.

f. A total of 1,500,000 share options at the exercise price of HK$0.864 lapsed during the year in which 500,000 share options lapsed due to the retirement of an employee and 1,000,000 share options lapsed following the resignation of another employee.

g. 1,800,000 share options held by the legal representative of a former independent non-executive Director, the late Mr. Chan Chung Chun, lapsed during the year in accordance with the terms of the 2002 Scheme.

38. RELATED PARTY TRANSACTIONS/BALANCES

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

Shougang HK, together with its subsidiaries and associates other than the Group, will hereinafter be referred to as the "Shougang HK Group". Apart from the transactions with Shougang HK Group, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business.

38. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(i) Transactions with PRC government-related entities

(a) Transactions with Shougang HK Group

	2017	2016
	HK$'000	HK$'000
Consultancy fees paid to Shougang HK Group	**960**	960
Rental expenses paid to Shougang HK Group	**3,384**	3,240
Loans from Shougang HK Group	**200,000**	264,159
Loans repaid to Shougang HK Group	**185,980**	79,105
Pledged deposit paid to Shougang HK Group	**–**	7,825
Handling fee paid to Shougang HK Group	**830**	783
Interest expenses on loans from Shougang HK Group	**5,169**	3,007

(b) Transactions with other PRC government-related entities

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

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

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

Compensation of key management personnel

The key management of the Group comprises all executive directors of the Company, details of their emoluments and share-based payment transactions are disclosed in Notes 12 and 37, respectively. The emoluments of the directors of the Company are decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2017 **HK$'000**	2016 HK$'000
Non-current assets		
Investments in subsidiaries	**487,653**	574,191
Advances to subsidiaries	**867,078**	880,685
Club memberships	**331**	354
	1,355,062	1,455,230
Current assets		
Prepayments and other receivables	**1,606**	428
Amounts due from subsidiaries	**498,176**	401,902
Bank balances and cash	**25,559**	180,234
	525,341	582,564
Current liabilities		
Other payables and accruals	**21,366**	15,548
Loan from a related company	**200,658**	161,000
Bank borrowings – due within one year	**–**	396,679
	222,024	573,227
Net current assets	**303,317**	9,337
Total assets less current liabilities	**1,658,379**	1,464,567
Non-current liability		
Bank borrowings – due after one year	**295,322**	–
	1,363,057	1,464,567
Capital and reserves		
Share capital	**1,191,798**	1,191,798
Reserves	**171,259**	272,769
	1,363,057	1,464,567

The Company's statement of financial position was approved and authorised for issue by the board of directors on 22 March 2018 and are signed on its behalf by:

Su Fanrong	**Tang Cornor Kwok Kau**
DIRECTOR	*DIRECTOR*

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Capital reserve HK$'000 (Note)	Translation reserve HK$'000	Share option reserve HK$'000	Retained profits (Accumulated loss) HK$'000	Total HK$'000
At 1 January 2016	23,990	129,521	30,765	186,747	371,023
Loss for the year	–	–	–	(34,323)	(34,323)
Exchange difference arising on translation into presentation currency	–	(63,931)	–	–	(63,931)
Total comprehensive expense for the year	–	(63,931)	–	(34,323)	(98,254)
Lapse of share options	–	–	(884)	884	–
At 31 December 2016	23,990	65,590	29,881	153,308	272,769
Loss for the year	–	–	–	(158,605)	(158,605)
Exchange difference arising on translation into presentation currency	–	57,095	–	–	57,095
Total comprehensive income (expense) for the year	–	57,095	–	(158,605)	(101,510)
Lapse of share options	–	–	(987)	987	–
At 31 December 2017	23,990	122,685	28,894	(4,310)	171,259

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

40. PRINCIPAL SUBSIDIARIES

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

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and paid-up capital	Attributable equity interest of the Group 2017	2016	Principal activities
Bigland Investment Limited	Hong Kong/PRC	2 ordinary shares	**100%**	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares	**100%**	100%	Trading of metals and investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares	**100%**	100%	Investment holding
Fair Win Development Limited	Hong Kong/PRC	500,000 ordinary shares	**100%**	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares	**100%**	100%	Property investment
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares	**100%***	100%*	Processing and trading of copper and brass products
Jiaxing Eastern Steel Cord Co., Ltd.# 嘉興東方鋼簾線有限公司	PRC	US$70,000,000	**100%**	100%	Manufacturing of steel cords
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US$1 each	**100%**	100%	Investment holding
Tengzhou Eastern Steel Cord Co., Ltd. # 滕州東方鋼簾線有限公司	PRC	US$82,000,000	**100%**	100%	Manufacturing of steel cords
Wei Hua International Trading (Shanghai) Co., Ltd. # 巍華國際貿易(上海)有限公司	PRC	US$5,000,000	**100%***	100%*	Trading of metal products

40. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and paid-up capital	Attributable equity interest of the Group 2017	2016	Principal activities
東莞興銅五金有限公司#	PRC	US$5,700,000	**100%**	100%	Processing and trading of copper and brass products
首長寶佳(上海)管理有限公司#	PRC	US$2,000,000	**100%**	100%	Provision of management services

\# A wholly foreign owned enterprise

* Directly held by the Company

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

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

SUMMARY OF INVESTMENT PROPERTIES

Particulars of the investment properties held by the Group as at 31 December 2017 are as follows:

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

DEFINITIONS

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

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

DEFINITIONS

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"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
"Continuous Disclosure Obligation Policy"	Shougang Concord Century Holdings Limited Continuous Disclosure Obligation Policy adopted on 28 March 2011 and revised from time to time thereafter
"Copper and brass products"	processing and trading of copper and brass products
"Director(s)"	the director(s) of the Company
"Employment Ordinance"	the employment Ordinance (Chapter 57 of the Laws of Hong Kong)
"Fair Union"	Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International
"Global Digital"	Global Digital Creations Holdings Limited (Stock Code: 8271), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange
"Group"	the Company and its subsidiaries
"HKD/HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Inside Information Provisions"	Part XIVA of the SFO
"Internal Control Manual"	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter

DEFINITIONS

"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
"Loco Hong Kong"	Loco Hong Kong Holdings Limited, (Stock Code: 8162), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan
"Richson"	Richson Limited, a subsidiary of Shougang International
"RMB"	Renminbi, the lawful currency of the PRC
"SCCHL Code"	Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter
"SCCHL Corporate Governance Code"	Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of the Company
"Shareholder(s)"	shareholder(s) of the Company

DEFINITIONS

"Shougang Fushan"	Shougang Fushan Resources Group Limited (Stock Code: 639), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Shougang Grand"	Shougang Concord Grand (Group) Limited (Stock Code: 730), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Shougang HK"	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a substantial shareholder (as defined under the SFO) of the Company
"Shougang International"	Shougang Concord International Enterprises Company Limited (Stock Code: 697), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, a substantial shareholder (as defined under the SFO) of the Company
"Steel cord"	manufacturing of steel cords for radial tyres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TESC"	Tengzhou Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
"USD/US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.