



**SHOUGANG CONCORD INTERNATIONAL  
ENTERPRISES COMPANY LIMITED**

Stock Code : 697

**INTERIM REPORT 2014**



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## CORPORATE INFORMATION

### Board of Directors

Xu Ning (*Chairman*)  
Li Shaofeng (*Managing Director*)  
Zhang Wenhui (*Deputy Managing Director*)  
Ding Rucai (*Deputy Managing Director*)  
(*appointed with effect from 1 September 2014*)  
Chen Zhouping (*Non-executive Director*)  
(*resigned with effect from 1 September 2014*)  
Ip Tak Chuen, Edmond (*Non-executive Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Kan Lai Kuen, Alice (*Independent Non-executive Director*)  
Wong Kun Kim (*Independent Non-executive Director*)  
Leung Kai Cheung (*Independent Non-executive Director*)

### Executive Committee

Li Shaofeng (*Chairman*)  
Zhang Wenhui  
Ding Rucai (*appointed as a member with effect from 1 September 2014*)

### Audit Committee

Kan Lai Kuen, Alice (*Chairman*)  
Wong Kun Kim  
Leung Kai Cheung

### Nomination Committee

Xu Ning (*Chairman*)  
Leung Shun Sang, Tony  
Kan Lai Kuen, Alice  
Wong Kun Kim  
Leung Kai Cheung

### Remuneration Committee

Wong Kun Kim (*Chairman*)  
Li Shaofeng  
Leung Shun Sang, Tony  
Kan Lai Kuen, Alice  
Leung Kai Cheung

### Company Secretary

Cheng Man Ching



## **CORPORATE INFORMATION (continued)**

<b>Auditor</b>	Deloitte Touche Tohmatsu
<b>Share Registrar</b>	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Registered Office and Principal Place of Business</b>	7th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Stock Code</b>	697
<b>Website</b>	<a href="http://www.shougang-intl.com.hk">www.shougang-intl.com.hk</a>

## INTERIM RESULTS

The board of directors (the "Board") of Shougang Concord International Enterprises Company Limited (the "Company") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

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

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	<b>6,753,462</b>	7,509,206
Cost of sales		<b>(7,176,353)</b>	(7,961,335)
Gross loss		<b>(422,891)</b>	(452,129)
Other income		<b>47,063</b>	36,950
Other gains and losses		<b>(13,568)</b>	17,452
Change in fair value of derivative financial instruments		<b>58,628</b>	(5,241)
Distribution and selling expenses		<b>(45,753)</b>	(41,101)
Administrative expenses		<b>(265,318)</b>	(308,901)
Finance costs		<b>(394,272)</b>	(365,608)
Share of results of associates		<b>(77,117)</b>	139,447
Loss before taxation		<b>(1,113,228)</b>	(979,131)
Income tax credit (expense)	4	<b>2,119</b>	(11,714)
Loss for the period	6	<b>(1,111,109)</b>	(990,845)



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
<b>Other comprehensive income (expense)</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Exchange differences arising on translation to presentation currency	<b>34,682</b>	10,301
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	<b>(37,605)</b>	(117,351)
Share of exchange differences of an associate arising on translation to presentation currency	<b>(7,048)</b>	13,405
Share of fair value losses on investment in equity instruments designated as at fair value through other comprehensive income of an associate	<b>(83,247)</b>	(172,192)
<b>Item that may be subsequently reclassified to profit or loss:</b>		
Share of exchange differences of an associate arising on translation of foreign operations	<b>(52,273)</b>	49,623
Other comprehensive expense for the period	<b>(145,491)</b>	(216,214)
Total comprehensive expense for the period	<b>(1,256,600)</b>	(1,207,059)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2014

	NOTE	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss for the period attributable to:			
Owners of the Company		(865,750)	(728,478)
Non-controlling interests		(245,359)	(262,367)
		<b>(1,111,109)</b>	(990,845)
Total comprehensive expense attributable to:			
Owners of the Company		(1,013,658)	(920,343)
Non-controlling interests		(242,942)	(286,716)
		<b>(1,256,600)</b>	(1,207,059)
Loss per share	8		
– Basic		<b>(9.66) HK cents</b>	(8.13) HK cents
– Diluted		<b>(9.66) HK cents</b>	(8.13) HK cents



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	9	39,403	40,294
Property, plant and equipment	9	10,791,175	11,440,070
Prepaid lease rentals		313,877	323,877
Interests in associates		7,442,174	7,777,033
Equity investments	10	156,478	198,871
Deferred tax assets		42,150	39,919
Other financial assets		506,654	477,895
Deposits for acquisition of property, plant and equipment		12,740	21,062
Pledged bank deposits	20(a)	81,517	84,925
		<b>19,386,168</b>	20,403,946
<b>CURRENT ASSETS</b>			
Inventories		2,724,839	3,120,297
Trade and bills receivables	11	1,408,242	1,496,910
Trade receivables from related companies	12	138,738	162,307
Prepayments, deposits and other receivables		517,340	592,787
Prepaid lease rentals		7,769	7,922
Tax recoverable		173	262
Amounts due from related companies	12	40,856	43,505
Amount due from an associate	22(b)	7,315	6,731
Amount due from a non-controlling shareholder of a subsidiary		3,816	3,816
Amount due from ultimate holding company of a shareholder	13	3,515	7,797
Other financial assets		143,596	195,988
Restricted bank deposits		1,469,013	1,036,994
Pledged bank deposits	20(a)	397,276	223,368
Bank balances and cash		625,860	1,266,262
		<b>7,488,348</b>	8,164,946



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	14	4,328,453	4,073,807
Trade payables to related companies	12	317,629	536,093
Trade payables to ultimate holding company of a shareholder	13	5,250,514	4,746,408
Other payables, provision and accrued liabilities		1,267,527	1,268,691
Tax payable		187,941	178,123
Amounts due to related companies	12	283,738	391,176
Amount due to ultimate holding company of a shareholder	13	453,519	225,607
Bank borrowings – due within one year	15	7,954,176	8,739,634
Other financial liabilities		428	1,660
Loans from ultimate holding company of a shareholder	16	870,730	893,337
		<b>20,914,655</b>	21,054,536
<b>NET CURRENT LIABILITIES</b>		<b>(13,426,307)</b>	(12,889,590)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,959,861</b>	7,514,356
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	15	564,954	856,074
Deferred tax liabilities		36,523	39,131
		<b>601,477</b>	895,205
		<b>5,358,384</b>	6,619,151
<b>CAPITAL AND RESERVES</b>			
Share capital	17	5,345,183	1,791,579
Share premium and reserves		443,271	5,010,207
Equity attributable to owners of the Company		<b>5,788,454</b>	6,801,786
Non-controlling interests		<b>(430,070)</b>	(182,635)
		<b>5,358,384</b>	6,619,151



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000 (Note a)	Exchange reserve HK\$'000	Share option reserve HK\$'000	Enterprise expansion fund and statutory reserve fund HK\$'000 (Note b)	Security investment reserve HK\$'000	Non-distributable reserve HK\$'000 (Note c)	Accumulated profits (losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2013 (audited)	1,790,661	3,530,626	22,611	28,338	1,150,472	287,436	729,070	(442,794)	51,979	944,821	8,093,220	369,584	8,462,804
Loss for the period	-	-	-	-	-	-	-	-	-	(728,478)	(728,478)	(262,367)	(990,845)
Exchange differences arising on translation	-	-	-	-	8,844	-	-	-	-	-	8,844	1,457	10,301
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	(91,545)	-	-	(91,545)	(25,806)	(117,351)
Share of other comprehensive expense of associates	-	-	-	-	63,028	-	-	(172,192)	-	-	(109,164)	-	(109,164)
Total comprehensive income (expense) for the period	-	-	-	-	71,872	-	-	(263,737)	-	(728,478)	(920,343)	(286,716)	(1,207,059)
Transfer to enterprise expansion fund and statutory reserve fund	-	-	-	-	-	-	89	-	-	(89)	-	-	-
Shares issued at premium	918	367	-	-	-	-	-	-	-	-	1,285	-	1,285
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3,192)	(3,192)
Recognition of equity-settled share based payment	-	-	-	-	-	763	-	-	-	-	763	-	763
At 30 June 2013 (unaudited)	1,791,579	3,530,993	22,611	28,338	1,222,344	288,199	729,159	(706,531)	51,979	216,254	7,174,925	79,676	7,254,601
At 1 January 2014 (audited)	1,791,579	3,530,993	22,611	28,338	1,253,654	288,934	729,159	(444,691)	51,979	(450,770)	6,801,786	(182,635)	6,619,151
Loss for the period	-	-	-	-	-	-	-	-	-	(865,750)	(865,750)	(245,359)	(1,111,109)
Exchange differences arising on translation	-	-	-	-	24,582	-	-	-	-	-	24,582	10,100	34,682
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	(29,922)	-	-	(29,922)	(7,683)	(37,605)
Share of other comprehensive expense of associates	-	-	-	-	(59,321)	-	-	(83,247)	-	-	(142,568)	-	(142,568)
Total comprehensive expense for the period	-	-	-	-	(34,739)	-	-	(113,169)	-	(865,750)	(1,013,658)	(242,942)	(1,256,600)
Release on disposal of subsidiaries (Note 5)	-	-	-	-	(5,329)	-	(1,424)	-	-	6,753	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(4,493)	(4,493)
Recognition of equity-settled share based payment	-	-	-	-	-	326	-	-	-	-	326	-	326
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	3,553,604	(3,530,993)	(22,611)	-	-	-	-	-	-	-	-	-	-
At 30 June 2014 (unaudited)	5,345,183	-	-	28,338	1,213,586	289,260	727,735	(557,860)	51,979	(1,309,767)	5,788,454	(430,070)	5,358,384



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

For the six months ended 30 June 2014

Notes:

- (a) Revaluation reserve represented the fair value recognised on prepaid lease rentals for the original equity interest held, which is 51%, upon the step-up acquisition of Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) in 2005.
- (b) Enterprise expansion fund and statutory reserve fund, which are non-distributable, are appropriated from the profit after tax of the Company’s subsidiaries under the applicable laws and regulations in the People’s Republic of China (the “PRC”) (other than Hong Kong).
- (c) Non-distributable reserve represented the capitalisation of the dividends paid out of the enterprise expansion fund and statutory reserve fund.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	NOTE	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash from operating activities		<b>618,384</b>	886,165
Net cash used in investing activities			
Placement of restricted bank deposits		<b>(458,261)</b>	(345,337)
Purchase of property, plant and equipment		<b>(65,160)</b>	(194,040)
Placement of pledged bank deposits		<b>(249,112)</b>	(100,169)
Deposits paid for acquisition of property, plant and equipment		<b>(12,207)</b>	(18,033)
Withdrawal of pledged bank deposits		<b>76,185</b>	164,246
Dividend received from an associate		<b>114,187</b>	–
Interest received		<b>28,148</b>	17,853
Proceeds from disposal of property, plant and equipment		<b>708</b>	999
Net cash outflow on disposal of subsidiaries	5	<b>(705)</b>	–
		<b>(566,217)</b>	(474,481)
Net cash used in financing activities			
New bank borrowings raised		<b>4,929,668</b>	5,659,609
Advance from related companies		<b>72,923</b>	27,113
Advance from ultimate holding company of a shareholder		<b>276,275</b>	583,900
Repayment to ultimate holding company of a shareholder		<b>(48,364)</b>	(498,889)
Advance on discounted bills		<b>103,509</b>	78,606
Proceeds from issue of shares on exercise of share options		–	1,285
Repayment of bank borrowings		<b>(5,833,890)</b>	(6,495,110)
Repayment to related companies		<b>(180,361)</b>	(61,626)
Dividend paid to non-controlling shareholders of a subsidiary		<b>(4,493)</b>	(3,192)
		<b>(684,733)</b>	(708,304)
Net decrease in cash and cash equivalents		<b>(632,566)</b>	(296,620)
Cash and cash equivalents at 1 January		<b>1,266,262</b>	1,563,345
Effect of foreign exchange rate changes		<b>(7,836)</b>	8,284
Cash and cash equivalents at 30 June, represented by bank balances and cash		<b>625,860</b>	1,275,009

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements 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 (“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 Group had net current liabilities of approximately HK\$13,426,307,000 as at 30 June 2014. Taking into account the financial resources of the Group, including the Group’s unutilised banking facilities of approximately HK\$1,332,000,000, the Group’s ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate holding company of the major shareholder of the Company, Shougang Corporation, the directors of the Company (“Directors”) are of the opinion that the Group has sufficient working capital to meet in full its financial obligation as they fall due for at least the next twelve months from the end of the reporting period and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at 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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.



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

For the six months ended 30 June 2014

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current interim period, the Group has applied, for the first time, the following new interpretation and 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 10, HKFRS 12 and HKAS 27	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC) – Int 21	<i>Levies</i>

The application of the above new interpretation and 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 as set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The Group’s operating segments based on information reported to the Executive Directors of the Company, being the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

Steel manufacturing	– manufacture and sale of steel products;
Commodity trading	– trading of steel products, iron ore, coal and coke;
Mineral exploration	– mining, processing and sale of iron ore; and
Others	– management services business.

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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION (continued)

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

#### Six months ended 30 June 2014 (unaudited)

	Steel manufacturing HK\$'000	Commodity trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	4,834,096	1,414,595	502,218	2,553	6,753,462
Inter-segment sales	39,694	51,325	327,453	-	418,472
Segment revenue	<u>4,873,790</u>	<u>1,465,920</u>	<u>829,671</u>	<u>2,553</u>	<u>7,171,934</u>
Elimination					<u>(418,472)</u>
Group revenue					<u>6,753,462</u>
Inter-segment sales are charged at prevailing market rates.					
Segment (loss) profit	<u>(644,873)</u>	<u>55,710</u>	<u>(50,736)</u>	<u>(11,207)</u>	<u>(651,106)</u>
Interest income					28,148
Central administration costs					(20,113)
Finance costs					(394,272)
Gain from change in fair value of interest rate swap contracts					1,232
Share of results of associates					<u>(77,117)</u>
Loss before taxation					<u>(1,113,228)</u>



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

For the six months ended 30 June 2014

### 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2013 (unaudited)

	Steel manufacturing HK\$'000	Commodity trading HK\$'000	Mineral exploration HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	5,600,580	1,853,504	53,301	1,821	7,509,206
Inter-segment sales	4,515	–	255,676	–	260,191
Segment revenue	<u>5,605,095</u>	<u>1,853,504</u>	<u>308,977</u>	<u>1,821</u>	<u>7,769,397</u>
Elimination					<u>(260,191)</u>
Group revenue					<u>7,509,206</u>
Inter-segment sales are charged at prevailing market rates.					
Segment (loss) profit	<u>(696,777)</u>	<u>23,489</u>	<u>(87,396)</u>	<u>19,086</u>	<u>(741,598)</u>
Interest income					17,853
Central administration costs					(30,406)
Finance costs					(365,608)
Gain from change in fair value of interest rate swap contracts					1,181
Share of results of associates					<u>139,447</u>
Loss before taxation					<u>(979,131)</u>

Segment profit or loss represents the profit earned by or loss incurred from each segment without allocation of interest income, central administration costs, finance costs, gain from change in fair value of interest rate swap contracts and share of results of associates. This is the measure reported to the Executive Directors for the purposes of resource allocation and performance assessment.



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

For the six months ended 30 June 2014

### 4. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
PRC Enterprise Income Tax	44	144
(Over)underprovision of PRC Enterprise Income Tax in prior periods	(1)	1,186
	43	1,330
Deferred tax	(2,162)	10,384
Income tax (credit) expense	(2,119)	11,714

No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2014 and 2013 since there is no assessable profits arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.



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

For the six months ended 30 June 2014

### 5. DISPOSAL OF SUBSIDIARIES

On 3 June 2014, the Group entered into a sale and purchase agreement with an independent third party (the “Acquirer”) to dispose of its entire interest in Keylevel Investments Limited (“Keylevel”) and its wholly owned subsidiary, 深圳市首康國際貿易有限公司 (“Shoukang”), to the Acquirer at a total cash consideration of RMB53,010,000 (equivalent to approximately HK\$66,077,000) less transaction costs of approximately HK\$65,000. Keylevel acted as investment holding company and Shoukang was one of the Group’s subsidiary carried out commodity trading operations. Subsequent to the disposal, the Group continues to carry out commodity trading operations in other subsidiaries. The disposal was completed on 13 June 2014, when the Group lost control of Keylevel and Shoukang.

The results of Keylevel and Shoukang for the current and preceding interim periods were as follows:

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	55,436	279,310
Cost of sales	(54,757)	(272,650)
Other income	2,278	291
Distribution and selling expenses	(160)	(798)
Administrative expenses	(2,853)	(2,188)
Finance costs	–	(259)
(Loss) profit before tax	(56)	3,706
Income tax credit (expense)	1	(1,126)
(Loss) profit for the period	(55)	2,580

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

For the six months ended 30 June 2014

### 5. DISPOSAL OF SUBSIDIARIES (continued)

HK\$'000

**The net assets at the date of disposal were as follows:**

Property, plant and equipment	117
Amounts due from related companies	36
Prepayments, deposits and other receivables	968
Tax recoverable	188
Bank balances and cash	66,717
Amounts due to related companies	(358)
Other payables, provision and accrued liabilities	(1,651)

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Net assets disposed of	66,017
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**Loss on disposal of subsidiaries:**

Consideration received	66,012
Net assets disposed of	(66,017)

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Loss on disposal	(5)
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**Consideration satisfied by:**

Cash	66,012
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**Net cash outflow arising on disposal:**

Cash consideration received	66,012
Less: Bank balances and cash disposed of	(66,717)

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(705)

An amount of statutory reserve fund of approximately HK\$1,424,000 which represented the appropriation from the profit after tax under the applicable laws and regulations in the PRC and an amount of cumulative translation reserve of approximately HK\$5,329,000 were transferred directly to accumulated profits upon disposal of Shoukang in the current interim period.



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

For the six months ended 30 June 2014

### 6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss for the period has been arrived at after charging (crediting):		
Staff costs, including Directors' emoluments		
– basic salaries and allowances	203,433	194,374
– retirement benefits scheme contributions	27,714	26,731
– equity-settled share-based payment	326	763
	<b>231,473</b>	221,868
Amortisation of prepaid lease rentals	3,907	4,629
Depreciation of property, plant and equipment	458,798	462,081
Total depreciation and amortisation	462,705	466,710
Change in fair value of derivative financial instruments		
– change in fair value of interest rate swap contracts	(1,232)	(1,181)
– change in fair value of commodity forward contracts	(57,396)	6,422
	<b>(58,628)</b>	5,241
Fair value of commodity forward contracts upon delivery, included in cost of sales	81,029	88,500
Interest expenses for bank borrowings wholly repayable within five years	282,364	281,635
Interest expenses for other borrowings wholly repayable within five years	26,455	26,672
Total borrowing costs	308,819	308,307
Less: Amounts capitalised (Note a)	(10,626)	(13,355)
Add: Factoring cost for discounted receivables	96,079	70,656
Total finance costs	<b>394,272</b>	365,608

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

For the six months ended 30 June 2014

### 6. LOSS FOR THE PERIOD (continued)

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Allowance for doubtful debt of trade receivables, net (Note b)	2,663	1,231
Write-down of inventories (Note c)	160,330	201,428
Interest income from bank deposits	(28,148)	(17,853)
Gain on disposal of property, plant and equipment (Note b)	(721)	(33)
Loss on disposal of subsidiaries (Note b)	5	–
Research and development cost included in administrative expenses	5,155	12,138
Net foreign exchange loss (gain) (Note b)	11,621	(18,650)

Note a: Borrowing costs capitalised during the six months ended 30 June 2014 arose from general borrowing pool and are calculated by applying a capitalisation rate of 5.61% (six months ended 30 June 2013: 4.65%) per annum to expenditure on qualifying assets.

Note b: Amounts included in other gains and losses.

Note c: During the six months ended 30 June 2014, the net realisable value of certain inventories fell below their respective costs because of the decline in selling prices. As a result, the write-down of inventories of HK\$160,330,000 (for the six months ended 30 June 2013: HK\$201,428,000) has been recognised in cost of sales.



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

For the six months ended 30 June 2014

### 7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors of the Company have determined that no dividend will be paid in respect of the interim period.

### 8. LOSS PER SHARE

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

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share (Loss for the period attributable to owners of the Company)	<b>(865,750)</b>	(728,478)

The denominators used are the same as those detailed below for both basic and diluted loss per share.

	Six months ended 30 June	
	2014	2013
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>8,957,896,227</b>	8,957,363,686

For the six months ended 30 June 2014 and 2013, the computation of diluted loss per share does not assume the exercise of share options, as it would result in a decrease in loss per share.

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

For the six months ended 30 June 2014

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

In the opinion of the Directors of the Company, the carrying amount of the Group's investment properties as at 30 June 2014 does not differ significantly from their estimated market value. Consequently, no change in fair value has been recognised in respect of the Group's investment properties in the current period.

During the period, the Group incurred approximately HK\$98,823,000 (HK\$196,186,000 for the six months ended 30 June 2013) on acquisition of property, plant and equipment in order to upgrade its operating capacities, in which amount of HK\$21,062,000 (HK\$25,071,000 for the six months ended 30 June 2013) was transferred from deposit for acquisition of property, plant and equipment paid in previous year.

### 10. EQUITY INVESTMENTS

Equity investments comprise:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Listed investments:		
– Equity securities listed in Australia, at fair value	<b>4,089</b>	9,681
Unlisted investments:		
– PRC equity securities, at fair value (Note)	<b>152,389</b>	189,190
<b>Total</b>	<b>156,478</b>	198,871

Note: The unlisted PRC equity securities represent the investment in 10% equity interest of a private entity established in the PRC by Shouqin, for which the principal activities are ship building, ship repairing and retrofitting. The fair value loss of approximately HK\$32,013,000 (for the six months ended 30 June 2013: HK\$107,524,000) is recognised as other comprehensive income and is included in security investment reserve of the Group under HKFRS 9 during the period. The fair value of the unlisted equity securities as at 30 June 2014 and 31 December 2013 was measured using valuation technique with significant unobservable inputs.



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

For the six months ended 30 June 2014

### 11. TRADE AND BILLS RECEIVABLES

For most customers, in particular in the business of steel manufacturing, the Group requires a certain level of deposits to be paid or settlement by bank bills before delivery. The Group allows a range of credit period to its customers normally not more than 60 days.

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Within 60 days	<b>1,283,413</b>	1,201,453
61 – 90 days	<b>27,833</b>	69,858
91 – 180 days	<b>44,928</b>	31,014
181 – 365 days	<b>52,068</b>	194,585
	<b>1,408,242</b>	1,496,910

The following were the Group's bills receivables as at 30 June 2014 and 31 December 2013 that were transferred to banks or suppliers by discounting or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and trade payables and has recognised the cash received from the banks as secured borrowings. These financial assets are carried at amortised cost in the condensed consolidated statement of financial position.



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

For the six months ended 30 June 2014

### 11. TRADE AND BILLS RECEIVABLES (continued)

	<b>Bills receivables discounted to banks with full recourse</b> <i>HK\$'000</i>	<b>Bills receivables endorsed to suppliers with full recourse</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 30 June 2014 (unaudited)</b>			
Carrying amount of bills receivables	<b>59,502</b>	<b>140,899</b>	<b>200,401</b>
Carrying amount of borrowings and trade payables	<b>(59,502)</b>	<b>(140,899)</b>	<b>(200,401)</b>
<b>At 31 December 2013 (audited)</b>			
Carrying amount of bills receivables	46,006	110,500	156,506
Carrying amount of borrowings and trade payables	(46,006)	(110,500)	(156,506)



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

For the six months ended 30 June 2014

### 12. TRADE RECEIVABLES/TRADE PAYABLES/AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts due from (to) related companies represent amounts due from (to) the subsidiaries of Shougang Corporation, ultimate holding company of a shareholder of the Company (collectively referred to as the "Shougang Group"). The trade receivables/payables from (to) related companies are unsecured, interest-free and repayable within 60 days. The non-trade receivables/payables from (to) related companies are unsecured, interest-free and are repayable on demand.

The trade receivables from related companies and an aged analysis of such balances net of allowance of doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates are as follows:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Within 60 days	<b>83,864</b>	102,240
61 – 90 days	<b>50,574</b>	11,897
91 – 180 days	–	47,946
181 – 365 days	<b>4,086</b>	–
1 – 2 years	<b>214</b>	224
	<b>138,738</b>	162,307

The trade payables to related companies and an aged analysis of such balances presented based on the invoice date at the end of the reporting period are as follows:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Within 90 days	<b>152,959</b>	412,904
91 – 180 days	<b>62,910</b>	34,546
181 – 365 days	<b>52,531</b>	34,995
1 – 2 years	<b>41,929</b>	37,825
Over 2 years	<b>7,300</b>	15,823
	<b>317,629</b>	536,093

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

For the six months ended 30 June 2014

### 13. TRADE PAYABLES/AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

As at 30 June 2014 and 31 December 2013, the amount due from (to) ultimate holding company of a shareholder is non-trade in nature, unsecured, interest-free and is repayable on demand.

The trade payables to ultimate holding company of a shareholder are unsecured, interest-free and repayable within 60 days.

The trade payables to the ultimate holding company of a shareholder and an aged analysis of such balances are presented based on the invoice date at the end of the reporting period as follows:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Within 90 days	<b>1,467,126</b>	2,123,229
91 – 180 days	<b>1,226,590</b>	1,166,292
181 – 365 days	<b>2,556,798</b>	1,456,742
1 – 2 years	–	145
	<b>5,250,514</b>	4,746,408



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

For the six months ended 30 June 2014

### 14. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Within 90 days	<b>3,875,110</b>	2,744,837
91 – 180 days	<b>125,064</b>	960,417
181 – 365 days	<b>166,935</b>	253,696
1 – 2 years	<b>130,896</b>	100,849
Over 2 years	<b>30,448</b>	14,008
	<b>4,328,453</b>	4,073,807

### 15. BANK BORROWINGS

During the period, the Group obtained new bank loans of HK\$4,929,668,000 (for the six months ended 30 June 2013: HK\$5,659,609,000).

As at 30 June 2014, the fixed-rate bank borrowings carry interest at rates ranged from 5.6% to 7.28% (31 December 2013: 5.92% to 7.41%) per annum.

As at 30 June 2014, the variable-rate bank borrowings carry interest at the London Interbank Offered Rates ("LIBOR") plus 1.45% to 3.5% (31 December 2013: LIBOR plus 1.45% to 3.5%) per annum, which are ranged from 1.64% to 3.69% (31 December 2013: 1.73% to 3.78%) per annum, Hong Kong Interbank Offered Rates ("HIBOR") plus 3% (31 December 2013: HIBOR plus 3%) per annum, which is 3.22% (31 December 2013: 3.21%) per annum, and the People's Bank of China's lending rate ("Lending Rate"), or with a 5% to 30% addition or reduction on the Lending Rate, which are ranged from 5.76% to 7.28% (31 December 2013: 5.6% to 7.8%) per annum.

The proceeds were mainly used to refinance the original loan facilities of the Group. The amount of bank loans repaid by the Group during the period was HK\$5,833,890,000 (for the six months ended 30 June 2013: HK\$6,495,110,000) during the period.

Included in bank borrowings as at 30 June 2014 was an amount of HK\$59,502,000 of discounted bills (31 December 2013: HK\$46,006,000) that had been discounted to banks.

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

For the six months ended 30 June 2014

### 16. LOANS FROM ULTIMATE HOLDING COMPANY OF A SHAREHOLDER

The amounts are unsecured, interest bearing from 6% to 6.55% as at 30 June 2014 (31 December 2013: fixed-rate at 6%) per annum. The balance is repayable within one year.

### 17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<b>Authorised:</b>		
At 1 January 2013, 30 June 2013 and 1 January 2014		
– Ordinary shares of HK\$0.20 each	20,000,000,000	4,000,000
At 30 June 2014	N/A (Note)	N/A (Note)

Note: Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

	Number of shares	Amount HK\$'000
<b>Issued and fully paid:</b>		
At 1 January 2013		
– Ordinary shares of HK\$0.20 each	8,953,306,227	1,790,661
Exercise of share options (Note 1)	4,590,000	918
At 30 June 2013 and 31 December 2013	8,957,896,227	1,791,579
Transfer from share premium and capital redemption reserve upon abolition of par value	–	3,553,604
At 30 June 2014		
– Ordinary shares with no par value	8,957,896,227	5,345,183

Note 1: During the six months ended 30 June 2013, a director of the Company exercised 4,590,000 share options at exercise price of HK\$0.28 per share. Therefore, 4,590,000 new shares were issued.



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

For the six months ended 30 June 2014

### 18. CAPITAL COMMITMENTS

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>121,168</b>	223,364

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/financial liabilities	Valuation technique(s) and key input(s)
1) As at 30 June 2014, listed equity securities classified as equity investments designated as fair value through other comprehensive income ("FVTOCI") at level 1 category of HK\$4,089,000 (31 December 2013: HK\$9,681,000)	Quoted bid prices in an active market
2) As at 30 June 2014, interest rate swaps classified as other financial liabilities at level 2 category of HK\$428,000 (31 December 2013: HK\$1,660,000)	Discounted cash flow Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties



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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
3) As at 30 June 2014, commodity forward contracts classified as other financial assets at level 3 category of HK\$650,250,000 (31 December 2013: HK\$673,883,000)	<p>Discounted cash flow</p> <p>The key inputs are: The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China, the average growth rate of the spread, the forecasted Platts Iron Ore price, the forecasted marketing commission saving, the forecasted annual production of the mines, the lives of mines and the discount rate</p>	<p>The spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China taking into account management's estimate with reference to research report published by financial institution (Note 1)</p> <p>The average growth rate of the capesize vessel freight rate and panamax vessel freight rate for Australia/China ranging from -3.91% to 20.99% (2013: -4.68% to -7.49%) and from 15.95% to 22.67% (2013: -3.92% to -4.87%) respectively taking into account management's estimate with reference to research report published by financial institution (Note 2)</p> <p>The forecasted Platts Iron Ore price ranging from USD80/DMT to USD108/DMT (2013: from USD80/DMT to USD108/DMT) taking into account management's estimate with reference to research report published by financial institution (Note 3)</p> <p>The forecasted marketing commission saving is taking into account management's estimate with reference to 3.25% (2013: 3.25%) on Platts iron ore IODEX 62% Fe CFR North China Price (Note 4)</p> <p>The forecasted annual production of the mines and the lives of the mines taking into account management's estimate with reference to the suppliers' expected annual production and ore mine reserve stated in suppliers' mineral resources and ore reserves statement as at 30 June 2013 less the actual purchase of iron ore by the Group from 1 July 2013 to 30 June 2014 (2013: actual purchase from 1 July 2013 to 31 December 2013) (Note 5)</p> <p>Discount rate of 18% (2013: 17%) is determined by expected rate of return of the commodity forward contracts by using a Capital Asset Pricing Model and adjusted by the specific risk premium (Note 6)</p>



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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable inputs
4) As at 30 June 2014, unlisted equity securities classified as equity investments designated as at FVTOCI at level 3 category of HK\$152,389,000 (31 December 2013: HK\$189,190,000)	Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies and adjusted by discount on lack of marketability	<p>The ratio of market capital to net book value of 1.5X (2013: 1.59X) is determined by the median of comparable companies as at the valuation date (Note 7)</p> <p>Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 20% (2013: 20%) (Note 8)</p>

*Note 1:* An increase in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$43,485,000 (31 December 2013: HK\$42,994,000).

*Note 2:* An increase in the average growth rate of the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the average growth rate of the spread between capesize vessel freight rate and panamax vessel freight rate for Australia/China holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$29,843,000 (31 December 2013: HK\$1,046,000).

*Note 3:* An increase in the Platts iron ore price used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the Platts iron ore price holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$24,816,000 (31 December 2013: HK\$27,642,000).



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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

- Note 4:* An increase in the market commission saving used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the market commission saving holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$21,516,000 (31 December 2013: HK\$24,377,000).
- Note 5:* An increase in the forecasted annual production of the mines used in isolation would result in an increase in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the forecasted annual production of the mines holding all other variables constant would increase/decrease the carrying amount of the commodity forward contracts by HK\$25,169,000 (31 December 2013: HK\$31,443,000).
- Note 6:* An increase in the discount rate to the valuation model used in isolation would result in a decrease in the fair value measurement of the commodity forward contracts, and vice versa. A 10% increase/decrease in the discount rate to the valuation model holding all other variables constant would decrease/increase the carrying amount of the commodity forward contracts by HK\$26,495,000 (31 December 2013: HK\$25,400,000).
- Note 7:* An increase in the median ratio of market capital to net book value of comparable companies used in isolation would result in a significant increase in the fair value measurement of the unlisted equity securities, and vice versa. A 10% increase/decrease in the median ratio of market capital to net book value of comparable companies holding all other variables constant would increase/decrease the carrying amount of the unlisted equity securities by HK\$15,239,000 (31 December 2013: HK\$18,919,000).
- Note 8:* An increase in the discount for the lack of marketability to the valuation model used in isolation would result in a decrease in the fair value measurement of the unlisted equity securities, and vice versa. A 10% increase/decrease in the discount for the lack of marketability to the valuation model holding all other variables constant would decrease/increase the carrying amount of the unlisted equity securities by HK\$3,810,000 (31 December 2013: HK\$4,730,000).

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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

There were no transfers between Level 1 and 2 during the period/year ended 30 June 2014 and 31 December 2013.

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

#### Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity securities <i>HK\$'000</i>	Commodity forward contracts <i>HK\$'000</i>
At 1 January 2013	176,471	834,116
Total gains or losses:		
– to profit or loss	–	(6,422)
– to other comprehensive income	(107,524)	–
Exchange difference	2,809	–
Fair value of commodity forward contracts upon delivery	–	(88,500)
At 30 June 2013	71,756	739,194



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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Reconciliation of Level 3 fair value measurements of financial assets (continued)

	Unlisted equity securities HK\$'000	Commodity forward contracts HK\$'000
At 1 January 2014	189,190	673,883
Total gains or losses:		
– to profit or loss	–	57,396
– to other comprehensive income	(32,013)	–
Exchange difference	(4,788)	–
Fair value of commodity forward contracts upon delivery	–	(81,029)
At 30 June 2014	152,389	650,250

Of the total gains or losses for the period included in profit or loss, fair value gains of approximately HK\$57,396,000 relates to commodity forward contracts held at the end of the current reporting period. Fair value gains on commodity forward contracts are included in “change in fair value of derivative financial instruments” in the condensed consolidated statement of profit or loss and other comprehensive income.

Included in other comprehensive income is an amount of HK\$32,013,000 fair value loss and HK\$4,788,000 exchange loss related to unlisted equity instruments designated as at FVTOCI held at the end of the current reporting period and are reported as changes of security investment reserve and exchange reserve respectively.

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

For the six months ended 30 June 2014

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

#### Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available for Level 1 inputs. In the Level 2 fair value measurements, the Group derived the inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly with reference to the market information. When Level 1 and Level 2 inputs are not available, the Group engages a third party qualified valuer to perform the valuation of commodity forward contracts and unlisted equity securities designated as at FVTOCI. The Finance Department works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

### 20. PLEDGE OF ASSETS

As at 30 June 2014, the following items were used to secure banking facilities granted to the Group:

- (a) Pledged bank deposits amounting to HK\$478,793,000 (31 December 2013: HK\$308,293,000).
- (b) Pledge of the Group's prepaid lease rentals with net book value of HK\$98,979,000 (31 December 2013: HK\$102,714,000).
- (c) Pledge of 1,280,500,000 shares (31 December 2013: 1,390,500,000 shares) of the Group's listed associate with the market value of approximately HK\$2,035,995,000 (31 December 2013: HK\$3,782,160,000).

### 21. MAJOR NON-CASH TRANSACTION

During the current period, advances drawn on bills receivables of HK\$90,013,000 (for the six months ended 30 June 2013: HK\$261,657,000) are settled by the bills receivables discounted with banks.



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

For the six months ended 30 June 2014

### 22. RELATED PARTY DISCLOSURES

#### (a) Transactions and balances with PRC government related entities

The Group 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 supervision of the Beijing State-owned Assets Supervision and Administration Commission. Accordingly, the Group is significantly influenced by Shougang Group. Shougang Group is part of a larger group of companies under the PRC government. Accordingly, the Group is government related entities in accordance with HKAS 24. The transactions and balances with Shougang Group and other PRC government related entities are disclosed in notes 22(a)(I) to 22(a)(III).

#### (I) Transactions with Shougang Group

		Six months ended 30 June	
	Notes	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
<b>Shougang Group</b>			
Sales of goods by the Group	(a)	<b>936,079</b>	937,494
Purchases of goods by the Group	(b)	<b>2,871,876</b>	3,745,107
Lease rentals charged to the Group	(c)	<b>1,865</b>	1,865
Management fees charged to the Group	(d)	<b>480</b>	480
Purchases of spare parts by the Group	(e)	<b>50,425</b>	34,820
Management fees charged by the Group	(f)	<b>2,337</b>	1,602
Rental income charged by the Group	(g)	<b>108</b>	108
Interest charged to the Group	(h)	<b>26,455</b>	26,672
Service fees charged to the Group	(i)	<b>47,710</b>	46,861
Purchase of property, plant and equipment by the Group	(j)	<b>20,779</b>	27,525

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

For the six months ended 30 June 2014

### 22. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (i) Transactions with Shougang Group (continued)

Notes:

- (a) The Group sold steel products, iron ore and scrap materials to Shougang Group.
- (b) The Group purchased raw materials from Shougang Group.
- (c) The Group entered into various rental agreements with Shougang Group for renting office.
- (d) Management fees were paid to Shougang HK, the Company's shareholder, for the provision of management services.
- (e) The Group purchased spare parts from Shougang Group.
- (f) The Group provided management and company secretarial services to Shougang Group.
- (g) The Group entered into rental agreements with Shougang International Trade (Hong Kong) Limited, a wholly-owned subsidiary of Shougang HK, for renting a residential apartment.
- (h) The interest expenses were charged by Shougang Corporation in respect of loans granted to the Group at interest rate from 6% to 6.55% (for the six months ended 30 June 2013: 6%) per annum.
- (i) Shougang Group charged the Group service fees in respect of processing, repair and maintenance and transportation services.
- (j) The Group acquired property, plant and equipment from Shougang Group.



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

For the six months ended 30 June 2014

### 22. RELATED PARTY DISCLOSURES (continued)

#### (a) Transactions and balances with PRC government related entities (continued)

##### (II) Balances with Shougang Group

As at 30 June 2014, deposits for acquisition of property, plant and equipment of HK\$2,689,000 (31 December 2013: HK\$2,351,000) was paid to the Shougang Group.

Details of balances with the Group's related parties are set out in notes 12, 13 and 16.

Shougang Corporation has provided corporate guarantees for certain bank loans granted to the Group for nil consideration. At 30 June 2014, the Group had bank loans guaranteed by Shougang Corporation amounting to approximately HK\$5,690,983,000 (31 December 2013: HK\$6,115,219,000).

##### (III) Transactions/balances with other PRC government controlled entities

Apart from the transactions and balances with the Shougang Group as disclosed in notes 22(a)(I) and 22(a)(II), the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are government related entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors 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 2014

### 22. RELATED PARTY DISCLOSURES (continued)

#### (b) Transaction/balance with non-PRC government-related entities

During the period ended 30 June 2014, the Group sold goods amounting to approximately HK\$12,460,000 (for the six months ended 30 June 2013: HK\$5,915,000) to an associate, Qinhuangdao Shouqin K. Wah Construction Materials Company Limited.

The amount due from an associate is unsecured, interest-free and is repayable on demand.

#### (c) Compensation of key management personnel

The remuneration of key management personnel, which represents the Directors of the Company during the period was as follows:

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short-term benefits	3,035	4,295
Post employment benefits	110	173
Share-based payments	326	763
	<b>3,471</b>	5,231

The remuneration of key management personnel is determined by the Remuneration Committee of the Board of Directors having regard to the market practice, competitive market position and individual performance.



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

## 德勤

### TO THE BOARD OF DIRECTORS OF SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

首長國際企業有限公司

*(incorporated in Hong Kong with limited liability)*

### Introduction

We have reviewed the condensed consolidated financial statements of Shougang Concord International Enterprises Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 4 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The 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.



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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

28 August 2014



## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY OVERVIEW

Our operations are mainly segregated into three segments, namely, steel manufacturing, mineral exploration and commodity trading. Our principal business in steel manufacturing segment includes two heavy plate mills operating in Qinhuangdao City, Hebei province, PRC. In addition, we own a deep processing centre on steel products to extend our business to the downstream value chain. Our mineral exploration segment mainly include the holding of approximately 27.6% equity stake of Shougang Fushan Resources Group Limited (“Shougang Resources”), a Hong Kong-listed hard coking coal producer in China. On commodity trading, we have long-term iron ore offtake agreements with Australia-listed iron ore producer Mount Gibson Iron Limited (“Mt. Gibson”) to enhance our investment in upstream supply chain. Our vertical integration strategy with different upstream, mid-stream and downstream activities is advantageous in enhancing the heavy plate manufacturing operation of the Group.

### PERFORMANCE REVIEW

	For the six months ended 30 June	
	2014 HK\$ Million	2013 HK\$ Million
Loss attributable to shareholders before share of results of associates	(789)	(867)
Share of results of associates	(77)	139
Loss attributable to shareholders	(866)	(728)

The market of the Group’s core business in steel manufacturing was still weak in the first half of 2014. Excessive production capacity and imbalance between supply and demand were still the key issues within the industry which could not be resolved in the near term. The steel price was persisting weak under these circumstances. Our share of profit from Shougang Resources, our principal associate with core business in coking coal mining and sales also showed a sharp decline due to the drop in the selling price of coking coal. In addition, Shougang Resources also made impairment on its goodwill. Our share of results in Shougang Resources thus changed from a profit last period into a loss this period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PERFORMANCE REVIEW (continued)

For the six months ended 30 June 2014, net loss attributable to shareholders amounted to HK\$866 million, the loss was increased by HK\$138 million comparing to attributable loss of HK\$728 million in the corresponding period last year. The Group recorded a consolidated turnover of HK\$6,753 million in this interim period, representing a drop of 10.1% comparing to that of last period. Loss per share was 9.66 HK cents.

### FINANCIAL REVIEW

#### *Six months ended 30 June 2014 compared to the six months ended 30 June 2013*

##### Turnover and Cost of Sales

The Group recorded consolidated turnover of HK\$6,753 million for this period, lower by about 10.1% when comparing to the HK\$7,509 million of last period. Lower turnover mainly came from the drop in average selling price (“ASP”) and sales quantities in the steel manufacturing segment.

Cost of sales for the period was HK\$7,176 million, comparing to HK\$7,961 million in last period, a drop of 9.9%.

##### LBITDA and Core Operating Loss

For the interim period, loss before interest, tax, depreciation, amortization, impairment loss and change in fair value of financial derivative of the Group was HK\$151 million.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW (continued)

#### LBITDA and Core Operating Loss (continued)

Loss after tax included significant non-cash and/or non-recurring charges and are reconciled below:

	For the six months ended 30 June	
	2014 HK\$ Million	2013 HK\$ Million
Loss attributable to shareholders before share of results of associates	(789)	(867)
Adjusted by:		
Fair value loss on iron ore offtake contract with Mt. Gibson, net	24	95
Employee share option expenses	–	1
<b>Core operating loss before share of results of associates</b>	<b>(765)</b>	<b>(771)</b>
Share of results of associates (before goodwill impairment)	6	139
<b>Core operating loss of the Group</b>	<b>(759)</b>	<b>(632)</b>

#### Finance costs

For the interim period under review, finance costs amounted to HK\$394 million, 7.8% higher than that of last period. The increase in finance costs was mainly due to more use of financing from discounted bills. The Group maintains a higher leverage currently to take advantage of the low interest environment.

#### Share of results of associates

In this interim period, we have recognized losses of HK\$66 million from Shougang Resources and HK\$14 million from Shougang Concord Century Holdings Limited (“Shougang Century”) respectively.

#### Taxation

In this interim period, it was HK\$2 million in net tax income, comparing to HK\$12 million in net tax expense in last period. The tax expense in last period was mainly the reversal of deferred tax assets recognized previously by a PRC subsidiary due to foreseeable tax losses utilization.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS

Summary of net profit/(loss) contribution to the group by operation/entity:

Operation/Entity	Attributable interest	For the six months ended 30 June	
		2014 HK\$ Million	2013 HK\$ Million
<b>1. Steel manufacturing</b>			
Shouqin	76%	(690)	(719)
Qinhuangdao Plate Mill	100%	(39)	(61)
Sub-total		(729)	(780)
<b>2. Mineral exploration</b>			
Shougang Resources (before goodwill impairment)	27.6%	17	148
Shouqin Longhui	67.8%	(66)	(81)
Sub-total		(49)	67
<b>3. Commodity trading</b>			
The Trading Group	100%	81	119
Sub-total		81	119
<b>4. Others</b>			
Shougang Century	35.7%	(14)	(11)
Fair value loss on Mt. Gibson iron ore offtake contract, net	–	(24)	(95)
Share of goodwill impairment made by Shougang Resources	–	(83)	–
Corporate and others	–	(48)	(28)
Sub-total		(169)	(134)
<b>Total</b>		<b>(866)</b>	<b>(728)</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing

The Group operates in this business segment through Qinhuangdao Shouqin Metal Materials Co., Ltd. (“Shouqin”) and Qinhuangdao Shougang Plate Mill Co., Ltd (“Qinhuangdao Plate Mill”). The steel industry faces a dire operating environment. This core segment recorded net loss of HK\$729 million during the period, while that of last period was net loss HK\$780 million. Summary of production and sales quantities of the two manufacturing plants in the current and last interim period under this segment is as follows:

For the six months ended 30 June	Slabs		Heavy Plates	
	2014 '000 tonnes	2013 '000 tonnes	2014 '000 tonnes	2013 '000 tonnes
<b>(i) Production</b>				
Shouqin	1,150	1,191	762	864
Qinhuangdao Plate Mill	–	–	262	317
Total	1,150	1,191	1,024	1,181
Change		-3%		-13%
<b>(ii) Sales</b>				
Shouqin#	299	273	797	874
Qinhuangdao Plate Mill	–	–	260	307
Total	299	273	1,057	1,181
Change		+10%		-11%

# Difference between production and sales of slabs was mainly represented by those consumed by Shouqin internally to produce heavy plates; slab sales were mainly made towards Qinhuangdao Plate Mill and Processing Centre and are eliminated on consolidation.

#### Shouqin

The Group holds an effective interest of 76% in Shouqin, the remaining 20% and 4% were held by Hyundai Heavy Industries Limited and Shougang Corporation respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

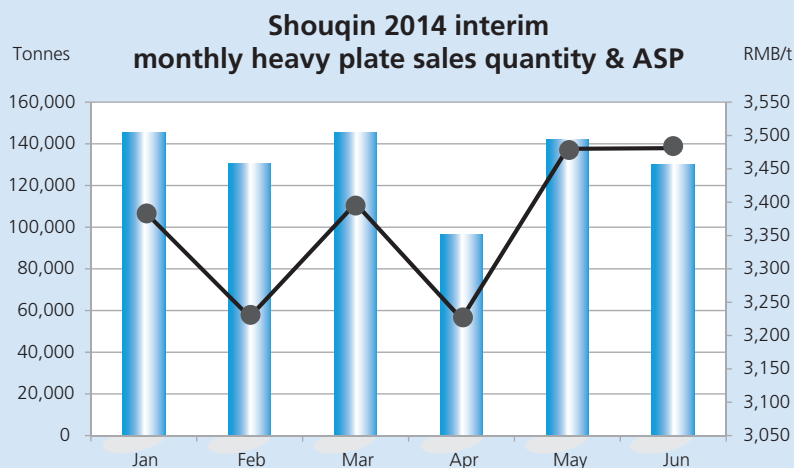
#### Steel Manufacturing (continued)

##### *Shouqin (continued)*

Shouqin is a leading environmental-friendly integrated facility encompassing the entire process from iron, steel, slab to plate production, it has formulated a product mix covering major applications in petrochemical, shipping, pressure vessel, industrial machineries and constructions. Its proprietary production technologies in petrochemical, hydro-electrical and ultra-thick plates are among the most advanced in the PRC, its annual production capacities of slab and heavy plate have reached 3.6 million tonnes and 1.8 million tonnes respectively. For the current period, Shouqin reported a turnover of HK\$4,474 million before elimination, recording a 12.1% drop on the comparative period.

The drop was mainly due to decrease of sales quantity and ASP of heavy plates. The ASP (exclude value added tax ("VAT")) of heavy plate was RMB3,376 (HK\$4,233) per tonne, 8.6% lower than that of the last period. Production of slab was mainly used for Shouqin's internal consumption while some sales were made towards Qinhuangdao Plate Mill and Processing Centre and are eliminated on consolidation. The ASP (exclude VAT) of slab was RMB2,643 (HK\$3,313) per tonne, about 6.9% lower than that of the last period.

	2014 Interim	2013 Interim	Change
Quantity – heavy plate (tonnes)	<b>797,000</b>	874,000	-8.8%
ASP (RMB)	<b>3,376</b>	3,692	-8.6%



*In the above chart, the bar represents sales quantity while the line represents ASP.*



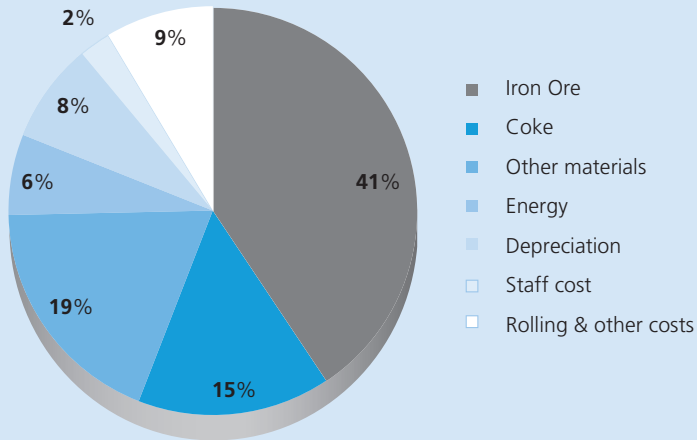
## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing (continued)

*Shouqin (continued)*

#### Component of manufacturing costs – Shouqin



Its downstream processing centre, Qinhuangdao Shouqin Steels Machining and Delivery Co., Ltd. ("Processing Centre") is mainly engaged in pre-treatment of ship plates, heavy machinery engineering and structural steel. In this interim period, this entity recorded HK\$512 million in turnover, which is double of that of last period as a result of more export sales and processing activities in specific plates.

For the six months ended 30 June, 2014, the aggregate net loss of Shouqin and Processing Centre attributable to the Group was HK\$690 million, comparing to the net loss of HK\$719 million in last period.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

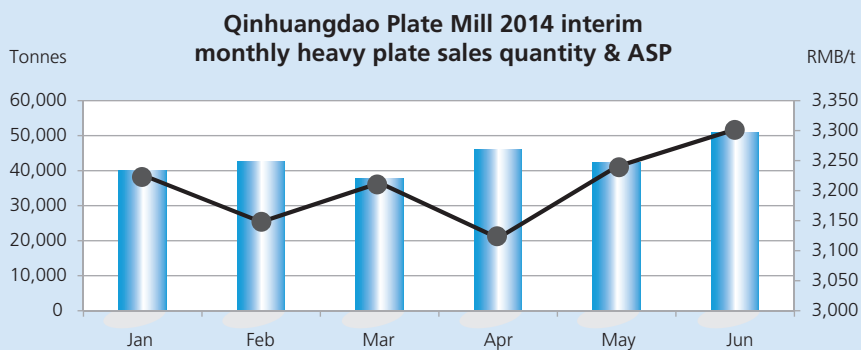
### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing (continued)

##### *Qinhuangdao Plate Mill*

Qinhuangdao Plate Mill recorded a turnover of HK\$1,121 million before elimination for the six months ended 30 June 2014, a drop of 24.7% comparing with that of last period. The drop was mainly due to lower sales quantities and selling price in the weak market, ASP (exclude VAT) was RMB3,210 (HK\$4,025) per tonne, about 3.7% lower than that of last period. The Group's share of net loss of Qinhuangdao Plate Mill was HK\$39 million, comparing to net loss of HK\$61 million in last period.

	2014 Interim	2013 Interim	Change
Quantity – heavy plate (tonnes)	260,000	307,000	-15.3%
ASP (RMB)	3,210	3,334	-3.7%



*In the above chart, the bar represents sales quantity while the line represents ASP.*



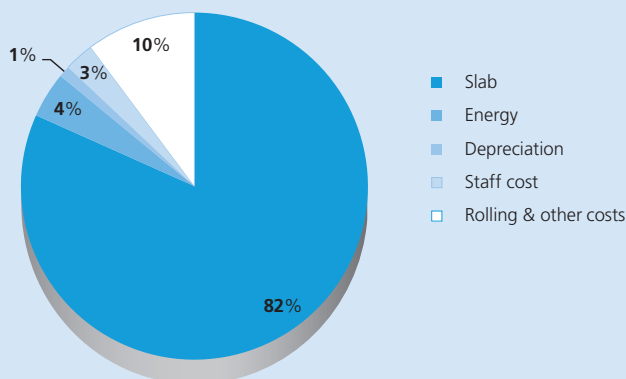
## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Steel Manufacturing (continued)

##### *Qinhuangdao Plate Mill (continued)*

**Component of manufacturing costs-  
Qinhuangdao Plate Mill**



#### Mineral exploration

##### *Production and sale of coking coal*

Shougang Resources is a 27.6% held associate of the Group and is a major hard coking coal producer in China, currently operating three premium coking coal mines in Shanxi province, PRC with an annual production capacity of over 6 million tonnes. Its consolidated turnover for the interim period was HK\$1,702 million, a drop of 26.7% over that of last period. With the weak demand in coke market that is the second largest upstream raw material having sharp decline in sales prices and sales volumes, the operating profit of Shougang Resources was significantly reduced and forced to make impairment on its goodwill in the amount of HK\$300 million during the period. In addition, because of the devaluation of Renminbi, Shougang Resources recorded unrealized exchange related losses of about HK\$120 million on the accounts for holding large amounts of cash and financial instruments. Net losses attributable to shareholders of Shougang Resources was HK\$192 million while there was net profit of HK\$582 million in last period. Loss of Shougang Resources attributable to the Group was HK\$66 million in this interim period.

Although selling price of coking coal was in a downside during the period, with the brand quality of Shougang Resources's products, we are confident towards its future operations.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Mineral exploration (continued)

##### *Production and processing of iron ore products*

The Group holds an effective 67.8% interest in Qinhuangdao Shouqin Longhui Mining Co., Ltd (“Shouqin Longhui”) which is situated in Qinglong County, Qinhuangdao City, Hebei province, PRC. Shouqin Longhui currently holds two magnetite iron ore mines in addition to concentrating and pelletizing facilities.

During the period under review, Shouqin Longhui sold approximately 585,000 tonnes pellets while average selling price was RMB953 (HK\$1,195) per tonne. It recorded a turnover of HK\$830 million before elimination for the period, loss of Shouqin Longhui attributable to the Group was about HK\$66 million, comparing to an attributable loss of HK\$81 million in last period.

#### Commodity trading (“Trading”)

Our Trading operations are jointly conducted by SCIT Trading Limited, SCIT Services Limited and Shougang Concord Steel Holdings Limited and its subsidiaries (“The Trading Group”), all of which are wholly owned by the Group. The Trading Group reported a turnover of HK\$1,466 million in the six months ended 30 June 2014, decreased by 20.9% comparing to last period. Through long term offtake arrangements with Mt. Gibson starting from mid of 2009, it sold approximately 1.71 million tonnes of iron ores, which was higher than the 1.29 million tonnes sold of last period. Selling price decreased by 32% to USD96 (HK\$744) per tonne. After the negotiation between management and Mt. Gibson last year, the pricing method for long-term off-take contracts was modified to be determined from the daily average price of the Platts iron ore price index one month prior to sales delivery to the daily average price of the Platts iron ore price index in the month of sales delivery. This resulted in trading profits becoming more stable, greatly reducing the impact of price fluctuations between months that may bring a loss. The resulting net profit of this segment was HK\$81 million in the period, comparing to HK\$119 million in last period. Results from this operation are expected to remain favourable in the foreseeable future.

#### Other business

##### *Manufacture of steel cord for radial tyres; processing and trading of copper and brass products*

Shougang Century is a 35.7% associate of the Group. The Group’s share of its net loss was HK\$14 million, comparing to share of loss of HK\$11 million in last period.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Other business (continued)

*Manufacture of steel cord for radial tyres; processing and trading of copper and brass products (continued)*

There is keen competition in the steel cord market. The selling price of steel cords continued to drop during the period but stabilized gradually. In mid of July this year, Shougang Century and an independent third party entered into a non-legally binding memorandum of understanding in relation to the proposed capital injection into one of the wholly-owned major subsidiaries of Shougang Century, 滕州東方鋼簾線有限公司 (Tengzhou Eastern Steel Cord Co., Ltd#) (“TESC”) as well as the proposed strategic cooperation between Shougang Century and the independent third party. Upon completion of the proposal, Shougang Century and the independent third party will each own 50% interests in TESC. The proposed capital injection would enhance the capital base of TESC and provide additional financial resources to TESC, which will be utilised to fund the phase II construction of TESC’s steel cord production facilities with an annual production capacity of 100,000 tonnes. The completion of the proposal is subject to the fulfilment of certain conditions.

# For identification only

#### Environmental Protection Measures

The most important operating activity of the Company is the manufacturing and sales of steel. Shouqin, the Company’s flagship subsidiary, is the main operator of this business segment. Shouqin focuses on investment in environmental protection and creating green production. With the construction goal of environment protective type, energy recycling type and cost-effective type, Shouqin invested about 10% of the total project costs in environmental protection, which comprised of the following measures:

##### 1. Dust Clearing System

Shouqin has applied fully enclosed joint silos, which eliminates the traditional raw steel enterprises yard mode, and integrates storage and distribution as a whole. This resolves the dusting problem of raw materials, reduces the cost of dumping and ensures the quality of raw materials and fuels whilst eliminating pollution. Dust is removed in a fully enclosed loop, which utilizes all vacuum suction tankers in pneumatic conveying to eliminate secondary dusting. In addition, pulse dust-dry technique is applied at large blast furnace to treat blast furnace gas.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Environmental Protection Measures (continued)

#### 2. Water System

Shouqin has constructed a centralized water supply and closed-loop water system, which implements the water for use in production on cascade basis. By combining the principles of voicing diversion, rain and sewage diversion and loop principle, the smelting of steel, iron, and rolling of steel were built with water treatment system with separate loop. There is zero waste water discharge from production and the capacity of sewage treatment station is 650t/h. Water circulation rate reached 98.6%, with fresh water consumption of steel 1.7m<sup>3</sup> per tonne. Zero waste water discharge is thus achieved.

#### 3. Energy Recycling

The residual resources are adequately utilized from comprehensive application of power generation projects (pressure generation), which do not only save energy but reduce emissions of pollutants and noise. The recovery of gas from by-products through the use of advanced technologies are all applied in sintering, hot stove, sleeve kilns, furnaces and captive power generation.

- Recycling of blast furnace gas

The blast furnace gas generated from the production of Shouqin after going through gravity dusting and dry dusting are all recovered and stored, which are applied pressure generation of electricity, sintering ignition, stove, furnace coal injection mixing air and rolling furnace production.

- Converter gas recovery and utilization

The converter gas generated from the production of Shouqin after one time dusting are applied in torpedo baking, bake steel package, captive power plant boilers, lime sleeve kiln production.

- Residual heat recycling

The steam generated from the factory area of Shouqin accounted for 75% of the total usage of steam in the residual heat recycling within the factory area, which is applied to Sintering mixing, RH furnace production, the production of liquid oxygen and other areas.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### REVIEW OF OPERATIONS (continued)

#### Environmental Protection Measures (continued)

##### 4. Energy-saving measures

- Energy centre

Through information technology, digital technology, precise control, segment management, Shouqin implements total process management over the procurement, production, operation, use, and recycle of energy products. Comprehensive monitoring and economic distribution of energy is realized and the goals of systematic energy saving are achieved.

- Energy Management Contracts

Shouqin first introduced new mechanisms of energy saving for energy management contracts in the steel industry, which accumulated the implementation for a number of energy conservation projects, with an annual capacity of 120,000 tons of standard coal in energy conservation.

##### 5. Noise Control

Shouqin selected low-noise equipment, using silencers, noise separation, vibration reduction and flexible connections in air compressors, oxygen compressors, blowers, etc.

##### 6. Green landscaping

The green landscaping site in the factory area of Shouqin amounted to 720,000 square metres with a green ratio of 39%.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

We aim to diversify our funding sources through utilization of both banking and capital markets. To the extent possible, financing is arranged to match business characteristics and cash flows.

#### 1. Cash/Bank balances and Loans

The cash and bank balances, loans and financial leverage of the Group as at 30 June 2014 as compared to 31 December 2013 is summarized below:

	PRC (exclude HK) 30 June 2014 HK\$ Million	Other than PRC 30 June 2014 HK\$ Million	Group Total 30 June 2014 HK\$ Million	Group Total 31 December 2013 HK\$ Million
Cash and bank balances	1,667	907	2,574	2,612
Total loans				
– from banks*	6,887	1,573	8,460	9,550
– from parent company	871	–	871	893
Total	7,758	1,573	9,331	10,443
Total assets	17,662	9,213	26,875	28,569
Total loans to total assets	43.9%	17.1%	34.7%	36.6%

\* excluding financing from discounted bills.

Our ultimate holding company, Shougang Corporation has provided corporate guarantee for most of the bank loans in PRC granted to the Group. Taking into account the financial resources of the Group, including the Group's ability to renew and refinance the banking facilities upon maturity, the Group has sufficient working capital to meet in full its financial obligations.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)

#### 2. Currency and Interest Rate Risk

The Company manages its financial risks in accordance with guidelines laid down by its Board of Directors. The treasury policy aims to manage the Group currency, interest rate and counterparty risks. Derivatives are only used primarily for managing such risks but not for speculative purposes. We also target to ensure that adequate financial resources are available for business growth.

The Group conducts its businesses mainly in Hong Kong and Mainland China, it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars and Renminbi. To minimize currency exposure, non-Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it through borrowings. For the six months ended 30 June 2014, approximately 80% of the Group's turnover was denominated in Renminbi. A mixture of fixed and floating rate borrowings are used in order to stabilize interest costs despite rate movements. The Group also enters into certain interest rate swaps to mitigate interest rate risks. Notional amounts of such derivative instruments amounted to HK\$194 million.

#### 3. Financing activities

The Company did not have any new banking facilities during this interim period.

There are various financial covenants under the existing bank loan agreements entered into by the Company. The Company has been from time to time monitoring the compliance with such financial covenants. In the event the Company foresees the possibility that the Company may not be able to attain any required financial indicators for any relevant period, the Company will take pre-caution measures to obtain consents from the relevant banks either to waive compliance with the relevant financial covenants for the relevant period or to revise the relevant financial covenants, as the case may be.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### MATERIAL ACQUISITIONS & DISPOSALS

There were no material acquisitions and disposals of the Group during this interim period.

### CAPITAL STRUCTURE

The Company did not issue any new shares during this interim period.

The issued share capital of the Company was HK\$5,345 million (represented by 8,957,896,227 ordinary shares).

### EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 4,350 employees as at 30 June 2014.

The remuneration policies of the Group are to ensure fairness and competitiveness of total remuneration in order to motivate and retain current employees as well as to attract potential ones. Remuneration packages are carefully structured to take into account local practices under various geographical locations in which the Group operates.

The remuneration packages of employees in Hong Kong include salary, discretionary bonuses, medical subsidies and a hospitalization scheme. All of the subsidiaries of the Group in Hong Kong provide pension schemes to the employees as part of their staff benefits. The remuneration packages of employees in the PRC include salary, discretionary bonuses, medical subsidies and a welfare fund contribution as part of their staff benefits.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS

During the first half of the year 2014, global geopolitics became complicated. For example, the conflicts between Russia and the western countries over Ukraine, the tense situations in South China Sea of East Asia and the continued political confrontations in the Middle East, etc. All these situations are building uncertainties to the world economy. Economically, the concerns over European debt recurred. With the pace of exit from the market by the US government accelerating, the interest rate hiking cycle will bring considerable challenges to the world economy as soon as it begins. In China, the government now focuses on further reform in its economic structure, primarily through supporting the macro economy from micro-stimulus policies and shifting the emphasis from exports to increasing domestic demands so as to achieve changes in a steady manner.

Our main business is the manufacturing of steel. Facing the weak demand and excess capacity, the unbalanced situation between supply and demand remains unchanged in the first half of the year 2014. However, despite the price of steel was still at a low level, the decreasing trend had been stabilized. On the contrary, the prices of iron ore and coke, which are the major raw materials in steel manufacturing, have seen decrease rapidly in the first half of the year. Since the end of last year to mid of this year, the price of imported iron ore had decreased by more than 30% whilst the price of coke had also decreased by more than 25%. Benefiting from the declining purchase cost of major raw materials, the Company expected the manufacturing costs reduction will be further reflected in the third quarter, which will greatly help the Group to continue reduce its losses.

On commodity trading, the pricing method for long-term offtake contracts with Mt. Gibson was modified last year to be determined from the daily average price of the Platts iron ore price index one month prior to sales delivery to the daily average price of the Platts iron ore price index in the month of sales delivery. This resulted in trading profits becoming more stable, which significantly reduced the impact of price fluctuations between months that may bring a loss. Although the price of iron ore continued to decrease during the period, the Group still recorded a profit in commodity trading. We believe that the business of this segment can still bring stable income for us in future.

On mineral exploitation, Shougang Resources, the Company's principal associate, recorded losses during the period. It was mainly due to the downturn in the steel industry, with the weak demand in coke market that is the second largest upstream raw material having sharp decline in sales prices and sales volumes, and forced Shougang Resources to make impairment for its goodwill during the period. In addition, because of the devaluation of Renminbi, Shougang Resources recorded unrealized exchange related losses on the accounts for holding large amounts of cash and financial instruments. However, the provisions for losses above was mostly non-repetitive and non-cash. Shougang Resources still holds large amounts of cash, which will enhance value for Shougang Resources when suitable investment opportunities appear. We are still confident to the prospects of Shougang Resources.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### PROSPECTS (continued)

The steel industry has experienced years of doldrums. The Mainland government has imposed increasingly strict environmental requirements on the industry and set up a target of reducing production capacity of 80 million tonnes by 2017, as well as accelerating the integration of the industries. All of these factors will have a stabilizing effect on the steel prices. As the most important raw material in the upstream of the industry, the price of iron ore cannot avoid to be affected by the impacts of excess capacity in steel industry with a great fall in its price anticipating the market conditions. Together with the continuing increase supply from the domestic and foreign mines, there will still have a declining pressure on the price of iron ore, which will play a significant role in relieving the cost of the steel industry.

As a member of Shougang Corporation, the Company has strong support from Shougang Corporation, remains cautiously optimistic about our development in future.

### INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

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

The Directors of the Company who held office at 30 June 2014 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2014 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):



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

### (a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company			Total interests	Total interests as to % of the total number of shares of the Company in issue as at 30.06.2014
		Interests in shares	Derivative interests*	Total interests		
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%	
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.39%	
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.50%	
Ip Tak Chuen, Edmond	Beneficial owner	2,290,000	–	2,290,000	0.02%	
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%	
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.01%	
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.01%	
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.01%	

\* *The interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "2002 Scheme"). Upon exercise of the share options in accordance with the 2002 Scheme, ordinary shares in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.*

### (b) Long positions in the shares and underlying shares of Shougang Concord Century Holdings Limited ("Shougang Century"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Century			Total interests	Total Interests as to % of the total number of shares of Shougang Century in issue as at 30.06.2014
		Interests in shares	Derivative interests*	Total interests		
Li Shaofeng	Beneficial owner	7,652,000	13,800,000	21,452,000	1.11%	
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%	
Leung Shun Sang, Tony	Beneficial owner	7,652,000	12,000,000	19,652,000	1.02%	

\* *The interests are unlisted physically settled options.*

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

### (c) Long positions in the shares and underlying shares of Shougang Fushan Resources Group Limited ("Shougang Resources"), an associated corporation of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources			Total Interests as to % of the total number of shares of Shougang Resources in issue as at 30.06.2014
		Interests in shares	Derivative interests*	Total interests	
Chen Zhouping	Beneficial owner	-	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	-	6,000,000	6,000,000	0.11%

\* *The interests are unlisted physically settled options.*

Save as disclosed above, as at 30 June 2014, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2014.

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2014, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:



## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

### Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 30.06.2014	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	4,214,625,699	47.04%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.78%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.57%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	2, 3
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	3



## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

### Long positions in the shares/underlying shares of the Company (continued)

Notes:

1. Shougang Holding indicated in its disclosure form dated 7 September 2011 (being the latest disclosure form filed up to 30 June 2014) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned subsidiaries of Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to 30 June 2014) that as at 24 February 2009, 430,274,586 shares of the Company were held by two wholly-owned subsidiaries of Cheung Kong and 25,127,369 shares of the Company were held by CEF Holdings Limited which in turn was held as to 50% by Cheung Kong. Accordingly, Cheung Kong was interested in an aggregate of 455,401,955 shares of the Company.
3. Mr. Li Ka-shing indicated in his disclosure form dated 17 July 2012 (being the latest disclosure form filed up to 30 June 2014) that as at 16 July 2012, his interests in the Company was held by Cheung Kong which in turn was held as to 40.43% by TUT1. TUT1 was wholly-owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”) which in turn was held as to 33.33% by Mr. Li Ka-shing. TDT1 and TDT2, both wholly-owned subsidiaries of Unity Holdco, were deemed to be interested in the shares of the Company which TUT1 was interested in. The long position in the 455,401,955 shares of the Company held by Cheung Kong, Mr. Li Ka-shing, TUT1, TDT1 and TDT2 were the same block of shares.

Save as disclosed above, as at 30 June 2014, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

### SHARE OPTIONS

On 7 June 2002, the shareholders of the Company adopted the 2002 Scheme which would be valid for a period of ten years. On 25 May 2012, the shareholders of the Company approved the termination of the 2002 Scheme (to the effect that no further share option shall be granted by the Company under the 2002 Scheme) and the adoption of a new share option scheme (the “2012 Scheme”), which became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme. The share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.



## SHARE OPTIONS (continued)

Particulars of share options in relation to each of the 2002 Scheme and the 2012 Scheme during the period are set out below:

### (a) The 2002 Scheme

No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the 2002 Scheme during the six months ended 30 June 2014. Details of the outstanding share options under the 2002 Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
<b>Directors of the Company</b>				
Li Shaofeng	20,000,000 <sup>1</sup>	14.12.2010	14.12.2010 – 13.12.2017	HK\$1.180
Zhang Wenhui	35,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Chen Zhouping	45,000,000 <sup>1</sup>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Kan Lai Kuen, Alice	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Wong Kun Kim	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
Leung Kai Cheung	1,500,000	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>104,500,000</u>			
<b>Employees of the Group</b>				
	<u>8,000,000 <sup>1</sup></u>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>8,000,000</u>			
<b>Other participants</b>				
	<u>115,000,000 <sup>1</sup></u>	20.12.2007	20.12.2007 – 19.12.2014	HK\$2.944
	<u>115,000,000</u>			
	<u>227,500,000</u>			

Note:

- Such share options are subject to the restrictions that up to 20%, 40%, 60%, 80% and 100% of the total options granted will be exercisable during the period of 12th, 24th, 36th, 48th and the expiry of the 48th months respectively from the date of acceptance of the grant of options by the relevant grantees.

## SHARE OPTIONS (continued)

### (b) The 2012 Scheme

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 30 June 2014, there was no share option outstanding under the 2012 Scheme.

## AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2014 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 20 August 2014 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2014.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "CG Code") during the six months ended 30 June 2014, except for the following deviation:

- Under the first part of code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The Chairman of the Board, who is also the chairman of the Nomination Committee of the Company, did not attend the annual general meeting of the Company held on 6 June 2014 (the "2014 AGM") as he had another business engagement. The Managing Director of the Company, who took the chair of the 2014 AGM, and other members of the Board together with the chairmen of the Audit and Remuneration Committees and all other members of each of the Audit, Remuneration and Nomination Committees attended the 2014 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2014 AGM were already of sufficient calibre and number for answering questions at the 2014 AGM.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2014.



## DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The following are the changes in the information of Directors since the date of the 2013 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- (a) Mr. Li Shaofeng, an Executive Director and the Managing Director of the Company, is a non-executive director of Sinocop Resources (Holdings) Limited, a Hong Kong listed company. The company name of Sinocop Resources (Holdings) Limited has been changed to China Dynamics (Holdings) Limited from 15 May 2014.
- (b) Mr. Chen Zhouping, a Non-executive Director of the Company, resigned as a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, on 30 April 2014.
- (c) Mr. Ip Tak Chuen, Edmond, a Non-executive Director of the Company, resigned as a non-executive director of ARA Trust Management (Suntec) Limited, which manages Suntec Real Estate Investment Trust, a real estate investment trust listed on the Singapore Exchange Securities Trading Limited, on 17 April 2014.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

- (a) Pursuant to the facility agreement dated 15 April 2013 (the "Facility Agreement") entered into between the Company and Fubon Bank (Hong Kong) Limited (the "Bank") in relation to a committed term loan facility in an aggregate amount of HK\$350,000,000 (the "Facility"), each of the following will constitute an event of default upon which the Bank may declare that all or part of the Facility together with accrued interest and all other amounts accrued or outstanding be immediately due and payable: (i) Shougang Holding, the controlling shareholder of the Company, ceases to be a wholly-owned subsidiary of Shougang Corporation, a company incorporated in the People's Republic of China and is the holding company of Shougang Holding; (ii) Shougang Holding ceases to be the single largest beneficial shareholder of the Company with ownership of less than 35% of the equity interest and beneficial ownership in the Company; and (iii) Shougang Corporation ceases to be able to direct the affairs of Shougang Holding and/or to control the composition of the board of directors of Shougang Holding. The Facility shall be repaid by the Company by instalments with the last instalment due on the final maturity date which is 36 months from the date of the Facility Agreement.

## DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

- (b) Under the facility letter entered into by the Company on 24 June 2011 with Bank of China (Hong Kong) Limited relating to the banking facilities (the “Facilities”) of (i) forward foreign exchange and currency option transaction facilities of US\$80,000,000 (the “Facility I”); and (ii) term loan of up to US\$70,000,000 (the “Facility II”), the Company shall procure that (i) Shougang Holding owns not less than 40% interest in the Company and Shougang Holding in turn shall be wholly-owned by Shougang Corporation throughout the life of the Facilities; (ii) Shougang Corporation should maintain management control in Shougang Holding; and (iii) Shougang Holding, either directly or through its subsidiaries indirectly, remains the single largest beneficial shareholder of the Company. Breach of any of the above will constitute an event of default upon which the Facilities will, among others, become immediately due and payable. There is no specific term regarding the life of the Facility I while the Facility II shall be repaid by the Company by instalments with the last instalment due on the date falling 42 months after the date of first drawdown of the Facility II.

## CHANGE OF DIRECTORS

- (a) Mr. Chen Zhouping resigned as a Non-executive Director of the Company with effect from 1 September 2014.
- (b) Mr. Ding Rucai has been appointed as an Executive Director and Deputy Managing Director of the Company as well as a member of the Executive Committee with effect from 1 September 2014.

## APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board  
**Li Shaofeng**  
*Managing Director*

Hong Kong, 28 August 2014