



**SHOUGANG CONCORD CENTURY
HOLDINGS LIMITED**

Stock Code : 103



2016
INTERIM REPORT

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CORPORATE PROFILE

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

The Group is primarily involved in the following activities:

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

CORPORATE'S VISION AND MISSION

Shougang Century's Vision is to:

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

Shougang Century's Mission is to:

- strive for a successful “Eastern” brand awareness and recognition in steel cord industry
- be an enterprise of 200,000 tonnes annual production capacity in steel cord manufacturing
- be one of the top three independent manufacturers in China steel cord industry
- 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

As at 25 August 2016

Board of Directors

Executive Directors

Li Shaofeng (*Chairman*)
Yang Kaiyu (*Managing Director*)
Su Fanrong (*Executive Deputy 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*)
Li Shaofeng (*Vice Chairman*)
Leung Shun Sang, Tony
Law, Yui Lun
Lam Yiu Kin

Nomination Committee

Li Shaofeng (*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

Qualified Accountant

Wu Siu Man

CORPORATE INFORMATION (continued)

As at 25 August 2016

| | |
|---|---|
| Principal Bankers | Agricultural Bank of China Bank of China China CITIC Bank China CITIC Bank International Limited China Minsheng Banking Corp. Ltd. Industrial and Commercial Bank of China |
| Auditors | Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> |
| Internal Auditors | Moore Stephens Consulting 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

| | Six months ended 30 June | | |
|-----------------------------------|---------------------------------|---------------------------------|---------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 | % Change |
| Operations | | | |
| Revenue | 776,156 | 683,143 | +13.6 |
| Gross profit | 57,997 | 5,345 | +985.1 |
| E(L)BITDA (Note 1) | 38,402 | (95,381) | N/A |
| Adjusted EBITDA (Note 2) | 41,016 | 11,017 | +272.3 |
| Loss for the period | (46,682) | (194,562) | -76.0 |
| Loss per Share (basic) (HK cents) | (2.43) | (10.12) | -76.0 |

Notes:

1. E(L)BITDA represents earnings (loss) before finance costs, income tax, depreciation and amortisation.
2. Adjusted EBITDA represents EBITDA before (i) allowance for inventories recognised of HK\$518,000 (2015: HK\$13,401,000); (ii) allowance for bad and doubtful debts reversed, net of HK\$5,998,000 (2015: HK\$3,630,000); (iii) bad debts recovered of HK\$508,000 (2015: written off of HK\$3,971,000); (iv) foreign exchange losses of HK\$10,121,000 (2015: HK\$2,190,000); (v) increase in fair value of investment properties of HK\$1,519,000 (2015: HK\$2,534,000); and (vi) impairment loss recognised in respect of property, plant and equipment of HK\$93,000,000 for the six months ended 30 June 2015 (2016: Nil).

| | 30 June 2016 (Unaudited) HK\$'000 | | | 31 December 2015 (Audited) HK\$'000 | | | % Change |
|----------------------------------|---|--|--|---|--|--|--------------|
| | | | | | | | |
| Financial position | | | | | | | |
| Total assets | 2,764,512 | | | 3,006,147 | | | -8.0% |
| Shareholders' equity | 1,327,905 | | | 1,395,870 | | | -4.9% |
| Net asset value per Share (HK\$) | 0.691 | | | 0.726 | | | -4.9% |

INFORMATION FOR INVESTORS

Share Information

| | |
|---|----------------------|
| Board lot size: | 2,000 Shares |
| Shares outstanding as at 30 June 2016: | 1,922,900,556 Shares |
| Market capitalisation as at 30 June 2016: | HK\$371,119,807 |
| Closing Share price as at 30 June 2016: | HK\$0.193 |
| Loss per Share (basic) for the six months ended 30 June 2016: | (HK2.43 cents) |

Key Date

| | |
|---------------------------------------|----------------|
| Announcement of 2016 Interim Results: | 25 August 2016 |
|---------------------------------------|----------------|

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

JESC 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

TESC 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



Hing Cheong Metals (China & Hong Kong) Limited

Address: Unit 2-3, G/F., TCL Tower, 8 Tai Chung Road
Tsuen Wan, Hong Kong
Telephone: (852) 2498 7800
Fax: (852) 2498 7912
E-mail address: hingcheong_m@ctimail.com



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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF
SHOUANG CONCORD CENTURY HOLDINGS LIMITED

首長寶佳集團有限公司

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Shougang Concord Century Holdings Limited (the "Company") and its subsidiaries set out on pages 9 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

| | | Six months ended 30 June | |
|-----------------------------------|-------|---------------------------------|---------------------------------|
| | NOTES | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Revenue | 3 | 776,156 | 683,143 |
| Cost of sales | | (718,159) | (677,798) |
| Gross profit | | 57,997 | 5,345 |
| Investment and other income | 4 | 849 | 915 |
| Other gains and losses | 5 | (2,075) | (93,150) |
| Distribution and selling expenses | | (23,136) | (21,681) |
| Administrative expenses | | (35,241) | (36,380) |
| Research and development expenses | | (22,809) | (22,536) |
| Finance costs | 6 | (22,953) | (28,140) |
| Loss before tax | | (47,368) | (195,627) |
| Income tax credit | 7 | 686 | 1,065 |
| Loss for the period | 8 | (46,682) | (194,562) |
| Loss per share | 9 | (HK2.43 cents) | (HK10.12 cents) |
| Basic and diluted | | | |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|--|--|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Loss for the period | (46,682) | (194,562) |
| Other comprehensive income (expense) | | |
| Items that will not be reclassified to profit or loss: | | |
| Exchange differences arising on translation of group entities | (31,127) | 416 |
| Surplus on revaluation of properties | 12,071 | 12,143 |
| Recognition of deferred tax liability on revaluation of properties | (2,227) | (2,221) |
| Other comprehensive (expense) income for the period (net of tax) | (21,283) | 10,338 |
| Total comprehensive expense for the period | (67,965) | (184,224) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

| | NOTES | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--|-------|--|--|
| Non-current assets | | | |
| Investment properties | 11 | 51,901 | 50,727 |
| Property, plant and equipment | 11 | 1,284,618 | 1,357,961 |
| Prepaid lease payments | | 152,253 | 159,417 |
| Goodwill | 12 | – | – |
| Club memberships | | 730 | 738 |
| Deposit paid for the acquisition of property, plant and equipment | | 352 | 956 |
| | | 1,489,854 | 1,569,799 |
| Current assets | | | |
| Inventories | | 219,217 | 239,709 |
| Trade receivables | 13 | 491,623 | 463,061 |
| Bills receivable | 13 | 388,014 | 411,547 |
| Prepayments, deposits and other receivables | | 91,609 | 103,951 |
| Prepaid lease payments | | 8,029 | 8,191 |
| Pledged bank deposits | | 2,807 | – |
| Bank balances and cash | | 73,359 | 209,889 |
| | | 1,274,658 | 1,436,348 |
| Current liabilities | | | |
| Trade and bills payable | 14 | 393,792 | 334,033 |
| Other payables and accruals | 15 | 96,276 | 107,933 |
| Tax payable | | 17,349 | 18,236 |
| Loan from a related company | 16 | – | 52,252 |
| Bank borrowings – due within one year | 17 | 895,533 | 866,867 |
| | | 1,402,950 | 1,379,321 |
| Net current (liabilities) assets | | (128,292) | 57,027 |
| Total assets less current liabilities | | 1,361,562 | 1,626,826 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2016

| | NOTES | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--------------------------------------|-------|--|--|
| Non-current liabilities | | | |
| Bank borrowings – due after one year | 17 | – | 199,000 |
| Other payable | | 1,056 | 1,118 |
| Deferred tax liabilities | | 32,601 | 30,838 |
| | | 33,657 | 230,956 |
| | | 1,327,905 | 1,395,870 |
| Capital and reserves | | | |
| Share capital | 18 | 1,191,798 | 1,191,798 |
| Reserves | | 136,107 | 204,072 |
| | | 1,327,905 | 1,395,870 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| | 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) | Retained profits (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|---------------------------|---|--|---------------------------------|----------------------------------|--|---|-------------------|
| At 1 January 2015 (Audited) | 1,191,798 | 23,990 | 72,186 | 408,729 | 31,545 | 45,468 | 88,166 | 1,861,882 |
| Loss for the period | - | - | - | - | - | - | (194,562) | (194,562) |
| Exchange differences arising on translation of group entities | - | - | - | 416 | - | - | - | 416 |
| Surplus on revaluation of properties | - | - | 12,143 | - | - | - | - | 12,143 |
| Recognition of deferred tax liability on revaluation of properties | - | - | (2,221) | - | - | - | - | (2,221) |
| Total comprehensive income (expense) for the period | - | - | 9,922 | 416 | - | - | (194,562) | (184,224) |
| Lapse of share options | - | - | - | - | (780) | - | 780 | - |
| At 30 June 2015 (Unaudited) | 1,191,798 | 23,990 | 82,108 | 409,145 | 30,765 | 45,468 | (105,616) | 1,677,658 |
| At 1 January 2016 (Audited) | 1,191,798 | 23,990 | 89,868 | 302,020 | 30,765 | 45,468 | (288,039) | 1,395,870 |
| Loss for the period | - | - | - | - | - | - | (46,682) | (46,682) |
| Exchange differences arising on translation of group entities | - | - | - | (31,127) | - | - | - | (31,127) |
| Surplus on revaluation of properties | - | - | 12,071 | - | - | - | - | 12,071 |
| Recognition of deferred tax liability on revaluation of properties | - | - | (2,227) | - | - | - | - | (2,227) |
| Total comprehensive income (expense) for the period | - | - | 9,844 | (31,127) | - | - | (46,682) | (67,965) |
| Lapse of share options | - | - | - | - | (617) | - | 617 | - |
| At 30 June 2016 (Unaudited) | 1,191,798 | 23,990 | 99,712 | 270,893 | 30,148 | 45,468 | (334,104) | 1,327,905 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2016

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| OPERATING ACTIVITIES | | |
| Loss before tax | (47,368) | (195,627) |
| Allowance for bad and doubtful debts reversed, net | (5,998) | (3,630) |
| Bad debts written off | – | 3,971 |
| Allowance for inventories recognised, net | 518 | 13,401 |
| Depreciation of property, plant and equipment | 58,736 | 67,766 |
| Amortisation of prepaid lease payments | 4,081 | 4,340 |
| Impairment loss recognised in respect of property, plant and equipment | – | 93,000 |
| Adjustments for non-cash items | 21,223 | 29,044 |
| Operating cash flows before movements in working capital | 31,192 | 12,265 |
| Decrease (increase) in inventories | 16,254 | (4,591) |
| (Increase) decrease in trade receivables | (31,515) | 88,895 |
| Increase in bills receivable | (263,831) | (114,212) |
| Decrease in prepayments, deposits and other receivables | 26,899 | 3,684 |
| Increase in trade and bills payable | 307,637 | 89,750 |
| Increase in other payables and accruals | 7,791 | 725 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | 94,427 | 76,516 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (3,888) | (6,368) |
| Placement of pledged bank deposits | (2,807) | – |
| Deposit paid for the acquisition of property, plant and equipment | (234) | – |
| Proceeds from disposal of property, plant and equipment | 1,497 | 662 |
| NET CASH USED IN INVESTING ACTIVITIES | (5,432) | (5,706) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| FINANCING ACTIVITIES | | |
| Repayment of bank loans | (396,678) | (708,943) |
| Repayment of trust receipt loans | (37,061) | (48,666) |
| Interest paid | (22,456) | (25,058) |
| Repayment to a related company | (50,000) | – |
| New bank loans raised | 213,827 | 475,168 |
| Bank advances for discounted bills | 34,008 | 181,494 |
| Trust receipt loans raised | 36,892 | 47,410 |
| Loan advanced from a related company | – | 50,000 |
| NET CASH USED IN FINANCING ACTIVITIES | (221,468) | (28,595) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (132,473) | 42,215 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 209,889 | 68,789 |
| Effect of foreign exchange rate changes | (4,057) | 21 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash | 73,359 | 111,025 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2015 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

As of 30 June 2016, the Group had net current liabilities of approximately HK\$128,292,000. Up to the date these condensed consolidated financial statements were authorised for issuance, the relevant banks agreed to renew the banking facilities amounting to approximately HK\$257,409,000 upon the maturity in the coming 12 months. In addition, the Group has undrawn banking facilities of approximately HK\$75,355,000 which will not be expired in the coming 12 months and proceeds under the Sale and Purchase Agreement (as defined in note 22) of RMB70,000,000 (equivalent to approximately HK\$81,620,000) which was subsequently drew on 16 August 2016. Therefore, the management of the Group is satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

3. SEGMENT INFORMATION

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

Specifically, the Group's operating and reportable segments under HKFRS 8 *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.

These operating segments are the basis that is regularly reviewed by the CODM in order to allocate resources to the segment and to assess its performance. During the six months ended 30 June 2016, the Group had no material change in segment assets and segment liabilities.

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

Six months ended 30 June 2016

| | Steel cord (Unaudited) HK\$'000 | Copper and brass products (Unaudited) HK\$'000 | Segment total (Unaudited) HK\$'000 |
|----------------------------|---------------------------------------|--|---|
| Segment revenue | | | |
| External sales | 631,483 | 143,824 | 775,307 |
| Inter-segment sales (Note) | – | 9,832 | 9,832 |
| Total | 631,483 | 153,656 | 785,139 |
| Segment results | 3,554 | (59) | 3,495 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2016 (continued)

Reconciliation of revenue

| | (Unaudited) HK\$'000 |
|--------------------------------------|----------------------------|
| Total revenue for operating segments | 785,139 |
| Rental income | 849 |
| Elimination of inter-segment sales | (9,832) |
| <hr/> | |
| Group revenue | <hr/> 776,156 <hr/> |

Reconciliation of loss before tax

| | (Unaudited) HK\$'000 |
|--|-----------------------------|
| Total profit for operating segments | 3,495 |
| Profit arising from property investment | 2,119 |
| Unallocated amounts | |
| Unallocated income | 282 |
| Unallocated foreign exchange losses, net | (13,461) |
| Unallocated expenses | (16,850) |
| Unallocated finance costs | (22,953) |
| <hr/> | |
| Loss before tax | <hr/> (47,368) <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2015

| | Steel cord (Unaudited) HK\$'000 | Copper and brass products (Unaudited) HK\$'000 | Segment total (Unaudited) HK\$'000 |
|----------------------------|---------------------------------------|--|---|
| Segment revenue | | | |
| External sales | 529,931 | 152,386 | 682,317 |
| Inter-segment sales (Note) | – | 8,732 | 8,732 |
| Total | 529,931 | 161,118 | 691,049 |
| Segment results | (153,272) | 651 | (152,621) |

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

Reconciliation of revenue

| | |
|--------------------------------------|-------------------------|
| | (Unaudited) HK\$'000 |
| Total revenue for operating segments | 691,049 |
| Rental income | 826 |
| Elimination of inter-segment sales | (8,732) |
| Group revenue | 683,143 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2015 (continued)

Reconciliation of loss before tax

| | (Unaudited) HK\$'000 |
|--|-------------------------|
| Total loss for operating segments | (152,621) |
| Profit arising from property investment | 3,145 |
| Unallocated amounts | |
| Unallocated income | 366 |
| Unallocated foreign exchange losses, net | (2,877) |
| Unallocated expenses | (15,500) |
| Unallocated finance costs | (28,140) |
| Loss before tax | (195,627) |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

4. INVESTMENT AND OTHER INCOME

| | Six months ended 30 June | |
|----------------------------------|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Investment income | | |
| Interest income on bank deposits | 279 | 365 |
| Other income | | |
| Government grants (Note) | 135 | 225 |
| Sales of scrap materials | 260 | 38 |
| Others | 175 | 287 |
| | 570 | 550 |
| | 849 | 915 |

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

5. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Foreign exchange losses, net | (10,121) | (2,190) |
| Impairment loss recognised in respect of property, plant and equipment (note 11) | – | (93,000) |
| Allowance for bad and doubtful debts reversed, net | 5,998 | 3,630 |
| Increase in fair value of investment properties | 1,519 | 2,534 |
| Bad debts recovered (written off) | 508 | (3,971) |
| Gain (loss) on disposal of property, plant and equipment, net | 21 | (153) |
| | (2,075) | (93,150) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

6. FINANCE COSTS

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Interest expenses on bank borrowings | 19,749 | 25,058 |
| Interest expenses on loan from a related company | 370 | 740 |
| Amortisation of transaction costs | 2,834 | 2,342 |
| | 22,953 | 28,140 |

7. INCOME TAX CREDIT

| | Six months ended 30 June | |
|-----------------------------------|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 184 | 584 |
| Overprovision in prior periods: | | |
| PRC EIT | (647) | (647) |
| Deferred tax | (223) | (1,002) |
| | (686) | (1,065) |

For the six months ended 30 June 2016 and 30 June 2015, no provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong.

Under the Law of the PRC on EIT, the Company's subsidiaries operating in the PRC are subject to a tax rate of 25%, except for Jiaying Eastern Steel Cord Co., Ltd. ("JESC"). JESC has been recognised as a state-encouraged high-new technology enterprise starting from 2014, and the status is valid for a period of three years. JESC is thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016, subject to annual review by the relevant tax authority in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 58,736 | 67,766 |
| Allowance for inventories recognised, net (included in "Cost of sales") | 518 | 13,401 |
| Amortisation of prepaid lease payments (included in "Cost of sales") | 4,081 | 4,340 |

9. LOSS PER SHARE

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Loss | | |
| Loss for the period for the purposes of calculation of basic and diluted loss per share | (46,682) | (194,562) |

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2016 | 2015 |
| Number of shares | | |
| Number of ordinary shares for the purposes of calculation of basic and diluted loss per share | 1,922,900,556 | 1,922,900,556 |

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options during the six months ended 30 June 2016 and 30 June 2015 since their exercise would result in a decrease in loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

10. DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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

During the six months ended 30 June 2016, the Group incurred approximately HK\$5,467,000 (six months ended 30 June 2015: HK\$2,791,000) on the enhancement of production facilities of steel cord segment. In addition, the Group also acquired approximately HK\$79,000 (six months ended 30 June 2015: HK\$410,000) of other property, plant and equipment in the current interim period.

During the six months ended 30 June 2016, the Group disposed of certain machineries with an aggregate carrying amount of HK\$1,476,000 (six months ended 30 June 2015: HK\$815,000) for cash proceeds of HK\$1,497,000 (six months ended 30 June 2015: HK\$662,000), resulting in a gain on disposal of HK\$21,000 (six months ended 30 June 2015: a loss on disposal of HK\$153,000).

In view of marginal net profit incurred during the six months ended 30 June 2016 and the historical unfavorable performance in the previous periods of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC", an indirect wholly owned subsidiary of the Company), the management conducted an impairment assessment of the property, plant and equipment of TESC. Since it is not possible to estimate the recoverable amount of the property, plant and equipment of TESC individually, the management determines the recoverable amount of the cash-generating unit ("CGU") to which the property, plant and equipment belongs. The management considers that the recoverable amount of the individual property, plant and equipment cannot be determined if (i) the value in use of the asset cannot be estimated to be close to its fair value less costs to sell, and (ii) the asset does not generate cash inflows that are largely independent of those from other assets. TESC is considered as a CGU for the purpose of the impairment test. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

The recoverable amount of TESC as at 30 June 2016 was determined based on value in use calculation and certain key assumptions. Value in use calculations use cash flow projections based on financial budgets approved by the management covering a four and a half year period. The discount rate used for the value in use calculations is at 10.97% (six months ended 30 June 2015: 10.85%). Cash flow beyond the four and a half year period is 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 is based on the management's expectations for the market development.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (continued)

During the six months ended 30 June 2016, no impairment loss is made to the property, plant and equipment of TESC. During the six months ended 30 June 2015, an impairment loss of HK\$93,000,000 recognised in the profit or loss of which (i) HK\$91,770,000 was allocated to plant and machinery; (ii) HK\$382,000 was allocated to furniture, fixtures and equipment; (iii) HK\$152,000 was allocated to motor vehicles; and (iv) HK\$696,000 was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. The impairment loss has been included in other gains and losses in profit or loss.

The fair value of the Group's investment properties at the end of the reporting period has been arrived at on the basis of a valuation carried out on that date by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the recent transactions for similar premises in the proximity. The resulting increase in fair value of investment properties of approximately HK\$1,519,000 (six months ended 30 June 2015: HK\$2,534,000) has been credited to profit or loss for the period.

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

Market comparable approach has been adopted for valuing the Group's industrial property units and residential property units under investment property. One of the key inputs used in valuing the Group's industrial property units and residential property units under investment property was the price per square foot/square meter, which was approximately HK\$4,700 (31 December 2015: HK\$4,600) per square foot and ranged from HK\$24,600 to HK\$34,200 (31 December 2015: HK\$24,000 to HK\$33,300) per square meter respectively. An increase in the price per square foot/square meter used would result in an increase in fair value measurement of the industrial property units and residential property units, and vice versa.

Fair values of the Group's investment properties are categorised as Level 3 measurement in the three-level fair value hierarchy. During the period, there were no transfers between levels within the fair value hierarchy.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (continued)

The leasehold land and buildings of approximately HK\$369,766,000 (31 December 2015: HK\$378,531,000) included in property, plant and equipment were valued by Grant Sherman on either: (1) an open market value basis by reference to recent market transactions for comparable properties; or (2) on basis of depreciated replacement costs for certain properties in the absence of a known market based on comparable sales at the end of the reporting period. The resulting surplus on revaluation of leasehold land and buildings has been credited to property revaluation reserve of approximately HK\$12,071,000 (six months ended 30 June 2015: HK\$12,143,000).

In estimating the fair value of the leasehold land and buildings, the highest and best use of the leasehold land and buildings is their current use.

Market comparable approach has been adopted for valuing the Group's industrial property units in Hong Kong and commercial property unit in the PRC. One of the key inputs used in valuing the Group's industrial property units and commercial property unit was the price per square foot/square meter, which was ranged from HK\$4,700 to HK\$5,300 (31 December 2015: HK\$4,600 to HK\$5,100) per square foot, and was approximately HK\$21,100 (31 December 2015: HK\$21,500) per square meter. An increase in the price per square foot/square meter used would result in an increase in fair value measurement of leasehold land and buildings, and vice versa.

Depreciated replacement cost approach has been adopted for valuing the Group's industrial property units in the PRC. Two of the key inputs used in valuing the Group's industrial property units were unit replacement cost and adopted depreciation rate, based on the valuer's professional judgement. The unit replacement cost per square meter was ranged from HK\$887 to HK\$1,989 (31 December 2015: HK\$905 to HK\$2,029). If the unit replacement cost of 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\$17.4 million (31 December 2015: HK\$17.9 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\$2.9 million (31 December 2015: HK\$3.0 million), respectively.

Fair values of the Group's leasehold land and buildings are categorised as Level 3 measurement in the three-level fair value hierarchy. During the period, there were no transfers between levels within the fair value hierarchy.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

12. GOODWILL

For the purposes of impairment testing, goodwill has 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 recoverable amount is the higher of value in use and fair value less costs to sell.

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

13. TRADE RECEIVABLES/BILLS RECEIVABLE

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

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

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---------------|--|--|
| 0 – 90 days | 401,818 | 332,284 |
| 91 – 180 days | 76,304 | 115,770 |
| Over 180 days | 13,501 | 15,007 |
| | 491,623 | 463,061 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

13. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

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

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---------------|--|--|
| 0 – 90 days | 22,463 | 35,534 |
| 91 – 180 days | 169,010 | 240,893 |
| Over 180 days | 196,541 | 135,120 |
| | 388,014 | 411,547 |

Included in bills receivable as at 30 June 2016 was an amount of approximately HK\$32,445,000 (31 December 2015: HK\$17,905,000) and approximately HK\$274,837,000 (31 December 2015: HK\$260,288,000) that have been discounted to banks (note 17) and have been endorsed to certain creditors, respectively, on a full recourse basis.

As the Group has not transferred the significant risks and rewards related to these receivables, it continues to recognise the full carrying amount of the bills receivable and the associated liabilities. At the end of the reporting period, all bills receivable are with maturity date within one year based on the issuance date of relevant bills.

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

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---------------|--|--|
| 0 – 90 days | 104,566 | 161,182 |
| 91 – 180 days | 11,161 | 14,990 |
| Over 180 days | 3,067 | 5,048 |
| | 118,794 | 181,220 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

13. TRADE RECEIVABLES/BILLS RECEIVABLE (continued)

Movement in the allowance for bad and doubtful debts:

| | HK\$'000 |
|---|----------|
| At 1 January 2015 (Audited) | 49,949 |
| Exchange realignment | (1,653) |
| Amount written off as uncollectible | (1,779) |
| Impairment losses recognised on receivables | 21,218 |
| Impairment losses reversed on receivables | (16,707) |
| At 31 December 2015 (Audited) | 51,028 |
| Exchange realignment | (1,008) |
| Impairment losses recognised on receivables | 2,346 |
| Impairment losses reversed on receivables | (8,344) |
| At 30 June 2016 (Unaudited) | 44,022 |

During the six months ended 30 June 2016, HK\$508,000 (six months ended 30 June 2015: Nil) has been recovered from bad debts previously written off. During the six months ended 30 June 2015, trade receivables with an amount of HK\$3,971,000 (six months ended 30 June 2016: Nil) has been directly written off as bad debts.

14. TRADE AND BILLS PAYABLE

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|----------------|--|--|
| Trade payables | 384,438 | 334,033 |
| Bills payable | 9,354 | – |
| | 393,792 | 334,033 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

14. TRADE AND BILLS PAYABLE (continued)

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

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|----------------|--|--|
| 0 – 30 days | 115,622 | 70,985 |
| 31 – 90 days | 131,494 | 128,768 |
| 91 – 180 days | 95,677 | 98,029 |
| 181 – 365 days | 32,614 | 27,043 |
| Over 1 year | 9,031 | 9,208 |
| | 384,438 | 334,033 |

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

15. OTHER PAYABLES AND ACCRUALS

At 30 June 2016, included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK\$38,969,000 (31 December 2015: HK\$51,114,000).

16. LOAN FROM A RELATED COMPANY

The amount represents a loan from and related accrued interest payable to Shougang (Hong Kong) Finance Company Limited ("Shougang Finance"), a wholly owned subsidiary of Shougang HK (as defined in note 21). The loan was unsecured, bears interest at 6% per annum and was fully repaid during the six months ended 30 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

17. BANK BORROWINGS

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--------------------------------|--|--|
| Other bank loans | 842,743 | 1,030,249 |
| Less: loan transaction costs | (2,102) | (4,936) |
| | 840,641 | 1,025,313 |
| Trust receipt loans | 22,447 | 22,649 |
| Discounted bills with recourse | 32,445 | 17,905 |
| | 895,533 | 1,065,867 |
| | | |
| Secured | 19,446 | 16,622 |
| Unsecured | 876,087 | 1,049,245 |
| | 895,533 | 1,065,867 |

During the six months ended 30 June 2016, the Group obtained new bank borrowings of approximately HK\$284,727,000 (six months ended 30 June 2015: HK\$704,072,000) and repaid bank borrowings of approximately HK\$433,739,000 (six months ended 30 June 2015: HK\$757,609,000). At 30 June 2016, the Group's bank borrowings carry interest at market rates ranging from 2.45% to 4.65% per annum (31 December 2015: 1.89% to 5.62% per annum) and are repayable within one year (31 December 2015: repayable over a period of one to two years).

At 30 June 2016, the carrying amount of bank borrowings that are in breach of loan covenants and shown under current liabilities amounted to approximately HK\$398,083,000 (31 December 2015: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

18. SHARE CAPITAL

| | Number of shares '000 | Amount HK\$'000 |
|---|--|--------------------|
| Authorised | | |
| At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016 | Unlimited number of ordinary shares with no par value | |
| Issued and fully paid | | |
| At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016 | 1,922,901 | 1,191,798 |

19. SHARE-BASED PAYMENT

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. 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 which serves the same purpose as the 2002 Scheme became effective on 29 May 2012 upon the Listing Committee of The Stock Exchange of Hong Kong Limited 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, and will remain in force for a period of ten years from that date.

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 number of issued shares of the Company as at the date of approval of this interim report. The other principal terms of the 2012 Scheme are same as the 2002 Scheme.

No share options have been granted under the 2012 Scheme during the six months ended 30 June 2016 and 30 June 2015. The share options which have been granted and remained outstanding under the 2002 Scheme shall remain valid and exercisable in accordance with their terms of issue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

19. SHARE-BASED PAYMENT (continued)

The movements of the share options granted under the 2002 Scheme:

| | Number of share options |
|--|----------------------------|
| Outstanding at 1 January 2015 | 116,268,000 |
| Lapsed during the year | (2,000,000) |
| Outstanding at 31 December 2015 and 1 January 2016 | 114,268,000 |
| Lapsed during the period | (2,300,000) |
| Outstanding at 30 June 2016 | 111,968,000 |

20. CAPITAL COMMITMENTS

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---|--|--|
| Commitments in respect of the acquisition of property, plant and equipment – contracted for but not provided in the condensed consolidated financial statements | 271 | 276 |

21. RELATED PARTY TRANSACTIONS/BALANCES

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

21. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(i) Transactions with PRC government-related entities

(a) Transactions with Shougang HK Group

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Consultancy fees paid to Shougang HK Group | 480 | 480 |
| Rental expenses paid to Shougang HK Group | 1,620 | 1,188 |
| Loan from Shougang Finance | – | 50,000 |
| Loan repaid to Shougang Finance | 50,000 | – |
| Interest expenses on loan from Shougang Finance | 370 | 740 |

(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, the 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

21. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(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 are as follows:

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Director fees | – | 23 |
| Salaries and other benefits | 3,392 | 2,312 |
| Retirement benefit scheme contributions | 125 | 115 |
| | 3,517 | 2,450 |

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

22. EVENT AFTER THE END OF REPORTING PERIOD

On 10 August 2016, a sale and purchase agreement dated 29 June 2016 between TESC and South China International Leasing Co., Ltd. ("South China Leasing"), an indirect 75% owned subsidiary of Shougang Concord Grand (Group) Limited, which is in turn held as to approximately 50.53% by Shougang HK (the "Sale and Purchase Agreement"), whereby South China Leasing agreed to purchase machineries and equipment (the "Machineries and Equipment") from TESC at a purchase consideration of RMB70,000,000 (equivalent to approximately HK\$ 81,620,000), a finance lease agreement dated 29 June 2016 between TESC and South China Leasing (the "Finance Lease Agreement") whereby South China Leasing agreed to lease back the Machineries and Equipment to TESC for a term of 36 months and lease consideration of approximately RMB78,158,000 (equivalent to approximately HK\$91,132,000) and a guarantee agreement dated 29 June 2016 between the Company and South China Leasing whereby the Company agreed to provide a guarantee in favour of South China Leasing as security for the payment obligations of TESC under the Finance Lease Agreement have been approved, confirmed and ratified by independent shareholders of the Company under ordinary resolutions in a general meeting. The proceeds under the Sale and Purchase Agreement was subsequently drew on 16 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Review of operations

The PRC recorded a stable economic growth of 6.7% in the first half year, which was mainly contributed by the increase in domestic demand, fixed assets investments and property development. The sentiment of industrial sectors also improved during the first half year, these brought along the solid recovery in the demand for radial tyres from the automobile and transportation sectors that boosted the growth in demand for steel cord. Compared with the weak sales in the same period last year, the Steel cord segment achieved a significant growth in sales volume during the period under review. Whilst selling price of steel cord began to rebound in the second quarter, it still registered palpable year-on-year decline. Nonetheless, its negative impact was fully offset by the remarkable reduction in production costs and this segment achieved turnaround to EBITDA and a substantial increase in Adjusted EBITDA during the period.

In respect of the Copper and brass products segment, sales volume recorded a satisfactory growth during the period which was driven by the increased sales in the PRC. However, revenue had a moderate year-on-year decrease that was attributable to a significant decline in copper price throughout the previous year. Despite revenue dropped, gross profit recorded a year-on-year increase which was the result of the persistent implementation of risk-averse sales and inventory management strategies. However, attributable to the allowance made against a long overdue trade receivable, this segment recorded a small operating loss during the period.

For the Group as a whole, contributed by the encouraging improvement in operating performance of the Steel cord segment, the Group accomplished a turnaround from LBITDA in the same period last year to EBITDA for the period. Adjusted EBITDA also recorded a substantial increase of 272.3% over the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Steel cord

Overall performance

This segment achieved a strong growth in sales volume of steel cords of 47.2% over the same period last year, which was driven by the increase in demand for radial tyres in the first half year and reflected the result of our strategy to expand our coverage on large-scale and multinational tyre manufacturers and the fine-tuning of sales mix to flexibly meet our customers' requirements. In respect of the selling price of steel cord, there were signs of bottoming out in the latter half of the period under review as we were able to raise our selling price across a wide spectrum of the construction types. However, when compared to the same period last year, the average selling price for the period still recorded a decrease of 14.0%.

Despite the average selling price of steel cord exhibited a year-on-year decline, this negative impact was markedly offset by the comparable reduction in unit production cost of steel cord, which was further driven down by the higher capacity utilization of our two manufacturing plants, JESC and TESC; lower cost of materials and cost savings from improved operating efficiencies.

As a result of the increased sales, this segment achieved an inordinate increase in gross profit as compared to the same period last year. Gross profit amounted to HK\$52,591,000 for the period, sharply increased by 284.8 times as compared to HK\$184,000 for the same period last year.

Henceforth the tremendous increase in gross profit, this segment achieved a turnaround from LBITDA of HK\$81,662,000 in the same period last year to EBITDA of HK\$65,788,000 for the period. Adjusted EBITDA (excluding allowance for inventories recognised; allowance for bad and doubtful debts reversed, net; bad debts recovered (written off); impairment loss recognised in respect of property, plant and equipment; and foreign exchange gains) was HK\$55,965,000 for the period, significantly increased by 127.5% as compared to HK\$24,598,000 for the same period last year.

In corollary, this segment recorded operating profit of HK\$3,554,000 for the period, as compared to operating loss of HK\$153,272,000 for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Steel cord (continued)

Revenue

This segment sold 71,089 tonnes of steel cord during the period, substantially increased by 47.2% as compared to 48,281 tonnes in the same period last year. In respect of its sawing wire business, this segment sold an aggregate of 233 tonnes of sawing wire products during the period, increased by 42.1% as compared to 164 tonnes for the same period last year. The analysis of sales volume of this segment for the period is set out below:

| | 2016 | | 2015 | | % change |
|------------------------------|----------------------|--|----------------------|--|--------------|
| | Sales volume (Tonne) | % of total sales volume of steel cords | Sales volume (Tonne) | % of total sales volume of steel cords | |
| Steel cords for: | | | | | |
| – truck tyres | 46,066 | 64.8 | 32,662 | 67.6 | +41.0 |
| – off the road truck tyres | 1,496 | 2.1 | 1,786 | 3.7 | -16.2 |
| – passenger car tyres | 23,527 | 33.1 | 13,833 | 28.7 | +70.1 |
| Total for steel cords | 71,089 | 100.0 | 48,281 | 100.0 | +47.2 |
| Sawing wire products | 233 | | 164 | | +42.1 |
| Other steel wires | 35 | | 187 | | -81.3 |
| Total | 71,357 | | 48,632 | | +46.7 |

The sales volume of steel cord for both truck tyres and passenger car tyres recorded remarkable growth; while those for off the road truck tyres decreased by 16.2% as compared to the same period last year, partly reflected the lowered demand due to the slowdown in mining sector since last year. In respect of sales mix, there was no significant change during the period, the proportion of sales of steel cord for truck tyres accounted for 64.8% of total sales volume of steel cord for the period, decreased by 2.8 percentage points as compared to the same period last year, but still remained the largest part of sales of steel cord of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Steel cord (continued)

Revenue (continued)

In respect of sales of steel cord by region, the volume of export sales of steel cord amounted to 11,553 tonnes for the period, increased by 36.3% as compared to 8,477 tonnes for the same period last year. The volume of export sales represented 16.2% of total sales volume of steel cord for the period as compared to 17.6% for the same period last year. The breakdown of sales of steel cord for the period by geographical locations is as follows:

| | 2016 | | 2015 | | % change |
|---------------------------------------|----------------------|--|----------------------|--|---------------|
| | Sales volume (Tonne) | % of total sales volume of steel cords | Sales volume (Tonne) | % of total sales volume of steel cords | |
| PRC | 59,536 | 83.8 | 39,804 | 82.4 | +49.6 |
| Export sales: | | | | | |
| Asia (other than PRC) | 7,630 | 10.7 | 5,210 | 10.8 | +46.4 |
| EMEA (Europe, Middle East and Africa) | 2,646 | 3.7 | 1,062 | 2.2 | +149.2 |
| North America | 1,111 | 1.6 | 1,233 | 2.6 | -9.9 |
| South America | 166 | 0.2 | 972 | 2.0 | -82.9 |
| Total export sales | 11,553 | 16.2 | 8,477 | 17.6 | +36.3 |
| Total | 71,089 | 100.0 | 48,281 | 100.0 | +47.2 |

The sales volume growth of 47.2% in steel cord was partly offset by the decline in average selling price of 14.0%, therefore revenue of this segment increased by 19.2% over the same period last year to HK\$631,483,000 (2015: HK\$529,931,000) for the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Steel cord (continued)

Cost of sales

Cost of sales of this segment increased by 9.3% to HK\$578,892,000 (2015: HK\$529,747,000) for the period, which was lower than the revenue growth of 19.2%. The smaller increase in cost of sales was contributed by lowering the average unit cost of production of steel cord (excluding allowance for inventories recognised) by approximately 19.2% as compared to the same period last year.

Gross profit

Contributed by the increase in sales volume and lowered unit cost of sales of steel cord, gross profit of this segment sharply increased by 284.8 times over the same period last year to HK\$52,591,000 (2015: HK\$184,000) for the period. Gross profit margin significantly improved from 0.1% in the same period last year to 8.3% for the period.

Investment and other income

Investment and other income amounted to HK\$450,000 for the period, decreased by 44.7% as compared to HK\$814,000 for the same period last year, mainly as the amount of sundry income decreased by 89.4% as compared to the same period last year.

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

We continued to exert tight credit control on sales and vigorous collection of trade receivables and simultaneously, incessantly pursued on the collection of long overdue trade receivables since last year. The recovery of long overdue debts continued to flourish during the period and the aging position of trade receivables of this segment at the end of the period also improved as compared to the end of last year. Therefore, an allowance for bad and doubtful debts of HK\$6,654,000 (2015: HK\$3,630,000) was reversed during the period; furthermore, out of the HK\$3,971,000 of bad debts written off during the same period last year, HK\$508,000 of such was recovered during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Steel cord (continued)

Impairment losses recognised in respect of goodwill and property, plant and equipment

The operating performance of this segment improved significantly during the period, as demonstrated by the strong growth in sales volume, reduction in unit production costs and turnaround from loss to profit in respect of both EBITDA and operating results. Based on the performance of this segment in the first half year, we are of the view that no impairment loss is required to be recognised in respect of property, plant and equipment of both JESC and TESC. An impairment loss of HK\$41,672,000 was recognised in respect of the full amount of goodwill of JESC during the year ended 31 December 2015. An impairment loss of HK\$93,000,000 was recognised in respect of the property, plant and equipment of TESC in the same period last year.

Distribution and selling expenses

Distribution and selling expenses increased by 7.0% over the same period last year to HK\$21,535,000 (2015: HK\$20,128,000) for the period, mainly as the sales volume of this segment increased by 46.7% over the same period last year.

Administrative expenses

Administrative expenses amounted to HK\$15,594,000 for the period, decreased by 13.9% as compared to HK\$18,119,000 for the same period last year, being the results of constant implementation of cost control measures.

Research and development expenses

Research and development expenses amounted to HK\$22,809,000 (2015: HK\$22,536,000) for the period, slightly increased by 1.2% as compared to the same period last year. These expenses accounted for 3.6% of revenue of this segment for the period, decreased by 0.7 percentage point as compared to 4.3% for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Copper and brass products

Overall performance

The sentiment of the industrial sector in the PRC improved during the first half year that brought along the recovery of demand for commodity products including copper. This segment therefore achieved sales volume growth of 21.3% over the same period last year, while revenue recorded a moderate decrease that was attributable to the significant decline in copper price during the previous year. Albeit revenue dropped, gross profit increased as compared to the same period last year, as this segment continued to adopt risk-averse sales and inventory management strategies to react to the downward copper price in recent years. However, attributable to the allowance made for a long overdue trade receivable, this segment recorded a small operating loss of HK\$59,000 during the period, whereas it had operating profit of HK\$651,000 in the same period last year.

Revenue

This segment sold 4,202 tonnes of copper and brass products during the period, increased by 21.3% as compared to 3,465 tonnes for the same period last year. Sales in the PRC increased year-on-year by 32.8%; however, sales in Hong Kong declined by 5.4% as compared to the same period last year, as the demand outside the PRC was lackadaisical. The breakdown of sales volume of this segment for the period by geographical regions is as follows:

| | Six months ended 30 June | | | | |
|--------------|--------------------------|-------------------------|----------------------|-------------------------|--------------|
| | 2016 | | 2015 | | % change |
| | Sales volume (Tonne) | % of total sales volume | Sales volume (Tonne) | % of total sales volume | |
| PRC | 3,214 | 76.5 | 2,421 | 69.9 | +32.8 |
| Hong Kong | 988 | 23.5 | 1,044 | 30.1 | -5.4 |
| Total | 4,202 | 100.0 | 3,465 | 100.0 | +21.3 |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Copper and brass products (continued)

Revenue (continued)

Copper price recorded a slight rebound during the first half year, in which the 3-month copper price as quoted by the London Metals Exchange recorded an increase of approximately 2.9% throughout the period under review. However, as copper price significantly declined by 25.3% over the previous year, therefore, the average selling price of this segment for the period recorded a year-on-year decline of 21.3% as compared to the same period last year. The contribution from the increased sales volume was fully offset by the decrease in average selling price. Furthermore, the revenue from sales in the PRC for the period was also negatively impacted by the depreciation of RMB exchange rate of approximately 6% when compared to the same period last year. Therefore, this segment recorded a decline in revenue of 4.6% as compared to the same period last year to HK\$153,656,000 (2015: HK\$161,118,000) for the period.

Gross profit

Despite revenue decreased by 4.6% as compared to the same period last year, gross profit of this segment recorded a moderate increase of 4.9% over the same period last year to HK\$4,613,000 (2015: HK\$4,399,000) for the period. Gross profit margin improved by 0.3 percentage point from 2.7% of the same period last year to 3.0% for the period.

Allowance for bad and doubtful debts

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review

The Group reported net loss of HK\$46,682,000 for the period, significantly reduced by 76.0% as compared to HK\$194,562,000 for the same period last year. The key financial performance indicators of the Group for the period are shown as follows:

| | Six months ended 30 June | | Change |
|---------------------------------|--------------------------|------------------|---------|
| | 2016 HK\$'000 | 2015 HK\$'000 | |
| OPERATING PERFORMANCE | | | |
| Revenue | 776,156 | 683,143 | +13.6% |
| Gross profit margin | 7.5% | 0.8% | +6.7pp |
| E(L)BITDA | 38,402 | (95,381) | N/A |
| E(L)BITDA margin | 4.9% | -14.0% | +18.9pp |
| Adjusted EBITDA | 41,016 | 11,017 | +272.3% |
| Adjusted EBITDA margin | 5.3% | 1.6% | +3.7pp |
| Loss for the period | (46,682) | (194,562) | -76.0% |
| Net loss margin | -6.0% | -28.5% | +22.5pp |
| Basic loss per share (HK cents) | (2.43) | (10.12) | -76.0% |

| | 30 June | 31 December | Change |
|---|------------------|------------------|--------|
| | 2016 HK\$'000 | 2015 HK\$'000 | |
| KEY FINANCIAL INFORMATION | | | |
| Total assets | 2,764,512 | 3,006,147 | -8.0% |
| Total liabilities | 1,436,607 | 1,610,277 | -10.8% |
| Equity attributable to equity holders of the Company | 1,327,905 | 1,395,870 | -4.9% |
| Net current (liabilities) assets | (128,292) | 57,027 | N/A |
| Bank balances and cash (including pledged bank deposits) | 76,166 | 209,889 | -63.7% |
| Total interest bearing borrowings | 895,533 | 1,118,119 | -19.9% |
| Net interest bearing borrowings | 819,367 | 908,230 | -9.8% |
| Current ratio (times) | 0.91 | 1.04 | |
| Gearing ratio | 61.7% | 65.1% | -3.4pp |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

The Group recorded EBITDA of HK\$38,402,000 for the period, improved significantly as compared to LBITDA of HK\$95,381,000 for the same period last year. Adjusted EBITDA of the Group also significantly increased by 272.3% over the same period last year to HK\$41,016,000 (2015: HK\$11,017,000) for the period, as shown below:

| | Six months ended 30 June | | |
|---|--------------------------|------------------|---------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | % change |
| E(L)BITDA | 38,402 | (95,381) | N/A |
| Adjusted for: | | | |
| Allowance for inventories recognised | 518 | 13,401 | -96.1 |
| Allowance for bad and doubtful debts reversed, net | (5,998) | (3,630) | +65.2 |
| Bad debts (recovered) written off | (508) | 3,971 | N/A |
| Impairment loss recognised in respect of property, plant and equipment | – | 93,000 | -100.0 |
| Foreign exchange losses, net | 10,121 | 2,190 | +362.1 |
| Increase in fair value of investment properties | (1,519) | (2,534) | -40.1 |
| Adjusted EBITDA | 41,016 | 11,017 | +272.3 |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Revenue

Revenue of the Group amounted to HK\$776,156,000 (2015: HK\$683,143,000) for the period, increased by 13.6% over the same period last year. The breakdown of revenue of the Group for the period is as follows:

| | 2016 | | 2015 | | % change |
|--|----------------|--------------------|----------|--------------------|--------------|
| | HK\$'000 | % of total revenue | HK\$'000 | % of total revenue | |
| Steel cord | 631,483 | 81.4 | 529,931 | 77.6 | +19.2 |
| Copper and brass products | 153,656 | 19.8 | 161,118 | 23.6 | -4.6 |
| Sub-total | 785,139 | 101.2 | 691,049 | 101.2 | +13.6 |
| Elimination of sales by Copper and brass products segment to Steel cord segment | (9,832) | (1.3) | (8,732) | (1.3) | +12.6 |
| Property rental | 849 | 0.1 | 826 | 0.1 | +2.8 |
| Total | 776,156 | 100.0 | 683,143 | 100.0 | +13.6 |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Gross profit

Gross profit of the Group sharply increased by 985.1% over the same period last year to HK\$57,997,000 (2015: HK\$5,345,000) for the period, which was mainly contributed by the substantial improvement in gross profit of Steel cord segment. Gross profit margin of the Group also increased discernibly by 6.7 percentage points as compared to the same period last year to 7.5% for the period. The breakdown of gross profit of the Group for the period is as follows:

| | Six months ended 30 June | | 2015 | | % change |
|---------------------------|--------------------------|--------------|--------------|--------------|---------------|
| | 2016 | Gross profit | 2015 | Gross profit | |
| | HK\$'000 | margin (%) | HK\$'000 | margin (%) | |
| Steel cord | 52,591 | 8.3 | 184 | 0.1 | +28482.1 |
| Copper and brass products | 4,613 | 3.0 | 4,399 | 2.7 | +4.9 |
| Property rental | 793 | 93.4 | 762 | 92.3 | +4.1 |
| Total | 57,997 | 7.5 | 5,345 | 0.8 | +985.1 |

Investment and other income

Investment and other income of the Group decreased by 7.2% as compared to that of the same period last year to HK\$849,000 (2015: HK\$915,000) for the period, primarily as both bank interest income and government grants decreased as compared to the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Other gains and losses

The Group recorded net loss of HK\$2,075,000 on other gains and losses for the period, substantially reduced by 97.8% as compared to HK\$93,150,000 for the same period last year. The breakdown of other gains and losses for the period is as follows:

| | | Six months ended 30 June | | |
|--|-------|--------------------------|------------------|--------------|
| | Notes | 2016 HK\$'000 | 2015 HK\$'000 | % change |
| Foreign exchange losses, net | 1 | (10,121) | (2,190) | +362.1 |
| Increase in fair value of investment properties | | 1,519 | 2,534 | -40.1 |
| Allowance for bad and doubtful debts reversed, net | | 5,998 | 3,630 | +65.2 |
| Bad debts recovered (written off) | | 508 | (3,971) | N/A |
| Impairment loss recognised in respect of property, plant and equipment | 2 | – | (93,000) | -100.0 |
| Others | | 21 | (153) | N/A |
| Total | | (2,075) | (93,150) | -97.8 |

Notes:

1. The Group recorded a significant increase in foreign exchange loss of 362.1% as compared to the same period last year. The exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") recorded a decrease of approximately 2.0% against HKD over the first half year, which was higher as compared to a decrease of 0.1% in the same period last year. Attributable to the decrease in the official RMB exchange rate during the period, the Group recorded increased amount of foreign exchange loss on its HKD and USD denominated bank borrowings during the period.
2. This represented impairment loss recognised in respect of property, plant and equipment of TESC during the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Distribution and selling expenses

Distribution and selling expenses of the Group amounted to HK\$23,136,000 (2015: HK\$21,681,000) for the period, increased by 6.7% over the same period last year, as the sales volume of Steel cord and Copper and brass products segments increased by 47.2% and 21.3% respectively over the same period last year.

Administrative expenses

Administrative expenses of the Group amounted to HK\$35,241,000 (2015: HK\$36,380,000) for the period, decreased by 3.1% as compared to the same period last year. As the revenue of the Group increased by 13.6% as compared to the same period last year, the ratio of administrative expenses to revenue therefore lowered from 5.3% in the same period last year to 4.5% for the period.

Research and development expenses

Research and development expenses of the Group amounted to HK\$22,809,000 for the period, slightly increased by 1.2% as compared to HK\$22,536,000 for the same period last year. Such expenses were all incurred by Steel cord segment, which have been mentioned in '*Steel cord*' section above.

Segment results

The Group recorded profit of HK\$3,495,000 from its business segments for the period, significantly improved as compared to loss of HK\$152,621,000 for the same period last year. The breakdown of the operating results of the Group's business segments for the period is as follows:

| | Six months ended 30 June | | |
|---------------------------|--------------------------|------------------|------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | % change |
| Steel cord | 3,554 | (153,272) | N/A |
| Copper and brass products | (59) | 651 | N/A |
| Total | 3,495 | (152,621) | N/A |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Finance costs

Finance costs of the Group amounted to HK\$22,953,000 for the period, decreased by 18.4% as compared to HK\$28,140,000 for the same period last year, mainly the result of the decrease in the amount of interest bearing borrowings. The average interest bearing borrowings was HK\$1,006,826,000 for the period, lowered by 19.7% as compared to HK\$1,254,136,000 for the same period last year.

Income tax credit

Income tax credit of the Group amounted to HK\$686,000 for the period, decreased by 35.6% as compared to HK\$1,065,000 for the same period last year, mainly as the income tax credit of JESC decreased due to the improvement in its operating results during the period.

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

In addition, according to the EIT Law and Implementation Regulation and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Group is subject to withholding tax on dividends paid by subsidiaries in the PRC to holding companies in Hong Kong at a rate of 5% (2015: 5%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Trade receivables

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK\$535,645,000 at 30 June 2016, moderately increased by 4.2% as compared to HK\$514,089,000 at 31 December 2015, as revenue increased during the period. Regarding the allowance for bad and doubtful debts, as certain long overdue outstanding receivables were recovered during the period, therefore, a net amount of allowance for bad and doubtful debts of HK\$5,998,000 was reversed during the period. Furthermore, the balance of allowance for bad and doubtful debts was reduced by HK\$1,008,000 due to the depreciation of RMB exchange rate of approximately 2.0% over the period, the amount of allowance for bad and doubtful debts therefore reduced from HK\$51,028,000 at 31 December 2015 to HK\$44,022,000 at 30 June 2016.

The amount of trade receivables (after allowance for bad and doubtful debts) was HK\$491,623,000 as at 30 June 2016, increased by 6.2% over the end of 2015. Its aging analysis and the comparison with the end of 2015 are as follows:

| Age | 30 June 2016 | | 31 December 2015 | | % change |
|---------------|----------------|--------------|------------------|-------|--------------|
| | HK\$'000 | % | HK\$'000 | % | |
| 0 – 90 days | 401,818 | 81.7 | 332,284 | 71.8 | +20.9 |
| 91 – 180 days | 76,304 | 15.5 | 115,770 | 25.0 | -34.1 |
| Over 180 days | 13,501 | 2.8 | 15,007 | 3.2 | -10.0 |
| Total | 491,623 | 100.0 | 463,061 | 100.0 | +6.2 |

The overall quality of trade receivables remained healthy and in manageable condition, as trade receivables aged within the Group's credit period of 30-90 days accounted for 81.7% of total trade receivables at 30 June 2016, increased by 9.9 percentage points as compared to 71.8% at the end of 2015. Further, the percentage of trade receivables which are past due but not impaired to total trade receivables decreased from 39.1% at the end of 2015 to 24.2% at 30 June 2016.

Regarding the balance of the allowance for bad and doubtful debts of HK\$44,022,000 at 30 June 2016, they represented those made for receivables from sales of steel cord and sawing wire products, progress had been made during the period and we will continue to use our best endeavors to recover those receivables that are still outstanding, including the negotiation of payment by way of assets other than cash and/or instigating legal actions against those customers to claim our payment.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Trade receivables (continued)

In respect of the trade receivables at 30 June 2016, approximately 44.4% has been subsequently settled by cash or bills receivable up to 24 August 2016. The details of subsequent settlement of trade receivables of the Group and from top five customers of the Group for the period are as follows:

| Age | Total trade receivables of the Group | | Trade receivables from top five customers of the Group | |
|---------------|--------------------------------------|----------------------------|--|----------------------------|
| | Amount at 30 June 2016 HK\$'000 | % of subsequent settlement | Amount at 30 June 2016 HK\$'000 | % of subsequent settlement |
| 0 – 90 days | 401,818 | 36.8 | 168,101 | 36.0 |
| 91 – 180 days | 76,304 | 79.4 | 37,059 | 65.6 |
| Over 180 days | 13,501 | 72.1 | 9,662 | 86.6 |
| Total | 491,623 | 44.4 | 214,822 | 43.4 |

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 taking into consideration of the liquidity of the Group and interest costs.

Share Capital, Liquidity and Financial Resources

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share Capital, Liquidity and Financial Resources (continued)

There was no change in the total number of issued Shares during the period. The number of issued Shares remained at 1,922,900,556 Shares at 30 June 2016. Net asset value of the Group was HK\$1,327,905,000 at 30 June 2016, decreased by 4.9% as compared to HK\$1,395,870,000 at 31 December 2015, attributable to the loss and the negative impact on depreciation of RMB exchange rate against HKD of approximately 2.0% during the period. Net asset value per Share was HK\$0.691 at 30 June 2016, decreased by 4.9% as compared to HK\$0.726 at 31 December 2015.

Cash flows

Although the Group reported loss of HK\$46,682,000 for the period, it generated net cash operating inflow of HK\$131,155,000 for the period as follows:

| | HK\$'000 |
|--|---------------------|
| Net cash from operating activities as per condensed consolidated statement of cash flows | 94,427 |
| Add: Operating cash inflows not reflected in condensed consolidated statement of cash flows (non-cash transactions): | |
| Bills receivable that has been discounted to banks and matured during the period | 18,943 |
| Bills receivable endorsed to creditors of the Group at 31 December 2015 to settle payable for acquisition of property, plant and equipment and matured during the period | 17,785 |
| <hr/> | |
| Net operating cash inflow for the period | <hr/> <hr/> 131,155 |

In respect of cash flows on other activities:

1. The Group incurred net cash outflow on investing activities of HK\$5,432,000 during the period, in which HK\$4,122,000 was mainly on the capital expenditures incurred by Steel cord segment; and
2. The Group incurred net cash outflow on financing activities of HK\$221,468,000 during the period. When bank advances for discounted bills of HK\$34,008,000 (in which HK\$18,943,000 has been repaid upon maturity of those bills during the period) was excluded, the Group incurred net cash outflow of HK\$255,476,000 on financing activities during the period, that represented net reduction of interest bearing borrowings during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share Capital, Liquidity and Financial Resources (continued)

Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash (including pledged bank deposits) amounted to HK\$76,166,000 at 30 June 2016, decreased by 63.7% as compared to HK\$209,889,000 at 31 December 2015. Total interest bearing borrowings of the Group were HK\$895,533,000 at 30 June 2016, decreased by 19.9% as compared to HK\$1,118,119,000 at 31 December 2015.

At 30 June 2016, HK\$577,382,000 of bank borrowings were floating-rate borrowings, while HK\$318,151,000 of bank borrowings were collared at rates ranging from 2.45% to 4.66% per annum. The nature and maturing profile of the Group's bank borrowings at 30 June 2016, based on contracted repayment schedules were as follows:

| | HK\$'000 | % of total bank borrowings |
|---|--------------------|----------------------------------|
| Due in the second half year of 2016 or on demand: | | |
| – Trust receipt loans | 22,447 | 2.5 |
| – Short term bank loans | 514,038 | 57.4 |
| – Bank advances for discounted bills | 28,935 | 3.2 |
| Total due in the second half year of 2016 | 565,420 | 63.1 |
| Due in the first half year of 2017: | | |
| – Short term bank loans | 128,705 | 14.4 |
| – Medium term bank loan | 200,000 | 22.3 |
| – Bank advances for discounted bills | 3,510 | 0.4 |
| Total due in the first half year of 2017 | 332,215 | 37.1 |
| Unamortized loan arrangement fees | 897,635 (2,102) | 100.2 (0.2) |
| Total | 895,533 | 100.0 |

The Group planned to service the interest bearing borrowings due in the coming 12 months from 30 June 2016 by cash generated from its operations and refinancing from banks, further details in this regard are set out under the section "*Net current liabilities*".

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share Capital, Liquidity and Financial Resources (continued)

Debt and liquidity ratios

We strive to reduce our leverage on interest bearing borrowings to improve the Group's financial position and save interest costs. A net amount of HK\$222,586,000 of interest bearing borrowings were repaid during the period, therefore 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 65.1% at 31 December 2015 to 61.7% at 30 June 2016. The current ratio (calculated as current assets divided by current liabilities) of the Group was 0.91 times at 30 June 2016, as compared to 1.04 times at 31 December 2015. The weaker liquidity position at 30 June 2016 was mainly because of the increased amount of interest bearing borrowings that are due for repayment within one year. The details and our action plan to mitigate the impact on the said position are set out under "*Net current liabilities*" section below.

Net current liabilities

As at 30 June 2016, the Group's current assets amounted to HK\$1,274,658,000 and its current liabilities amounted to HK\$1,402,950,000. Therefore, the Group's current liabilities exceeded its current assets by HK\$128,292,000, as its current liabilities included bank borrowings of HK\$895,533,000 that are wholly repayable within one year. In this respect, the Directors have carried out a review on the cash flow projections of the Group which covered a period of 12 months from 1 July 2016 and, after taken into consideration of the following, are satisfied that the Group will have sufficient working capital to meet its financial obligations that will be fall due within the coming 12 months from 30 June 2016:

- (1) As at the date of this report, the relevant banks of the Group have agreed to renew banking facilities amounting to approximately HK\$257,409,000 upon maturity in the coming 12 months;
- (2) The Group has unutilized banking facilities of approximately HK\$75,355,000 which will not be expired within the coming 12 months;
- (3) The proceeds under the sale and purchase agreement entered into between TESC and South China International Leasing Co., Ltd. ("South China Leasing") of RMB70,000,000 (approximately HK\$81,620,000) which was subsequently received on 16 August 2016; while the corresponding rental payment and lease interest under the finance lease agreement will be repaid in a period of 3 years. Details of this transaction are disclosed under the section "**Discloseable and Connected Transaction in relation to Finance Lease Arrangement**";
- (4) In respect of the Group's short and medium term loans amounting to approximately HK\$547,898,000 that are due within the coming 12 months, the Group has established relationship with these banks; the management of the Group also maintains continuous communication with relevant banks and has been negotiating with these banks for refinancing of such loans upon maturity. Based on the latest communication with these banks, the Directors are of the opinion that at least a majority part of these loans can be refinanced by new term loans granted to the Group; and

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share Capital, Liquidity and Financial Resources (continued)

Net current liabilities (continued)

- (5) The Group generated net cash from its operating activities of HK\$131,155,000 during the period under review, the Directors are confident that the Group will continue to generate sufficient cash to maintain its operations and reduce bank borrowings to save interest costs.

Based on the above, the Directors are satisfied that it is appropriate to prepare these condensed consolidated financial statements in a going concern basis.

Foreign Currency and Interest Rate Exposures

Both the Group's sources of revenue and purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimize the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavor to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. However, in anticipation of the depreciation of RMB exchange rate since the year of 2014, the Group planned to gradually increase the proportion of borrowings in RMB to minimize the impact on the depreciation of RMB exchange rate on the Group's results. The proportion of interest bearing borrowings of the Group that are denominated in RMB increased from 28.5% at 31 December 2015 to 33.0% at 30 June 2016. The respective currency composition of the Group's bank balances and cash (including pledged bank deposits) and interest bearing borrowings was as follows:

Bank balances and cash (including pledged bank deposits)

| | 30 June 2016 | | 31 December 2015 | |
|------------------|---------------|---|------------------|---|
| | HK\$'000 | % of bank balances and cash (including pledged bank deposits) | HK\$'000 | % of bank balances and cash (including pledged bank deposits) |
| RMB | 48,511 | 63.7 | 103,137 | 49.1 |
| HKD | 6,733 | 8.8 | 29,354 | 14.0 |
| USD | 16,712 | 22.0 | 67,894 | 32.4 |
| Other currencies | 4,210 | 5.5 | 9,504 | 4.5 |
| Total | 76,166 | 100.0 | 209,889 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Foreign Currency and Interest Rate Exposures (continued)

Interest bearing borrowings

| | 30 June 2016 | | 31 December 2015 | |
|--------------|----------------|----------------------------------|------------------|----------------------------------|
| | HK\$'000 | % of interest bearing borrowings | HK\$'000 | % of interest bearing borrowings |
| RMB | 295,705 | 33.0 | 318,699 | 28.5 |
| HKD | 568,983 | 63.6 | 766,779 | 68.6 |
| USD | 30,845 | 3.4 | 32,641 | 2.9 |
| Total | 895,533 | 100.0 | 1,118,119 | 100.0 |

In respect of exposure to interest rate risk, even though the majority of the bank borrowings at 30 June 2016 are at floating rate, the Group had not entered into any interest rate swaps to contain any upside risks on interest rate to the results and cash flows of the Group, as we were of the view that interest rate would hover at a relatively low level for at least the remaining part of the year.

During the period under review, the exchange rate of RMB continued to depreciate by approximately 2.0% against HKD. The depreciation of RMB exchange rate will have negative impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD and USD, and the Group has not entered into any derivative financial instruments to hedge against foreign currency risk. However, we would seek quotations for hedging our foreign currency or RMB exposure in line with the maturities of our non-RMB borrowings from time to time. Furthermore, we will also review and adjust, when necessary, the currency composition of our interest bearing borrowings from time to time to minimize our risks on exchange and interest rate in respect of our interest bearing borrowings.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Development Plan and Capital Commitments

Capital expenditures incurred by the Group during the period amounted to HK\$5,546,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The capital expenditures to be incurred in the second half year of 2016 are estimated to be not more than approximately HK\$30,206,000, 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 sawing wire products; and development of new customers, especially international customers. The research and development expenses to be incurred in the second half year of 2016 are estimated to be maintained at a similar level for the period under review, i.e. within the range of 3% to 4% of total revenue of Steel cord segment.

Employees, Remuneration Policies and Training Scheme of the Group

At 30 June 2016, the Group had a total of 1,886 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to consolidated statement of profit or loss for the period amounted to approximately HK\$10,980,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees, Remuneration Policies and Training Scheme of the Group (continued)

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

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

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

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

During the period, no options were granted, exercised, cancelled and lapsed under the 2012 Scheme while only 2,300,000 share options lapsed under the 2002 Scheme.

Contingent Liabilities and Pledge of Assets

The Group has no contingent liabilities as at 30 June 2016.

At 30 June 2016, the following assets had been pledged to the Group's banks for banking facilities granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK\$13,100,000; and
2. Bank deposits of HK\$2,807,000 as securities for issue of bank acceptance bills for settlement of trade payables of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 and both the parties concerned the uncertainties in economics and agreed to allow more time to proceed the strategic cooperation when the macroeconomic conditions warrant the collaboration to proceed. 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 Zaozhuang Mining and its subsidiaries.

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

Discloseable and Connected Transaction in relation to Finance Lease Arrangement

On 29 June 2016, TESC and South China Leasing entered into the finance lease arrangement (the “Finance Lease Arrangement”) comprising, among others, (i) the sale and purchase agreement and (ii) the finance lease agreement, whereby TESC agreed to sell its certain machineries and equipment primarily used by TESC for manufacturing of steel cord (the “Machineries and Equipment”) to South China Leasing at the purchase consideration of RMB70,000,000 (equivalent to approximately HK\$81,620,000) and South China Leasing agreed to lease back the Machineries and Equipment to TESC for the lease consideration of approximately RMB78,158,000 (equivalent to approximately HK\$91,132,228), comprising the rental principal of RMB70,000,000, the lease interest of approximately RMB6,058,000 and the lease handling fee of RMB2,100,000, for a term of thirty-six (36) months.

On the same date, the Company entered into the guarantee agreement in favour of South China Leasing as security for the payment obligations of TESC under the finance lease agreement.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Discloseable and Connected Transaction in relation to Finance Lease Arrangement (continued)

After the end of the reporting period, the Finance Lease Arrangement was duly passed by way of poll at the general meeting of the Company held on 10 August 2016.

Details regarding the Finance Lease Arrangement can be referred to the announcement of the Company dated 29 June 2016 and circular dated 21 July 2016, respectively.

Business Outlook

The United Kingdom has voted to leave the European Union (“EU”) at the end of June. The British Pound depreciated against USD by around 12% since the referendum day while the exchange rate of RMB against USD was slightly weakened following the British EU exit vote. The RMB exchange rate depreciation is likely to continue throughout the year. Domestically, the China’s economic growth rate held steady at 6.7% in the second quarter of 2016, which was the lowest since 2009. The pace of economy growth slowed down and the Chinese government expected the full-year economic growth of 6.5% to 7%. We opined that the overall economic condition remains challenging with uncertainties and causes pressure on different industries including steel cord industry and the performance of the Group as a whole.

However, the Group envisages a gradual equilibrium of the oversupply situation of the steel cord industry as depicted by the rebounding in the product prices and relatively strong order flow from its customers. Nonetheless, we will persist to maintain strong operating cashflow, monitor the fluctuations in the currency and interest rates to mitigate any risk exposure and implement cost saving measures in order to reduce overall production costs. In addition, the Group will exert further effort to penetrate large-scale and multinational tyre manufacturing market with quality and advanced steel cord and sawing wire products to meet requirements of international customers. With the above measures and strategies, we see that our results have been improved during the period under review and we believe that a turnaround can be achieved in the coming year.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

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

As at 30 June 2016, save for the interests of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

Long position in Shares

(a) Ordinary Shares of 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 <i>Note (i)</i> |
| Leung Shun Sang, Tony ("Mr. Leung") | 7,652,000 | 0.39 | Beneficial owner |
| Tang Cornor Kwok Kau ("Mr. Tang") | 10,000,000 | 0.52 | Beneficial owner <i>Note (ii)</i> |

Notes:

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

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 30 June 2016 there were a total of 58,668,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarized in the following table:

| Name of Director | Options to subscribe for Shares | | | | | Number of outstanding share options held at the end of the period | 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 |
|-------------------------|---|---|---|--|------------------|---|---------------------------|------------------------|----------------------------------|--------------------------------------|--|
| | Number of outstanding share options held at the beginning of the period | Number of share options granted during the period | Number of share options exercised during the period | Number of share options lapsed/cancelled during the period | Date of exercise | | | | | | |
| Mr. Li | 13,800,000 | - | - | - | - | 13,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.71 |
| Mr. Yang | 5,400,000 | - | - | - | - | 5,400,000 | 13/7/2009 | 13/7/2009 to 12/7/2019 | 0.680 | | |
| | 5,400,000 | - | - | - | - | 5,400,000 | 13/7/2009 | 1/1/2010 to 12/7/2019 | 0.680 | | |
| | 7,200,000 | - | - | - | - | 7,200,000 | 13/7/2009 | 1/1/2011 to 12/7/2019 | 0.680 | | |
| | 18,000,000 | - | - | - | - | 18,000,000 | | | | Beneficial owner | 0.93 |
| Mr. Leung | 12,000,000 | - | - | - | - | 12,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.62 |
| Mr. Tang | 10,000,000 | - | - | - | - | 10,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.52 |
| Yip Kin Man, Raymond | 252,000 | - | - | - | - | 252,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | - | - | - | - | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,052,000 | - | - | - | - | 2,052,000 | | | | Beneficial owner | 0.10 |

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

Long position in Shares (continued)

(b) Share options (continued)

| Name of Director | Options to subscribe for Shares | | | | | Number of outstanding share options held at the end of the period | Date of grant <i>Note (i)</i> | Exercise period | Exercise price per Share HK\$ | Capacity in which interests are held | Approximate % of the total number of issued Shares |
|------------------|---|---|---|---|------------------|---|----------------------------------|------------------------|----------------------------------|--------------------------------------|--|
| | Number of outstanding share options held at the beginning of the period | Number of share options granted during the period | Number of share options exercised during the period | Number of share options lapsed/ cancelled during the period | Date of exercise | | | | | | |
| Law, Yui Lun | 1,016,000 | - | - | - | - | 1,016,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | - | - | - | - | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,816,000 | - | - | - | - | 2,816,000 | | | | Beneficial owner | 0.14 |
| | 58,668,000 | - | - | - | - | 58,668,000 | | | | | |

Notes:

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

The above share options are unlisted cash settled options granted pursuant to the 2002 Scheme. Upon exercise of the share options in accordance with the 2002 Scheme, Shares 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 30 June 2016.

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

As at 30 June 2016, 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 <i>Note (1)</i> |
| Casula | 402,395,304 | 20.92 | Beneficial owner |
| Shougang International | 686,655,179 | 35.70 | Interests of controlled corporations <i>Note (2)</i> |
| Able Legend | 126,984,000 | 6.60 | Beneficial owner |
| Shougang HK | 904,639,179 | 47.04 | Beneficial owner and interests of controlled corporations <i>Note (3)</i> |
| Bekaert Combustion | 250,000,000 | 13.00 | Beneficial owner <i>Note (4)</i> |
| Bekaert | 250,000,000 | 13.00 | Interests of controlled corporations <i>Note (5)</i> |
| Li Ka Shing Foundation | 100,000,000 | 5.20 | Beneficial owner <i>Note (6)</i> |

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

Long position in Shares or underlying Shares (continued)

Notes:

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



SHARE OPTION SCHEME

2002 Scheme was adopted by the Shareholders at the annual general meeting held on 7 June 2002. Under 2002 Scheme, the Board shall, subject to and in accordance with the provisions of 2002 Scheme and the Listing Rules, grant share options to any eligible participant to subscribe for shares in the capital of the Company. 2012 Scheme was adopted and 2002 Scheme was terminated by the Shareholders at the annual general meeting held on 25 May 2012.

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. Unless otherwise cancelled or amended, 2012 Scheme will remain in force for a period of ten years from 29 May 2012.

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

The following table discloses details of the Company's share options granted under 2002 Scheme held by eligible participants (other than Directors) and movements in such holdings in relation to 2002 Scheme during the six months ended 30 June 2016:

SHARE OPTION SCHEME (continued)

(a) 2002 Scheme

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

| Category of participant | Options to subscribe for Shares | | | Date of grant <i>Note (i)</i> | Exercise period | Exercise price per Share HK\$ |
|------------------------------------|---|--|---|----------------------------------|------------------------|----------------------------------|
| | Number of outstanding share options held at the beginning of the period | Number of share options cancelled/lapsed during the period | Number of outstanding share options held at the end of the period | | | |
| Employees other than the Directors | 32,200,000 | (500,000) <i>Note (iv)</i> | 31,700,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 |
| | 100,000 | – | 100,000 <i>Note (ii)</i> | 28/1/2008 | 28/1/2011 to 27/1/2018 | 0.864 |
| | 1,350,000 | – | 1,350,000 | 13/7/2009 | 13/7/2009 to 12/7/2019 | 0.680 |
| | 1,350,000 | – | 1,350,000 <i>Note (iii)</i> | 13/7/2009 | 1/1/2010 to 12/7/2019 | 0.680 |
| | 1,800,000 | – | 1,800,000 <i>Note (iii)</i> | 13/7/2009 | 1/1/2011 to 12/7/2019 | 0.680 |
| | 36,800,000 | (500,000) | 36,300,000 | | | |
| All other eligible participants | 18,800,000 | (1,800,000) <i>Note (v)</i> | 17,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 |
| Total | 55,600,000 | (2,300,000) | 53,300,000 | | | |

SHARE OPTION SCHEME (continued)

(a) 2002 Scheme (continued)

Notes:

- (i) The vesting period of the share option is from the date of grant to the beginning of the exercise period except for the share options set out under *Notes (ii) and (iii)* below.
- (ii) 100,000 share options have a vesting period of three years from the date of grant.
- (iii) 1,350,000 share options have a vesting period from the date of grant to 31/12/2009 and 1,800,000 share options have a vesting period from the date of grant to 31/12/2010.
- (iv) 500,000 share options at the exercise price of HK\$0.864 lapsed during the period due to retirement of an employee.
- (v) 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 period in accordance with the terms of 2002 Scheme.

(b) 2012 Scheme

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

The Board considers that it is not appropriate to state the value of all share options that can be granted under 2012 Scheme on the assumption that they had been granted at the date of this report. The Board believes that any statement regarding the value of the share options as at the date of the report will be based on a large number of speculative assumptions and would therefore not be meaningful to the Shareholders, taking into account the number of variables which are crucial for the calculation of the value of the share options which have not been determined. Such variables include the exercise price, the option period, any lock-up period, any performance targets that may be set and other relevant variables.

DISCLOSURE OF INFORMATION ON DIRECTORS

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

Mr. Lam Yiu Kin, the independent non-executive Director ceased to be a member of the Finance Management Committee of The Hong Kong Management Association on 7 July 2016.

CORPORATE GOVERNANCE CODE

The Board is committed to practicing and achieving a high standard of corporate governance. The Board 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 procure the Company and its subsidiaries have strictly complied with the relevant laws and regulations, and the rules and guidelines of regulatory bodies.

Deviation from code provision D.1.4 of Code

In the opinion of the Board, the Company has complied with the principles and code provisions of the Code and also the SCCHL Corporate Governance Code throughout the six months ended 30 June 2016, except for deviation from the code provision D.1.4 of the Code.

According to the subscription agreement and further agreement dated 22 September 2006 and 24 February 2015 respectively entered into by the Company and Bekaert, Bekaert nominated Mr. Liao Jun ("Mr. Liao") as a non-executive Director. 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.

Risk Management and Internal Control Systems

The Company outsourced the internal audit function to Moore Stephens Consulting Limited as internal auditors of the Company on 16 December 2015 in relation to the provision of internal audit services to the Company throughout the accounting year of 2016. The Board also determined that the audit committee takes the responsibility of the review of 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.

Model code for securities transactions by Directors

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

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

Audit committee

The Company's audit committee comprises of three independent non-executive Directors, namely Mr. Yip Kin Man, Raymond, Mr. Law, Yui Lun and Mr. Lam Yiu Kin. Mr. Yip acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task including but not limited to monitoring the financial reporting procedures, reviewing internal control and risk management systems of the Group and monitoring the independence of the external auditors. The Company has engaged the external auditors to assist the audit committee to review the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016. During the meetings of the audit committee for the period under review, the audit committee members, amongst other things, had reviewed the accounting principles and practices adopted by the Group; reviewed the preliminary internal audit report provided by the internal auditors regarding the effectiveness of risk management and internal control systems of the Group; discussed the financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Sustainability reporting has become increasingly important for investors to make Environmental, Social and Governance (ESG) based decisions. The preparatory process in ESG reporting is underway and we are confident that we can provide with our Shareholders and potential investors a comprehensive ESG report for the 2016 financial year subject to the Listing Rules and international standard.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to our stakeholders for their confidence placed on us and their support throughout the period under review and also like to extend our gratitude to all the Board members, management and colleagues for their persistent efforts and support to the Group during this extremely competitive and challenging business condition.

By order of the Board
Li Shaofeng
Chairman

Hong Kong, 25 August 2016

This interim report can also be accessed through the internet at the Stock Exchange's website at <http://www.hkexnews.hk> and the Company's website at <http://www.shougangcentury.com.hk> or <http://www.irasia.com/listco/hk/sccentury/>.

DEFINITIONS

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

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|----------------------------------|--|
| “2002 Scheme” | A share option scheme adopted and terminated by the Shareholders at the annual general meetings held on 7 June 2002 and 25 May 2012 respectively |
| “2012 Scheme” | A share option scheme adopted by the Shareholders at the annual general meeting held on 25 May 2012 and became effective on 29 May 2012 |
| “Able Legend” | Able Legend Investments Limited, a subsidiary of Shougang HK |
| “Bekaert” | NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial Shareholder (as defined under the SFO) |
| “Bekaert Combustion” | Bekaert Combustion Technology B.V., a wholly owned subsidiary of Bekaert, a substantial Shareholder (as defined under the SFO) |
| “Board” | the board of Directors |
| “Casula” | Casula Investments Limited, a subsidiary of Shougang International |
| “Code” | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| “Company”/ “Shougang Century” | Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange |
| “Copper and brass products” | processing and trading of copper and brass products |
| “Director(s)” | the director(s) of the Company |
| “Fair Union” | Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International |
| “Group” | the Company and its subsidiaries |

DEFINITIONS (continued)

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| “HKD/HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Internal Control Manual” | an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter |
| “JESC” | Jiaying 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) |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| “PRC” | the People’s Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan |
| “Richson” | Richson Limited, a subsidiary of Shougang International |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SCCHL Code” | Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter |

DEFINITIONS (continued)

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|-----------------------------------|--|
| “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)” | holder(s) of the Share(s) |
| “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) |
| “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) |
| “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. |