# SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Stock Code : 103

Annual Report **2015**

# CONTENTS

# CORPORATE PROFILE

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

The Group is primarily involved in the following activities:

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

## CORPORATE'S VISION AND MISSION

*Shougang Century's Vision is to:*

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

*Shougang Century's Mission is to:*

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

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Li Shaofeng *(Chairman)*
Yang Kaiyu *(Managing Director)*
Su Fanrong *(Executive Deputy Managing Director)*
Tang Cornor Kwok Kau *(Deputy Managing Director)*

### Non-executive Directors

Leung Shun Sang, Tony
Liao Jun

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Tang Cornor Kwok Kau
Chan Lai Yee

## COMPANY SECRETARY

Chan Lai Yee

## QUALIFIED ACCOUNTANT

Wu Siu Man

## PRINCIPAL BANKERS

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

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## SHARE REGISTRAR

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

## REGISTERED OFFICE

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

## COMPANY'S WEBSITE

http://www.shougangcentury.com.hk

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

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

## HKEx STOCK CODE

103

## LISTING DATE

9 April 1992

# FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2015** | 2014 | **%** |
| | **HK$'000** | HK$'000 | **Change** |
| **Operations** | | | |
| Revenue | **1,480,507** | 1,787,444 | **-17.2** |
| Gross profit | **19,034** | 133,785 | **-85.8** |
| LBITDA *(Note 1)* | **(187,719)** | (52,241) | **+259.3** |
| Adjust EBITDA *(Note 2)* | **4,923** | 116,923 | **-95.8** |
| Loss for the year | **(376,985)** | (275,774) | **+36.7** |
| Loss per Share (basic) (HK cents) | **(19.61)** | (14.34) | **+36.7** |

*Notes:*

*1.* LBITDA represents loss before finance costs, income tax, depreciation and amortisation.

2. Adjusted EBITDA represents LBITDA before (i) allowance for inventories recognised of HK$13,511,000 (2014: HK$5,275,000); (ii) allowance for bad and doubtful debts of HK$4,511,000 (2014: HK$16,830,000); (iii) bad debts written off of HK$4,007,000 (2014: nil); (iv) impairment loss recognised in respect of property, plant and equipment of HK$93,000,000 (2014: HK$147,000,000); (v) impairment loss recognised in respect of goodwill of HK$41,672,000 (2014: nil); (vi) increase in fair value of investment properties of HK$3,253,000 (2014: HK$1,699,000); and (vii) foreign exchange losses of HK$39,194,000 (2014: HK$1,758,000).

| | At 31 December | | |
|---|---|---|---|
| | **2015** | 2014 | **%** |
| | **HK$'000** | HK$'000 | **Change** |
| **Financial position** | | | |
| Total assets | **3,006,147** | 3,610,120 | **-16.7** |
| Shareholders' equity | **1,395,870** | 1,861,882 | **-25.0** |
| Net asset value per Share (HK$) | **0.726** | 0.968 | **-25.0** |

# INFORMATION FOR INVESTORS

## SHARE INFORMATION

| | |
|---|---|
| Board lot size: | 2,000 Shares |
| Shares outstanding as at the last trading day of 2015: | 1,922,900,556 Shares |
| Market capitalisation as at the last trading day of 2015: | HK$401,886,216 |
| Closing share price as at the last trading day of 2015: | HK$0.209 |

Loss per Share (basic) for 2015:

| | | |
|---|---|---|
| Interim | : | (HK10.12 cents) |
| Final | : | (HK19.61 cents) |

## KEY DATE

| | |
|---|---|
| 2016 Annual General Meeting: | 29 June 2016 |
| Closure of Register of Members for 2016 Annual General Meeting: | 28 to 29 June 2016 |
| Announcement of 2015 Final Results: | 23 March 2016 |

## INVESTOR RELATIONS CONTACT

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

## SHAREHOLDER ENQUIRIES

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

### Tricor Tengis Limited

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

# BUSINESS CONTACTS

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

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

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

| | |
|---|---|
| Address: | 1 Dong Fang Road, Tengzhou Economic Development Zone<br>Shandong Province, PRC |
| Postal code: | 277500 |
| Telephone: | (86) 632 525 2100 |
| Fax: | (86) 632 525 2111 |
| Website: | http://www.tesc.com.cn |
| E-mail address: | tesc@tesc.com.cn |

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

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

**東莞興銅五金有限公司**

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

**首長寶佳(上海)管理有限公司**

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Li Shaofeng**, aged 49, Mr. Li holds a Bachelor Degree in Automation from University of Science and Technology Beijing. He joined Shougang Corporation in 1989. Mr. Li joined the Group in March 2000 and was appointed as deputy managing Director. He was subsequently appointed as the managing Director and deputy managing director of Shougang HK, a wholly owned subsidiary of Shougang Corporation, in September 2003 and September 2007 respectively. Besides, Mr. Li acts as the chairman and vice-chairman of the nomination committee and remuneration committee of the Company respectively.

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

Mr. Li was appointed as the chairman and executive director of Shougang Fushan on 20 October 2011. He also became a non-executive director of Mount Gibson Iron Limited ("MGIL"), a company listed on the Australian Securities Exchange on 23 February 2012 (Mr. Li previously acted as an alternate director to an ex-director of MGIL with effect from 7 November 2011). On 27 January 2014, he was appointed as an executive director of BeijingWest Industries. He had been a non-executive director of China Dynamics (Holdings) Limited until 2 November 2015. In all, Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Yang Kaiyu**, aged 54, was appointed as the deputy general manager of the Company on 15 July 2008 and re-designated as the deputy managing Director and managing Director on 10 May 2010 and 1 April 2011 respectively. At present, he holds directorship in all wholly owned subsidiaries of the Company. He holds a Bachelor Diploma in Engineering Mechanics from Shanghai Jiao Tong University and a Master Degree in Industry Management and Engineering from The Katholieke Universiteit Leuven in Belgium. He also had attended the General Management Development and Operation Management Programs organised by INSEAD, France and Creative Leadership Development Programme organised by CCL Institute, the United States. Mr. Yang has over 15 years of experience in operation management and worldwide procurement in steel wire and steel cord industries. Prior to joining the Company, he held various positions in Bekaert group since 1993.

Other than his directorship disclosed above, Mr. Yang does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, Mr. Yang's spouse beneficially owns 3,596,000 Shares within the meaning of Part XV of the SFO. In addition, he has a personal interest of 18,000,000 underlying Shares attached to the share options granted by the Company. A service contract was entered into between Mr. Yang and the Company for a term of three years commencing from 1 January 2016. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). However, he will also be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Yang is entitled to receive a HK$220,000 monthly salary at present under his service contract with the Company. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Su Fanrong**, aged 48, joined the Group as a deputy general manager of the Company in January 2015 and was appointed as the executive deputy managing Director on 1 December 2015. At present, he also holds directorship in all wholly owned subsidiaries of the Company. He holds a Master degree in Business Administration from Missouri State University and Bachelor degree specialising in Pressure Processing from University of Science and Technology Beijing. He joined Shougang Corporation in 1990 and had been working in various companies under Shougang Corporation during the period from the same year to 2014. Mr. Su has over 25 years of sales and management experience in the steel industry.

Other than his directorship and position disclosed above, he does not hold any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. Su does not have any relationship with any other Directors, senior management or substantial Shareholders or controlling Shareholders. At the date of this annual report, he does not have any interest in securities of the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Su and the Company for a term commencing from 1 December 2015 and ending on 31 December 2017. The service contract may be terminated by either party by giving to other party not less than three months' notice without payment of any compensation (other than statutory compensation). However, he will hold office until the next following general meeting of the Company, at which he will be eligible for re-election in accordance with the Articles and thereafter will be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. Mr. Su is entitled to receive a HK$180,000 monthly salary at present under his service contract with the Company. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Leung Shun Sang, Tony**, aged 73, was appointed as a non-executive Director in 1995. He also serves as the vice-chairman of the nomination committee and a member of the remuneration committee of the Company. He is also a non-executive director of each of Shougang International, HNA Group (International), Shougang Grand, Global Digital and Shougang Fushan. Mr. Leung holds a Bachelor Degree of Commerce from the Chinese University of Hong Kong and a Master Degree in Business Administration from New York State University. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Tang Cornor Kwok Kau**, aged 55, Mr. Tang joined the Group in 1998 and was appointed as the deputy managing Director in March 2000. At present, he holds directorship in all wholly owned subsidiaries of the Company. Mr. Tang was appointed with effect from 22 July 2014 as an independent non-executive director of Loco Hong Kong. He holds a Bachelor and a Master Degrees in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years' experience in corporate and investment banking.

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Liao Jun**, aged 53, was appointed a non-executive Director on 25 February 2015. Mr. Liao holds a Bachelor of Science and a Master of Science in Physical Metallurgy from Central South Mining and Metallurgy Institute and Central South University of Technology respectively in China. He further achieved his Doctor of Philosophy in Materials Science in College of Engineering, University of Michigan and Master of Business Administration in University of Michigan Ross School of Business Management.

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

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Yip Kin Man, Raymond**, aged 69, was appointed as the independent non-executive Director in 1993. He serves as the chairman of each of the audit committee and remuneration committee and a member of the nomination committee of the Company. Mr. Yip has also acted as the independent non-executive director of Shougang Grand since January 2007. On 27 January 2014, he was appointed as an independent non-executive director of BeijingWest Industries. Mr. Yip is a practising solicitor, notary public and China-Appointed Attesting Officer.

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

**Mr. Law, Yui Lun**, aged 53, Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (“HKICPA”). He is also an associate member of each of the HKICPA and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants (“ACCA”) of the United Kingdom. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in April 2005. At present, Mr. Law is a Certified Public Accountant (Practising) in Hong Kong with extensive professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management for over 30 years.

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

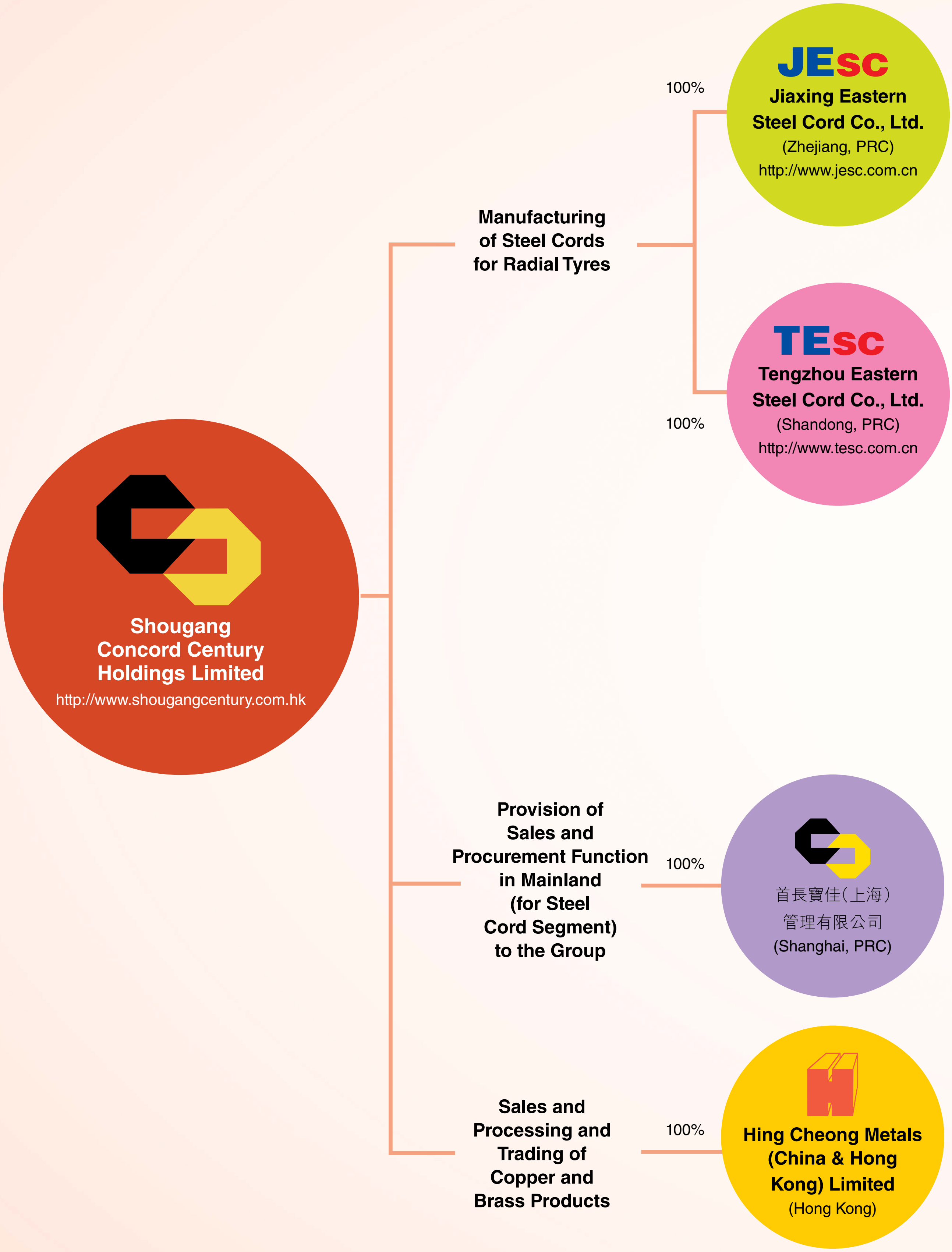
**Mr. Lam Yiu Kin**, aged 61, Mr. Lam is a fellow member of each of the ACCA, the Institute of Chartered Accountants in England & Wales (ICAEW), the Chartered Accountants of Australia and New Zealand (CAANZ) and HKICPA. He graduated from The Hong Kong Polytechnic University ("Polytechnic University") with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of Polytechnic University in 2002. Mr. Lam was appointed as the independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company in August 2015. He is also an independent non-executive director of each of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Limited, Vital Mobile Holdings Limited, Spring Real Estate Investment Trust, Global Digital, Mason Financial Holdings Limited, COSCO Pacific Limited and Nine Dragons Paper (Holdings) Limited and Kate China Holdings Limited, which he held directorship until 17 September 2015. Mr. Lam is currently an adjunct professor in the School of Accounting and Finance of Polytechnic University and a member of the Finance Management Committee of the Hong Kong Management Association. He was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009 and a partner of PricewaterhouseCoopers from 1993 to 2013. In all, Mr. Lam has over 40 years of extensive experience in accounting, auditing and business consulting.

Other than his directorship disclosed above, he has not previously held any position with the Group, and is independent of and not connected with the directors, chief executives and substantial shareholders or controlling shareholders of the Company or the subsidiaries of the Company or an associate of any of them. Save as disclosed above, he does not have any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas. At the date of this annual report, he has not have any interest in the Company within the meaning of Part XV of the SFO. A service contract was entered into between Mr. Lam and the Company for a term commencing from 1 August 2015 and ending on 31 December 2017. However, he will hold office until the next following general meeting of the Company, at which time he will be eligible for re-election in accordance to the Articles and thereafter will be subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. He will receive a director's fee as the Company may determine from time to time. At present, he receives a director's fee of HK$240,000 per annum. The emoluments of Directors are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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

# MAIN OPERATIONAL STRUCTURE

As at 23 March 2016



# CHAIRMAN'S STATEMENT

Dear Shareholders,

## RESULTS FOR THE YEAR

In 2015, the global economic recovery continued at a modest pace. The United States ("US") Federal Reserve first raised interest rate in nearly a decade and it is expected interest rate in the US will continue a gradual climb through 2016. China, the world's second largest economy, faced downward pressure and the annual economic growth rate slowed to 6.9 percent in 2015. China's automobile industry maintained a slow growth and the radial tyre manufacturers suffered from sluggish demand. Furthermore, the overcapacity in the steel cord industry led to intensified price competition that drove down the average selling price of steel cords.

Attributable to the substantial drop in selling price of steel cord, the impairment loss recognised in respect of property, plant and equipment of TESC for the first half year, impairment loss recognised on goodwill, and the depreciation of RMB exchange rate, the Group recorded a substantial loss of HK$376,985,000 for the year, representing an increase of 36.7% when compared to HK$275,774,000 for the previous year.

The revenue of Group amounted to HK$1,480,507,000 (2014: HK$1,787,444,000) for the year, representing a decrease of 17.2% as compared to the previous year, due to the significant drop in average selling price of both Steel cord and Copper and brass products segments and a slight decrease in their respective sales volume during the year. The Group reported loss per Share of HK19.61 cents for the year when compared to HK14.34 cents for the previous year. Net asset value was HK$0.726 per Share as at 31 December 2015, decreased by 25.0% as compared to HK$0.968 at the end of 2014.

## DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015.

## LOOKING AHEAD

During the year under review, the low demand for commodity products drove down the price of copper as well as steel cord. In addition, the situation of price competition attributable to the overcapacity in steel cord industry remained during the year. Looking forward, an era of rising interest rates is likely to strengthen the US dollar. Domestically, China is expected to maintain a steady growth in the coming year. We expect that the economic outlook remains challenging with uncertainties in 2016. To abate the potential impacts on our businesses from these macroeconomic outlook, we will adopt a two prone approach – Operational Excellence and Financial Prudence. Operational wise, we will sustain our effort in research and development in advanced steel cord and sawing wire products, expand our reach to untapped export markets and multinational tyre manufacturers. Contemporaneously, cost reduction measures across all business segments will persist. Financial management wise, we will monitor the changes on the exchange and interest rate movement on the currencies involved in our business namely USD, HKD and RMB with a view to mitigate the risk of currency fluctuation on the profitability of the Group. Equally important, we will ensure to maintain a strong cash flow position to cushion the Group from serious competition which is expected to protract in 2016.

# CHAIRMAN'S STATEMENT

## APPRECIATION

On behalf of the Board, I would like to thank the Board members and all colleagues of the Group for their loyalty and diligence especially during this extremely competitive and challenging business conditions and our stakeholders for their continuing patience and support to the Group.

By order of the Board

**Li Shaofeng**
*Chairman*
Hong Kong
23 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Business model and strategy

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

### Review of operations

The Group experienced a difficult period during the year under review. The slowdown in economic growth in the PRC during the year triggered the contraction in industrial demand and remarkable decline in commodity prices. According to the information from the National Bureau of Statistics of the PRC, the PRC recorded economic growth of 6.9% for the year, lowered by 0.4 percentage point as compared to a year-on-year growth of 7.3% in the previous year. As the automotive, property development and import/export sectors either lagged behind the said national economic growth or exhibited negative growth during the year, the demand for radial tyres softened as a result. Affected by the weaker demand of radial tyres, the Steel cord segment recorded reduced sales volume during the year. Furthermore, the selling price of steel cords continued to decline as price competition associated with overcapacity situation in the steel cord industry further intensified. Attributable to these factors, the Steel cord segment recorded substantial decrease in gross profit and increase in operating loss during the year.

In respect of Copper and brass products segment, revenue dropped as compared to the previous year, mainly as a result of the substantial drop in international copper price during the year. Despite the decrease in revenue, through the continued implementation of risk-averse sales and inventory management strategy, this segment achieved an increase in operating profit during the year.

For the Group as a whole, it recorded significant increase in LBITDA, and substantial decrease in Adjusted EBITDA during the year. Such unsatisfactory performance was mainly attributable to the unfavorable performance of Steel cord segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Steel cord

### Overall performance

The growth of the automobile industry in the PRC continued to decelerate during the year under review. According to the information from China Association of Automobile Manufacturers, the production of new vehicles amounted to 24.50 million units in 2015, represented an annual growth of 3.3% over the previous year, descended as compared to the corresponding annual growth of 7.3% in the previous year. During the year under review, the production volume of passenger cars increased by 5.8% over the previous year; whereas, the production volume of commercial vehicles recorded a decrease of 2.7% over the same period. Such decrease in production volume of commercial vehicles was more critical to the radial tyres industry as the demand of radial tyres for commercial vehicles accounted for a majority part of total demand for radial tyres. Attributable to this, the production volume of radial tyres recorded a meager growth during the year. Based on the information from the Tyre Branch of China Rubber Industry Association, the production of radial tyres amounted to approximately 515.0 million units in 2015, slightly increased by 0.8% from 511.0 million units produced in the previous year.

Attributable to the slower growth in production of motor vehicles and radial tyres as mentioned above, this segment recorded a moderate 2.5% decrease in sales volume of steel cords during the year. However, the average selling price of steel cords declined significantly by 14.1% as compared to the previous year as pricing pressure had not relieved in light of the persistent overcapacity situation of the steel cord industry and the reduced demand in the PRC.

The unit cost of sales of steel cords also decreased as compared to the previous year, however it was not able to recoup the reduced revenue arising from the 14.1% drop in average selling price of steel cords. Hence, gross profit of this segment sharply decreased by 92.6% as compared to that of the previous year to HK$9,084,000 (2014: HK$123,028,000) for the year.

Due to the marked decrease in gross profit and the impairment loss recognised in respect of property, plant and equipment which is illustrated under the heading "**Impairment loss recognised in respect of property, plant and equipment**" here below, this segment recorded increase in LBITDA and decrease in Adjusted EBITDA for the year. LBITDA amounted to HK$77,352,000 for the year, increased by 156.5% as compared to HK$30,155,000 for the previous year. Adjusted EBITDA (excluding allowance for inventories recognised; allowance for bad and doubtful debts, net; bad debts written off; impairment loss recognised in respect of property, plant and equipment; and foreign exchange gains/losses) was HK$31,367,000 for the year, significantly decreased by 77.5% as compared to HK$139,665,000 for the previous year.

Also attributable to the significant decrease in gross profit and the impairment loss recognised as mentioned above, this segment recorded operating loss of HK$213,802,000 for the year, increased by 15.3% as compared to HK$185,445,000 for the previous year.

**Revenue**

This segment sold 115,564 tonnes of steel cords during the year, moderately decreased by 2.5% as compared to 118,554 tonnes for the previous year. In respect of its sawing wire business, this segment sold an aggregate of 302 tonnes of half products and final products of sawing wires during the year, declined by 55.0% as compared to 671 tonnes for the previous year. The analysis of sales volume of this segment is as follows:

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| | **Sales volume (Tonne)** | **% of total sales volume of steel cords** | Sales volume (Tonne) | % of total sales volume of steel cords | **% change** |
| Steel cords for | | | | | |
| – truck tyres | **80,663** | **69.8** | 86,235 | 72.8 | **-6.5** |
| – off the road truck tyres | **3,362** | **2.9** | 4,186 | 3.5 | **-19.7** |
| – passenger car tyres | **31,539** | **27.3** | 28,133 | 23.7 | **+12.1** |
| Total for steel cords | **115,564** | **100.0** | 118,554 | 100.0 | **-2.5** |
| Sawing wires: | | | | | |
| – half product | **58** | | 255 | | **-77.3** |
| – final product | **244** | | 416 | | **-41.3** |
| Total for sawing wires | **302** | | 671 | | **-55.0** |
| Other steel wires | **405** | | 394 | | **+2.8** |
| Total | **116,271** | | 119,619 | | **-2.8** |

The sales volume of steel cord for truck tyres decreased by 6.5% as compared to the previous year, being the impact of the decrease in demand of radial tyres for commercial vehicles. The proportion of sales volume of steel cord for truck tyres was 69.8% for the year, decreased by 3.0 percentage points as compared to the previous year, but still remained as the largest portion of sales volume of steel cords for the year.

In respect of the sales of steel cords by region, the volume of export sales of steel cords amounted to 19,438 tonnes for the year, increased by 27.0% as compared to 15,300 tonnes for the previous year, as we exerted more efforts on penetrating into international customers during the year. The volume of export sales represented 16.8% of total sales volume of steel cords for the year, increased by 3.9 percentage points as compared to 12.9% for the previous year. The breakdown of sales volume of steel cords by geographical location is as follows:

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| | **Sales volume (Tonne)** | **% of total sales volume of steel cords** | Sales volume (Tonne) | % of total sales volume of steel cords | **% change** |
| PRC | **96,126** | **83.2** | 103,254 | 87.1 | **-6.9** |
| Export sales: | | | | | |
| Asia (other than PRC) | **11,587** | **10.0** | 10,322 | 8.7 | **+12.3** |
| North America | **2,236** | **1.9** | 2,348 | 2.0 | **-4.8** |
| EMEA (Europe, Middle East and Africa) | **4,505** | **3.9** | 462 | 0.4 | **+875.1** |
| South America | **1,110** | **1.0** | 2,168 | 1.8 | **-48.8** |
| Total export sales | **19,438** | **16.8** | 15,300 | 12.9 | **+27.0** |
| Total | **115,564** | **100.0** | 118,554 | 100.0 | **-2.5** |

In respect of selling price, price erosion deepened during the year as the overcapacity situation of the steel cord industry in the PRC was exacerbated by the weaker demand of steel cords. The overcapacity situation coupled with weaker demand triggered increased competition during the year; the average selling price of steel cords therefore declined significantly by 14.1% as compared to the previous year.

As both sales volume and average selling price of steel cords dropped during the year, it follows that the revenue of this segment decreased by 17.9% as compared to the previous year to HK$1,164,609,000 (2014: HK$1,417,930,000) for the year.

**Cost of sales**

Cost of sales of this segment decreased by 10.8% to HK$1,155,525,000 (2014: HK$1,294,902,000) for the year. In addition to the decrease in total sales volume of 2.8% as compared to the previous year, the decrease in cost of sales was brought along by the decrease in unit production cost of steel cords of both our two manufacturing plants, JESC and TESC, during the year, which was mainly contributed by the declining raw material prices. Along with the reduction in unit production cost, the unit cost of sales of steel cords (excluding allowance for inventories recognised) decreased by approximately 7.8% as compared to the previous year.

**Gross profit**

Gross profit of this segment decreased discernibly by 92.6% as compared to the previous year to HK$9,084,000 (2014: HK$123,028,000) for the year. The significant decrease was mainly attributable to the decrease in sales volume of steel cords of 2.5% and the significant decline in average selling price of steel cords of 14.1% as compared to the previous year that attributable to the decrease in revenue of HK$253,321,000 as compared to the previous year.

As cost of sales decreased by 10.8% as compared to the previous year, which was not sufficient to compensate for the decrease in revenue, gross profit margin substantially declined from 8.7% in the previous year to 0.8% for the year.

**Investment and other income**

Investment and other income amounted to HK$765,000 for the year, decreased by 56.1% as compared to HK$1,742,000 for the previous year, mainly as the amount of government grants decreased by 61.6% as compared to the previous year to HK$545,000 (2014: HK$1,418,000) for the year.

**Allowance for bad and doubtful debts, net and bad debts written off**

An allowance for bad and doubtful debts of HK$4,511,000 was made during the year, while there was bad debts written off of HK$4,007,000 (2014: Nil) for the year, therefore, the total amount of bad debts was HK$8,518,000 for the year, reduced by 49.4% as compared to the allowance for bad and doubtful debts of HK$16,830,000 for the previous year.

**Impairment loss recognised in respect of property, plant and equipment**

There was unexpected significant decline in average selling price of steel cords during the year, especially since the second quarter. When compared to the average selling price of the Group for the previous year, the average selling price moderately declined by 3.5% in the first quarter. However, the extent of drop in average selling price substantially increased to 11.7% in the second quarter which caused TESC to incur substantial amount of gross loss in the first half year. The management of the Group therefore had conducted an impairment assessment on the carrying value of the property, plant and equipment of TESC at the end of the interim period which was determined based on value in use calculation. On the expectation that the Group will still face intense competition in the steel cord industry in the near term that may continue to hinder the rebound in average selling price of steel cords, an impairment loss of HK$93,000,000 was recognised on the property, plant and equipment of TESC in the first half year.

In view of the continuing decline in average selling price of steel cords during the second half year, an impairment assessment was also conducted at the end of the reporting period, using the same methodology as that carried out at the end of the interim period. Despite the average selling price of steel cords further declined during the second half year that resulted to a full year decrease of 14.1% as compared to the previous year, the sales volume of steel cords of TESC in the second half year increased by 118.7% over the first half year. Such palpable increase was the fruition of our sales effort on expanding customer profile and development of product construction types. On the other hand, unit cost of production of steel cords also had a remarkable decrease, contributed by the increase in production volume and continuing decline in raw material prices during the second half year. On this basis, the management of the Group concluded that no further impairment was required at the end of the reporting period. Nonetheless, the amount of impairment loss recognised in respect of property, plant and equipment was HK$93,000,000 for the year, decreased by 36.7% as compared to HK$147,000,000 for the previous year.

Attributable to the significant decline in average selling price of steel cords during the year, the Group also recognised an impairment loss on goodwill of HK$41,672,000 in respect of the Group's investment in Steel cord segment during the year. Further details of the impairment loss recognised in respect of goodwill are illustrated under "**FINANCIAL REVIEW**" section below.

**Distribution and selling expenses**

Distribution and selling expenses decreased by 10.6% as compared to the previous year to HK$42,476,000 (2014: HK$47,536,000) for the year, outpacing the decrease of sales volume of 2.8% of this segment as compared to the previous year.

**Administrative expenses**

Administrative expenses amounted to HK$38,028,000 for the year, decreased by 4.7% as compared to HK$39,919,000 for the previous year.

**Research and development expenses**

Research and development expenses amounted to HK$47,687,000 (2014: HK$58,374,000) for the year, lowered by 18.3% as compared to the previous year. These expenses accounted for 4.1% of revenue of this segment for the year, which was the same level of the previous year.

## Copper and brass products

**Overall performance**

During the year under review, the industrial activities in the PRC slowed down and the economic development of other major western countries remained stagnant. Such economic performance affected the global demand for commodity products, including copper, during the year. The sales volume of this segment slightly decreased by 1.6% as compared to the previous year; however, gross profit margin improved through the implementation of risk-averse sales and inventory management strategy. This segment achieved an increase in operating profit during the year as a result. It recorded operating profit of HK$334,000 for the year, significantly increased by 581.6% as compared to HK$49,000 in the previous year.

**Revenue**

This segment sold 7,696 tonnes of copper and brass products during the year, slightly decreased by 1.6% as compared to 7,823 tonnes for the previous year. The sales to PRC customers maintained the same level as the previous year, while the sales to customers in Hong Kong and other countries declined by 6.1% as compared to the previous year. Therefore the percentage of sales volume in the PRC increased from 70.7% in the previous year to 72.1% for the year. The breakdown of sales volume by geographical regions is as follows:

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| | **Sales volume (Tonne)** | **% of total sales volume** | Sales volume (Tonne) | % of total sales volume | **% change** |
| PRC | **5,545** | **72.1** | 5,532 | 70.7 | **+0.2** |
| Hong Kong and other countries | **2,151** | **27.9** | 2,291 | 29.3 | **-6.1** |
| Total | **7,696** | **100.0** | 7,823 | 100.0 | **-1.6** |

Copper price experienced significant decline during the year, in which the 3-month copper price as quoted by the London Metals Exchange recorded a decrease of 25.3% throughout the year under review. As such, the average selling price of this segment recorded a decrease of 13.6% as compared to the previous year. Attributable to the reduced sales volume and significant decline in average selling price, this segment recorded a decline in revenue of 15.0% as compared to the previous year to HK$333,016,000 (2014: HK$391,688,000) for the year.

**Gross profit**

Despite revenue decreased by 15.0% as compared to the previous year, gross profit recorded a moderate decrease of 9.4% as compared to the previous year to HK$8,329,000 (2014: HK$9,194,000) for the year, as this segment adopted a risk-averse sales and inventory management strategy since the previous year to react to the downward copper price in recent years. Gross profit margin improved by 0.2 percentage point from 2.3% of the previous year to 2.5% for the year.

## Relationship with key customers and suppliers

The revenue from sales to top five customers of the Group accounted for 44.7% (2014: 36.5%) of total revenue of the Group for the year, while the revenue from sales to the largest customer accounted for 11.4% (2014: 10.1%) of total revenue of the Group for the year.

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

The risks associated with the reliance on major customers increased during the year as the percentage of sales to top five customers increased from 36.5% in the previous year to 44.7% of total revenue of the Group for the year. Any changes in the business operations, financial conditions or purchasing patterns of these customers that result to the termination of business with our Steel cord segment, may have material impact to the results of the Group. The management of the Group values the long term relationships with these customers. We will mitigate these risks by the delivery of high and persistent stable quality products and keeping pace with these customers' new products development through our ongoing research and development activities. We will also exert more efforts on development of new customers and/or ripening the product mix to other customers to reduce the reliance to these major customers.

Regarding suppliers, the purchases from the Group's five largest suppliers accounted for approximately 38.9% (2014: 38.7%) of total purchases of the Group for the year, while the purchases from the largest supplier accounted for 9.1% (2014: 11.8%) of total purchases of the Group for the year.

The supplies from these five largest suppliers comprised steel wire rod for manufacturing of steel cords and copper and brass materials for Copper and brass products segment. The Group has business relationship with these suppliers for over five years. We value the long term relationships with these suppliers, who have been consistently providing stable quality of raw materials to the Group. We aim to maintaining ongoing mutual trust with these suppliers.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group reported net loss of HK$376,985,000 for the year, increased by 36.7% as compared to HK$275,774,000 for the previous year. The financial key performance indicators of the Group for the year are analysed as follows:

| | **2015 HK$'000** | 2014 HK$'000 | **Change** |
|---|---|---|---|
| **OPERATING PERFORMANCE** | | | |
| Revenue | **1,480,507** | 1,787,444 | **-17.2%** |
| Gross profit margin (%) | **1.3** | 7.5 | **-6.2pp** |
| LBITDA | **(187,719)** | (52,241) | **+259.3%** |
| LBITDA margin (%) | **-12.7** | -2.9 | **-9.8pp** |
| Adjusted EBITDA | **4,923** | 116,923 | **-95.8%** |
| Adjusted EBITDA margin (%) | **0.3** | 6.5 | **-6.2pp** |
| Loss for the year | **(376,985)** | (275,774) | **+36.7%** |
| Net loss margin (%) | **-25.5** | -15.4 | **-10.1pp** |
| Basic loss per share (HK cents) | **(19.61)** | (14.34) | **+36.7%** |

| | **At 31 December** | | |
|---|---|---|---|
| | **2015 HK$'000** | 2014 HK$'000 | **Change** |
| **KEY FINANCIAL INFORMATION** | | | |
| Total assets | **3,006,147** | 3,610,120 | **-16.7%** |
| Total liabilities | **1,610,277** | 1,748,238 | **-7.9%** |
| Equity attributable to equity holders of the Company | **1,395,870** | 1,861,882 | **-25.0%** |
| Net current assets (liabilities) | **57,027** | (36,831) | **N/A** |
| Bank balances and cash | **209,889** | 68,789 | **+205.1%** |
| Total interest bearing borrowings | **1,118,119** | 1,293,837 | **-13.6%** |
| Net interest bearing borrowings | **908,230** | 1,225,048 | **-25.9%** |
| Current ratio (times) | **1.04** | 0.98 | **N/A** |
| Gearing ratio (%) | **65.1** | 65.8 | **-0.7pp** |

The Group recorded LBITDA of HK$187,719,000 for the year, increased by 259.3% as compared to HK$52,241,000 for the previous year, which was mainly attributable to the significant decline in average selling price of its products during the year, the impairment loss recognised in respect of property, plant and equipment and the impairment loss recognised in respect of goodwill. The Adjusted EBITDA of the Group significantly decreased by 95.8% as compared to the previous year to HK$4,923,000 (2014: HK$116,923,000) for the year, as shown below:

| | **2015 HK$'000** | 2014 HK$'000 | **% change** |
|---|---|---|---|
| LBITDA | **(187,719)** | (52,241) | **+259.3** |
| Adjusted for: | | | |
| Allowance for bad and doubtful debts, net | **4,511** | 16,830 | **-73.2** |
| Bad debts written off | **4,007** | – | **N/A** |
| Foreign exchange losses, net | **39,194** | 1,758 | **+2129.5** |
| Increase in fair value of investment properties | **(3,253)** | (1,699) | **+91.5** |
| Impairment loss recognised in respect of property, plant and equipment | **93,000** | 147,000 | **-36.7** |
| Impairment loss recognised in respect of goodwill | **41,672** | – | **N/A** |
| Allowance for inventories recognised | **13,511** | 5,275 | **+156.1** |
| Adjusted EBITDA | **4,923** | 116,923 | **-95.8** |

## Revenue

Revenue of the Group amounted to HK$1,480,507,000 (2014: HK$1,787,444,000) for the year, decreased by 17.2% as compared to the previous year. The breakdown of revenue is as follows:

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| | **HK$'000** | **% of total revenue** | HK$'000 | % of total revenue | **% change** |
| Steel cord | **1,164,609** | **78.7** | 1,417,930 | 79.3 | **-17.9** |
| Copper and brass products | **333,016** | **22.5** | 391,688 | 21.9 | **-15.0** |
| Sub-total | **1,497,625** | **101.2** | 1,809,618 | 101.2 | **-17.2** |
| Elimination of sales by Copper and brass products segment to Steel cord segment | **(18,853)** | **(1.3)** | (23,853) | (1.3) | **-21.0** |
| Property rental | **1,735** | **0.1** | 1,679 | 0.1 | **+3.3** |
| Total | **1,480,507** | **100.0** | 1,787,444 | 100.0 | **-17.2** |

## Gross profit

Gross profit of the Group significantly decreased by 85.8% as compared to the previous year to HK$19,034,000 (2014: HK$133,785,000) for the year, which was mainly attributable to the significant drop in gross profit of Steel cord segment. Consequently, gross profit margin of the Group also markedly decreased by 6.2 percentage points as compared to the previous year to 1.3% for the year. The breakdown of gross profit is as follows:

| | **2015** | | 2014 | | |
|---|---|---|---|---|---|
| | **HK$'000** | **Gross profit margin (%)** | HK$'000 | Gross profit margin (%) | **% change** |
| Steel cord | **9,084** | **0.8** | 123,028 | 8.7 | **-92.6** |
| Copper and brass products | **8,329** | **2.5** | 9,194 | 2.3 | **-9.4** |
| Property rental | **1,621** | **93.4** | 1,563 | 93.1 | **+3.7** |
| Total | **19,034** | **1.3** | 133,785 | 7.5 | **-85.8** |

## Investment and other income

Investment and other income decreased by 56.4% as compared to the previous year to HK$1,546,000 (2014: HK$3,549,000) for the year, as bank interest income and government grants decreased by 67.0% and 48.6% respectively as compared to the previous year.

## Other gains and losses

The Group recorded net loss of HK$178,683,000 for the year, increased by 9.2% as compared to HK$163,561,000 for the previous year. The breakdown of other gains and losses is as follows:

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 | % change |
|---|---|---|---|---|
| Foreign exchange losses, net | 1 | **(39,194)** | (1,758) | **+2129.5** |
| Increase in fair value of investment properties | | **3,253** | 1,699 | **+91.5** |
| Impairment loss recognised in respect of property, plant and equipment | 2 | **(93,000)** | (147,000) | **-36.7** |
| Impairment loss recognised in respect of goodwill | 3 | **(41,672)** | – | **N/A** |
| Allowance for bad and doubtful debts, net and bad debts written off | | **(8,518)** | (16,830) | **-49.4** |
| Others | | **448** | 328 | **+36.6** |
| Total | | **(178,683)** | (163,561) | **+9.2** |

*Notes:*

1. The Group recorded significant increase in foreign exchange loss of 2129.5% as compared to the previous year. The exchange rate of RMB quoted by the People's Bank of China (the "official RMB exchange rate") recorded a decrease of approximately 5.8% against HKD throughout the year, whereas the official RMB exchange rate only decreased by 0.3% in the previous year. Attributable to the remarkable decrease in the official RMB exchange rate, the Group recorded substantial amount of foreign exchange loss on its HKD and USD denominated bank borrowings during the year.

2. This represents impairment loss recognised in respect of property, plant and equipment of TESC, as mentioned in "**Steel cord**" section above.

3. Due to the significant decline in average selling price of steel cords during the year, the management of the Group had conducted an impairment assessment on goodwill in relation to JESC. The impairment assessment was determined based on value in use calculation, which is the same methodology used on the assessment of impairment loss recognised in respect of property, plant and equipment. The accelerated decline in average selling price of steel cords during the year severely eroded the profit margin of JESC, especially during the second half year. JESC turned from profit to substantial amount of loss in the year. We will endeavor to turnaround the operating performance of JESC through optimisation of sales product mix and implementation of cost cutting measures. However, on the expectation that the steel cord market in the PRC will remain very competitive in the near term, we concluded to recognise an impairment loss on the full amount of goodwill of HK$41,672,000 (2014: Nil) during the year.

### Distribution and selling expenses

Distribution and selling expenses amounted to HK$45,602,000 (2014: HK$51,067,000) for the year, decreased by 10.7% as compared to the previous year, mainly as the sales volume of Steel cord and Copper and brass products segments decreased by 2.8% and 1.6% respectively as compared to the previous year.

### Administrative expenses

Administrative expenses amounted to HK$73,803,000 (2014: HK$73,592,000) for the year, slightly increased by 0.3% as compared to the previous year. As the revenue of the Group decreased by 17.2% as compared to the previous year, the ratio of administrative expenses to revenue raised from 4.1% in the previous year to 5.0% for the year.

### Research and development expenses

Research and development expenses of the Group amounted to HK$47,687,000 for the year, decreased by 18.3% as compared to HK$58,374,000 for the previous year. Such expenses were all incurred by Steel cord segment, which have been mentioned in "**Steel cord**" section above.

### Segment results

The Group recorded loss of HK$213,468,000 from its business segments for the year, increased by 15.1% as compared to HK$185,396,000 for the previous year. The breakdown of the operating results of the Group's business segments for the year is as follows:

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 | **% change** |
|---|---|---|---|
| Steel cord | **(213,802)** | (185,445) | **+15.3** |
| Copper and brass products | **334** | 49 | **+581.6** |
| Total | **(213,468)** | (185,396) | **+15.1** |

### Finance costs

Finance costs amounted to HK$52,767,000 for the year, decreased by 19.3% as compared to HK$65,379,000 for the previous year, mainly as the amount of interest bearing borrowings decreased during the year. The average interest bearing borrowings was HK$1,205,978,000 for the year, reduced by 11.2% as compared to HK$1,357,905,000 for the previous year.

### Income tax credit (expense)

The Group recorded income tax credit of HK$977,000 for the year, as compared to income tax expense of HK$1,135,000 for the previous year. The income tax credit for the year was mainly the result of the partial reversal of temporary difference on deferred tax arising on loss incurred by JESC during the year.

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

In addition, according to the EIT Law and Implementation Regulation and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Group is subject to withholding tax on dividends paid by subsidiaries in the PRC to holding companies in Hong Kong at a rate of 5% (2014: 5%).

### Trade receivables

The amount of trade receivables (before allowance for bad and doubtful debts) amounted to HK$514,089,000 at 31 December 2015, decreased by 16.7% as compared to HK$616,925,000 at 31 December 2014. Regarding the allowance for bad and doubtful debts, certain long overdue outstanding receivables were recovered during the year. While there were delayed settlements by certain customers in Shandong province, we therefore prudently provided further allowance for bad and doubtful debts of HK$4,511,000 during the year, the amount of allowance for bad and doubtful debts increased from HK$49,949,000 at the end of 2014 to HK$51,028,000 at 31 December 2015.

The aged analysis of trade receivables (after allowance for bad and doubtful debts) as at 31 December 2015 and the comparison with the end of 2014 are as follows:

| | **31 December 2015** | | 31 December 2014 | | |
|---|---|---|---|---|---|
| **Age** | **HK$'000** | **%** | HK$'000 | % | **% change** |
| 0 – 90 days | **332,284** | **71.8** | 379,379 | 66.9 | **-12.4** |
| 91 – 180 days | **115,770** | **25.0** | 158,199 | 27.9 | **-26.8** |
| Over 180 days | **15,007** | **3.2** | 29,398 | 5.2 | **-49.0** |
| Total | **463,061** | **100.0** | 566,976 | 100.0 | **-18.3** |

The overall quality of trade receivables remained healthy and in manageable condition, as trade receivables aged within 180 days accounted for 96.8% of total trade receivables at 31 December 2015, increased by 2.0 percentage points as compared to 94.8% at the end of 2014.

Regarding the balance of the allowance for bad and doubtful debts of HK$51,028,000 at 31 December 2015, they represented those made for receivables from sales of steel cord and sawing wire products (including half products and final products), we will continue to use our best endeavors to recover those receivables, including the negotiation of payment by way of assets other than cash and/or instituting legal actions against those customers to claim our payment.

In respect of the trade receivables at 31 December 2015, approximately 53.7% has been subsequently settled by cash or bills receivable up to 23 March 2016. The details of subsequent settlement of trade receivables of the Group and from top five customers of the Group for the year are as follows:

| | **Total trade receivables of the Group** | | **Trade receivables from top five customers of the Group** | |
|---|---|---|---|---|
| **Age** | **Amount at 31 December 2015 HK$'000** | **% of subsequent settlement** | **Amount at 31 December 2015 HK$'000** | **% of subsequent settlement** |
| 0 – 90 days | **332,284** | **43.7** | **164,859** | **39.7** |
| 91 – 180 days | **115,770** | **78.6** | **59,326** | **71.9** |
| Over 180 days | **15,007** | **82.9** | **9,419** | **100.0** |
| Total | **463,061** | **53.7** | **233,604** | **50.3** |

## TREASURY AND FUNDING POLICIES

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

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

## SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

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

There was no change in the total number of issued shares of the Company during the year, the total number of issued shares of the Company remained at 1,922,900,556 Shares at 31 December 2015. Net asset value of the Group was HK$1,395,870,000 at 31 December 2015, decreased by 25.0% as compared to HK$1,861,882,000 at 31 December 2014, attributable to the loss and the conspicuous depreciation of RMB exchange rate against HKD during the year. Net asset value per Share was HK$0.726 at 31 December 2015, also decreased by 25.0% as compared to HK$0.968 at 31 December 2014.

### Cash flows

Although the Group reported loss of HK$376,985,000 for the year, it generated net cash operating inflow of HK$362,421,000 for the year as follows:

| | HK$'000 |
|---|---|
| Net cash from operating activities as per consolidated statement of cash flows | 113,321 |
| Add: Operating cash inflows not reflected in consolidated statement of cash flows (non-cash transactions): | |
| Bills receivable that has been discounted to banks and matured during the year | 236,155 |
| Bills receivable endorsed to creditors of the Group at 31 December 2014 to settle payable for acquisition of property, plant and equipment and matured during the year | 12,945 |
| Net operating cash inflow for the year | 362,421 |

In respect of cash flows on other activities:

1. The Group incurred net cash outflow on investing activities of HK$4,290,000 during the year, in which HK$5,661,000 that incurred mainly on the capital expenditures incurred by Steel cord segment; and

2. The Group generated net cash inflow on financing activities of HK$35,855,000 during the year. When bank advances for discounted bills of HK$245,183,000 (in which HK$236,155,000 have been repaid upon maturity of those bills during the year) were excluded, the Group incurred net cash outflow of HK$209,328,000 on financing activities for the year, mainly represented net reduction of interest bearing borrowings during the year.

## Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash amounted to HK$209,889,000 at 31 December 2015, increased by 205.1% as compared to HK$68,789,000 at 31 December 2014. Total interest bearing borrowings of the Group were HK$1,118,119,000 at 31 December 2015, decreased by 13.6% as compared to HK$1,293,837,000 at 31 December 2014.

At 31 December 2015, HK$724,518,000 of bank borrowings were floating-rate borrowings, while HK$341,349,000 of bank borrowings were collared at rate ranging from 2.45% to 5.62% per annum. In respect of the loan from a related company, it bore a fixed interest rate of 6% per annum. The nature and maturing profile of the Group's interest bearing borrowings at 31 December 2015, based on contracted repayment schedules were as follows:

| | HK$'000 | % of total interest bearing borrowings |
|---|---|---|
| Due in 2016 or on demand: | | |
| – Trust receipt loans | 22,649 | 2.0 |
| – Short term bank loans | 680,249 | 60.8 |
| – Bank advances for discounted bills | 17,905 | 1.6 |
| – Loan from a related company | 52,252 | 4.7 |
| – Current portion of medium term bank loans | 150,000 | 13.4 |
| | 923,055 | 82.5 |
| Medium term bank loan: | | |
| – Due in 2017 | 200,000 | 17.9 |
| | 1,123,055 | 100.4 |
| Unamortised loan arrangement fees | (4,936) | (0.4) |
| Total | 1,118,119 | 100.0 |

The Group planned to service the interest bearing borrowings due in year 2016 by cash flow generated from its operations and refinancing from banks.

### Debt and liquidity ratios

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash divided by Shareholders' equity) of the Group lowered from 65.8% at 31 December 2014 to 65.1% at 31 December 2015. The current ratio (calculated as current assets divided by current liabilities) of the Group was 1.04 times at 31 December 2015, improved as compared to 0.98 times at 31 December 2014.

## FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

Both the Group's sources of revenue and purchases and payments are mainly denominated in RMB, HKD and USD. The Group's bank balances and cash are therefore mainly denominated in RMB, HKD and USD. Under this circumstance, the Group shall mainly raise borrowings in these currencies to minimize the risk of significant mismatch between the sources of revenue with bank borrowings, while endeavor to take advantage of the lower borrowing rates of HKD and USD as compared to those of the RMB. However, in anticipation of the depreciation of RMB exchange rate since last year, the Group started to increase the proportion of borrowings in RMB during the year to minimize the impact on the depreciation of RMB exchange rate on the Group's results, therefore at 31 December 2015, the percentage of interest bearing borrowings of the Group that are denominated in HKD and USD lowered from 72.5% at 31 December 2014 to 71.5% at 31 December 2015. The respective currency composition of the Group's bank balances and cash and interest bearing borrowings was as follows:

### Bank balances and cash

| | **31 December 2015** | | 31 December 2014 | |
|---|---|---|---|---|
| | **HK$'000** | **% of total bank balances and cash** | HK$'000 | % of total bank balances and cash |
| RMB | **103,137** | **49.1** | 31,402 | 45.6 |
| HKD | **29,354** | **14.0** | 4,555 | 6.6 |
| USD | **67,894** | **32.4** | 29,480 | 42.9 |
| Other currencies | **9,504** | **4.5** | 3,352 | 4.9 |
| Total | **209,889** | **100.0** | 68,789 | 100.0 |

### Interest bearing borrowings

| | **31 December 2015** | | 31 December 2014 | |
|---|---|---|---|---|
| | **HK$'000** | **% of total interest bearing borrowings** | HK$'000 | % of total interest bearing borrowings |
| RMB | **318,699** | **28.5** | 355,861 | 27.5 |
| HKD | **766,779** | **68.6** | 861,185 | 66.6 |
| USD | **32,641** | **2.9** | 76,791 | 5.9 |
| Total | **1,118,119** | **100.0** | 1,293,837 | 100.0 |

In respect of exposure to interest rate risk, even though the majority of the interest bearing borrowings at 31 December 2015 are at floating rate, the Group had not entered into any interest rate swaps to contain any upside risks on interest rate to the results and cash flows of the Group, as we were of the view that interest rate would hover at a relatively low level for at least the remaining part of the year.

During the year under review, the exchange rate of RMB has depreciated abruptly under the auspicious of financial reform of the currency by the central government of the PRC. The depreciation of RMB exchange rate will have negative impact on the results of the Group on the translation of the Group's interest bearing borrowings that are denominated in HKD and USD, and the Group has not entered into any derivative financial instruments to hedge against foreign currency or interest rate risk. However, we would seek quotations for hedging our foreign currency or RMB exposure in line with the maturities of our non-RMB borrowings from time to time. Furthermore, we will also review and adjust, when necessary, the currency composition of our interest bearing borrowings from time to time to minimize our risks on exchange and interest rate in respect of our interest bearing borrowings. In any event, we would keep monitoring the currency and interest rate composition of the Group's interest bearing borrowings under the guidance of the Internal Control Manual and take appropriate action to minimize our exchange and interest rate risks when needed.

## BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Capital expenditures incurred by the Group during the year amounted to HK$2,004,000, which was mainly incurred by Steel cord segment for enhancement of its production facilities.

The Group budgeted to invest not more than approximately HK$36,803,000 of capital expenditures in 2016, which are to be incurred by Steel cord segment mainly for enhancement of production efficiency of the two manufacturing plants. These capital expenditures will be financed by the Group's internal resources and bank borrowings.

Further, the Steel cord segment will continue to invest in research and development expenses for development of new specifications of steel cord and sawing wire products; and development of new customers, especially international customers. The research and development expenses to be incurred in 2016 are estimated to be maintained at a similar level to the year under review, i.e. approximately 4% of total revenue of Steel cord segment for the year 2016.

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

At 31 December 2015, the Group had a total of 1,874 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to consolidated statement of profit or loss for the year amounted to approximately HK$21,444,000.

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

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

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

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

During the year under review, no options were granted, exercised and cancelled under the 2002 and 2012 Schemes while 2,000,000 share options lapsed under the 2002 Scheme.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities as at 31 December 2015.

At 31 December 2015, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings with an aggregate net book value of HK$12,600,000; and

2. Equity interests in certain subsidiaries of the Company. The Company has completed the pledge release procedures of these equity interests in Hong Kong and the British Virgin Islands in March 2016. The Company is still in the process of releasing the pledge of these equity interests in the PRC.

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

On 30 June 2015, the Company and Zaozhuang Mining entered into a non-legally binding supplemental memorandum of understanding (the "Supplemental MOU") whereby the parties agreed to, among other things, extend the long stop date to the effect that the formal agreement shall be entered into within 720 days from the date of the memorandum of understanding previously entered into on 13 July 2014 (the "MOU") i.e., by 1 July 2016 (or such other later date as agreed by the parties) because Zaozhuang Mining required more time to complete both its internal approval process and its due diligence process on TESC under the current market condition of steel cord industry. Save and except the amendments under the Supplemental MOU, all the terms and conditions of the MOU remain unchanged and continue in full force and effect.

As at the date of this report, no legally-binding agreement has been entered into in relation to the proposed capital injection and the proposed strategic cooperation between the Group and Zaozhuang Mining and its subsidiaries. Under the prevailing disarrayed market conditions in steel cord, tyre and coal markets, Zaozhuang Mining requires more time to go through its internal approval process and takes time in reviewing the business of TESC. Nonetheless, we will keep on the follow-up of the aforesaid progress.

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

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OUTLOOK

In the coming year, we will see more concrete policies and steps in respect of economic and structural reform promulgated by the Chinese central leadership. Whilst these policies will generate positive effects to the productivity and competitiveness on the Chinese economy in the long haul, in the short run, a slower GDP growth is deemed to be a natural consequence and being targeted at between 6.5% and 7%. We envisage that consolidation in industries with over-capacity including but not limited to radial tyre and steel cord manufacturing will surface gradually. Furthermore, we see punitive measures by the Trade Department of the US are being levied on the export of Chinese-made radial tyres which on the one hand, detrimental to our customers. On the other, it causes Chinese tyre makers to set up or relocate manufacturing facilities outside of China. The refugee situation and general economic weakness in the European Market is expected to persist. In view of these volatile trade and geo-social hardships, the Group must equip itself in the following areas in order to endure: –

- Maintaining strong operating cashflow and significantly reducing past due trade receivables
- Monitoring fluctuations in the currency and interest rate markets in which the Group is exposed to and engage in financial instruments to mitigate any unduly risks in accordance with the Group's internal control procedures
- Cost reduction will be on-going and tirelessly
- While costs will be strictly controlled, research and development investment will not be spared
- Extending reach to untapped overseas markets with reputable multinational tyre manufacturers
- Production mix will be fine-tuned regularly to meet with the requirements of our tyre customers and with a view to improve upon our profitability by construction types and by customers

With the above measures and strategies, we are confident to overcome the difficulties in the future and remain one of leading market players in the steel cord industry.

# CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE PRACTICES

The Company has made detailed disclosures in relation to the accounting period covered in this annual report in compliance with the requirements of Corporate Governance Report set out in the Code of Appendix 14 of the Listing Rules. Also, the Company has applied and complied with all the principles and code provisions of the Code throughout the year ended 31 December 2015, except for (i) deviations from code provisions A.1.1 and D.1.4 of the Code and (ii) non-compliance with rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the Code, which are explained under the heading "**THE BOARD**" below.

## DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Board has adopted a SCCHL Code on terms no less exacting than the required standard of the Model Code as the Company's code of conduct and rules governing dealing by all Directors and Specified Individuals in the securities of the Company. In order to bring the SCCHL Code in line with the changes brought upon by the relevant amendments to laws, rules and regulations, the Board will revise the SCCHL Code from time to time and the latest version is an annex of the Internal Control Manual which is revised on 17 December 2014. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and SCCHL Code for the year ended 31 December 2015.

## THE BOARD

The Board currently consists of nine members, including four executive Directors (namely Messrs. Li Shaofeng *(Chairman)*, Yang Kaiyu *(Managing Director)*, Su Fanrong *(Executive Deputy Managing Director)* and Tang Cornor Kwok Kau *(Deputy Managing Director)*), two non-executive Directors (namely Messrs. Leung Shun Sang, Tony and Liao Jun) and three independent non-executive Directors (namely Messrs. Yip Kin Man, Raymond, Law, Yui Lun and Lam Yiu Kin). The Directors' biographical details are set out on pages 7 to 15 under the heading "**BIOGRAPHICAL DETAILS OF DIRECTORS**".

The major duties of the Board are set out below:

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

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Although two of the independent non-executive Directors, Messrs. Yip Kin Man, Raymond and Law, Yui Lun have served the Board for more than nine years, they have not engaged in any executive management of the Group and Mr. Yip's solicitors firm and Mr. Law's own CPA firm have never provided any service to the Group. Their familiarity and extensive experience with the Company's business may place them in a better position to contribute independent views to the Company, and continue to demonstrate a firm commitment to their role. Taking into consideration of their independent scope of works and their high integrity when performing duties as independent non-executive directors over the past years, there is no evidence that length of tenure is having an adverse impact on their independence. The Company therefore considers all of independent non-executive Directors (including Messrs. Yip and Law) are independent throughout the year under review. Furthermore, all Directors, including independent non-executive Directors, should be re-elected at least every three years at annual general meeting and the reasons the Board believes that the individual to be independent are set out in the relevant circulars. In addition to the above, to the best knowledge of the Directors, there is no financial, business, family or other material/relevant relationship among members of the Board and in particular, between the Chairman and the Managing Director.

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

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

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

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

### Non-compliance with Rule 3.10(1), 3.10A, 3.21, 3.25 and deviation from the code provision A.5.1 of the Code

Since the late Mr. Chan Chung Chun, an independent non-executive director of the Company, and a member of each of the nomination committee, audit committee, and remuneration committee of the Company, passed away on 8 May 2015 due to illness, the Company failed to comply with the Listing Rules requirements of (i) the board is required to have at least three independent non-executive directors; (ii) the board is required to have independent non-executive directors representing at least one third of the board; (iii) the audit committee must comprise a minimum of three members, all of whom are non-executive directors only; and (iv) each of the members of the audit, remuneration and nomination committees should comprise a majority of independent non-executive directors under Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and the code provision A.5.1 of the Code. Following the appointment of Mr. Lam Yiu Kin as an independent non-executive Director and a member of each of the audit committee, nomination committee and remuneration committee of the Company with effect from 1 August 2015, the Board has then fulfilled the requirements under the aforementioned Listing Rules and the code provision.

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

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

| | Number of Meetings Attended and Held | | | | |
|---|---|---|---|---|---|
| Name of Director | Board Meetings | Audit Committee Meetings | Remuneration Committee Meeting | Nomination Committee Meeting | Annual General Meeting |
| Li Shaofeng | 3/3 | N/A | 1/1 | 1/1 | 1/1 |
| Yang Kaiyu | 3/3 | N/A | N/A | N/A | 1/1 |
| Su Fanrong *(Note 1)* | 1/3 | N/A | N/A | N/A | N/A |
| Leung Shun Sang, Tony | 3/3 | N/A | 1/1 | 1/1 | 1/1 |
| Zhang Wenhui *(Note 2)* | 2/3 | N/A | N/A | N/A | 1/1 |
| Tang Cornor Kwok Kau | 3/3 | N/A | N/A | N/A | 1/1 |
| Liao Jun *(Note 3)* | 2/3 | N/A | N/A | N/A | 0/1 |
| Zhang Zhong *(Note 4)* | 0/3 | N/A | N/A | N/A | N/A |
| Yip Kin Man, Raymond | 3/3 | 7/7 | 1/1 | 1/1 | 1/1 |
| Law, Yui Lun | 3/3 | 7/7 | 1/1 | 1/1 | 0/1 |
| Lam Yiu Kin *(Note 5)* | 2/3 | 5/7 | 1/1 | 1/1 | N/A |
| Chan Chung Chun *(Note 6)* | 1/3 | 1/7 | N/A | N/A | N/A |

*Notes:*

1. Mr. Su Fanrong was appointed as an executive Director with effect from 1 December 2015.
2. Mr. Zhang Wenhui resigned as a non-executive Director with effect from 1 December 2015.
3. Mr. Liao Jun was appointed as a non-executive Director with effect from 25 February 2015.
4. Mr. Zhang Zhong resigned as an executive Director with effect from 25 February 2015.
5. Mr. Lam Yiu Kin was appointed as an independent non-executive Director with effect from 1 August 2015.
6. Mr. Chan Chung Chun passed away on 8 May 2015.

During the year, two risk assessment meetings and a budget meeting were held to deal with risk management issues of the Group and review of business performance of year 2014 and planning of year 2015 business by executive Directors and the management of the Group.

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

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

| Name of Director | Accounting and legal professional training | Legal, Regulatory updates and Corporate Governance | Group's Policy/ Businesses | Director's roles, duties and functions |
|---|---|---|---|---|
| Li Shaofeng | – | ✔ | ✔ | – |
| Yang Kaiyu | – | ✔ | ✔ | – |
| Su Fanrong | – | ✔ | ✔ | ✔ |
| Leung Shun Sang, Tony | – | ✔ | ✔ | – |
| Tang Cornor Kwok Kau | – | ✔ | ✔ | – |
| Liao Jun | – | ✔ | ✔ | ✔ |
| Yip Kin Man, Raymond | ✔ | ✔ | ✔ | – |
| Law, Yui Lun | ✔ | ✔ | ✔ | – |
| Lam Yiu Kin | ✔ | ✔ | ✔ | ✔ |

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

## CHAIRMAN AND MANAGING DIRECTOR

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

## NON-EXECUTIVE DIRECTORS

Non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years commencing from 1 January 2014, while Mr. Zhang Wenhui, who was appointed for a term commencing from 1 January 2015 and expiring on 31 December 2015 (Mr. Zhang resigned as Non-executive Director on 1 December 2015); Mr. Lam Yiu Kin, who was appointed for a term commencing from 1 August 2015 and expiring on 31 December 2017 and Mr. Liao Jun (Non-executive Director), who was nominated by Bekaert without any letter of appointment setting out the key terms and conditions of his appointment as Director with the Company. They all are subject to retirement by rotation and re-election at least every three years at annual general meeting in accordance with the Articles.

## BOARD COMMITTEES

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

To comply with amendments to the Code, which incorporated the requirements of establishment of internal audit function, and appropriate and effective risk management and internal control systems, the Company outsourced the internal audit function to Moore Stephens Consulting Limited as an internal auditors of the Company on 16 December 2015 in relation to the provision of internal audit services to the Company throughout the accounting year of 2016. The Company also determined that the audit committee takes the responsibility of the review of the risk management and internal control systems, the effectiveness of the Company's risk management and internal audit function and its other duties under the Code. In this connection, the Company has revised the terms of reference of the audit committee to reflect the aforesaid changes. Its terms of reference had been reviewed by the audit committee meeting held on 30 November 2015, and had been approved and adopted by the Board on 21 December 2015 and published on the websites of the Stock Exchange and the Company on the even day.

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

## Remuneration committee

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

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

and its terms of reference are summarised as follows:

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

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

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

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

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

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

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

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

During the year under review, the remuneration committee members considered and approved (i) the remuneration package of each of Messrs. Lam Yiu Kin, Su Fanrong and Liao Jun and terms of respective service contract; and (ii) the treatment of share options held by the late Mr. Chan Chung Chun by passing written resolutions. In addition, a remuneration committee meeting was held and the works performed by the remuneration committee included: (i) consideration of the renewal of service contract of an executive Director; (ii) reviewing and approval of the performance-based remuneration of executive Directors; (iii) recommendation of remuneration of non-executive Directors (including independent non-executive Directors) to the Board; and (iv) reviewing terms of reference of remuneration committee. The emoluments of the Directors are decided by the remuneration committee, having regard to individual performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition. The attendance record of the remuneration committee members is set out in the table: Attendance Record on page 45 of this report.

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

## Nomination committee

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

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

and its terms of reference are summarised as follows:

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

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

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

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

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

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

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

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

During the year under review, the nomination committee members proposed the nomination of Messrs. Lam Yiu Kin, Su Fanrong and Liao Jun by passing written resolutions. The chairman of the nomination committee, Mr. Li Shaofeng had conducted interviews with Messrs. Liao Jun, Lam Yiu Kin and Su Fanrong respectively prior to introduction to other members and the approval of nomination. In addition, a nomination committee meeting was held and the works performed by the nomination committee included (i) review of current structure, size and diversity of the Board; (ii) assessment and review of the independence of independent non-executive Directors; (iii) review of the Board Diversity Policy and determination of its measurable objectives and its timeline to ensure an appropriate focus on diversity; (iv) review of the training and continuous professional development of Directors and (v) review of terms of reference of nomination committee.

The Board Diversity Policy has been adopted in compliance with code provision A.5.6 of the Code. Other than the elements of board diversity, in considering the nomination of new directors, the nomination committee members will also take into account the qualification, ability, working experience and professional ethics of the candidates, especially their experience in the business/industry of the Group and/or other professional areas. The nomination committee then put forward the recommendation in respect of the above factors, where appropriate, to the Board for consideration and adoption. The attendance record of the nomination committee members is set out in the table: Attendance Record on page 45 of this report.

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

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

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

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

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

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

The measurable objectives in years 2015 and 2016 are as follows:–

| Progress of Measurable Objective in 2015 | Completion date of the goal |
|---|---|
| Conclusion of the delivery of training to leaders (directors) in building and maintaining a safe work environment free from discrimination, harassment and bullying and the methods of achieving this objective (through reading presentation materials). | 22 October 2015 |

| Measurable Objectives in 2016 | Timeline of the goal |
|---|---|
| 1. Delivery of training to all business units of the Group in building and maintaining a safe work environment free from discrimination, harassment and bullying and the methods of achieving this objective (through trainings) | Before the first half of 2016 |
| 2. Promote to the board members and/or the management on "equal opportunity in the promotion of employees from different backgrounds, knowledge, gender and experience" | before end of 2016 |

## Audit committee

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

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

and its terms of reference are summarised as follows:

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

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

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

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

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

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

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

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

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

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

vii) In regard to (vi) above:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Corporate Governance Issues**

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

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

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

During the year under review, seven audit committee meetings were held and the attendance record of the audit committee members is set out in the table: Attendance Record on page 45 of this report. The audit committee members reviewed the revised terms of reference of the audit committee which reflected the changes in the Code in relation to risk management and internal control systems requirements.

The audit committee members met with the external auditors to discuss the half year and annual financial statements for the financial year of 2015 and the issues regarding impairment loss recognition of property, plant and equipment of TESC. The audit committee members also met with the representatives of the professional firm performing internal audit function for the assessment of engagement of internal audit service. In addition, the audit committee members met external auditors without executive Director (save for the financial controller and the company secretary who may attend to answer any query regarding the financial results and record minutes of the meetings respectively) present.

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

During the financial year of 2015, the audit committee members had made valuable and positive contribution, and independent and informed comments for the development of the Company's strategies and policies. Prior to the engagement of internal audit function from a professional firm, the audit committee members had reviewed certain areas of the risk management and internal control systems and corporate governance issues including but not limited to risk assessment reports semi-annually and given advice and opinions to the management of the Company to pay attention to those areas with high risks and further improve the risk management and internal control systems of the Company. The Board had adopted the recommendation of the audit committee members in those areas thereafter. In view of the scale of the businesses of the Group, the audit committee members agree to the Board's opinion that the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget are sufficient.

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

## AUDITORS' REMUNERATION

During the year ended 31 December 2015, the fee paid/payable to the external auditors in respect of audit and non-audit services provided by the external auditors to the Group were as follows:

The fees charged by the external auditors of the Company, Deloitte Touche Tohmatsu for the year ended 31 December 2015 amounted to HK$1,360,000 for audit services for audit of annual financial statements and HK$591,000 for non-audit services comprising fees for review of interim financial statements and tax consultancy services.

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

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

## COMPANY SECRETARY

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

## SHAREHOLDERS' RIGHTS

The Board recognises the importance of effective communication with Shareholders. In order to maintain ongoing dialogue with Shareholders, the Company has particular opportunities of direct communication with Shareholders at various annual general meetings and other general meetings where Shareholders are encouraged to actively attend. In addition, the chairman of the Board and the chairman of each of remuneration committee, nomination committee and audit committee were present to answer any Shareholder's questions at the 2015 annual general meeting (the "AGM"). The external auditor had attended the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence also.

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

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

The request:–

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The request:–

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

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

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

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

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

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

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

### Shareholders power to request circulation of statement

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

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

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

## INVESTOR RELATIONS

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

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

During the year, the AGM was held on 22 May 2015 to approve ordinary and special businesses of annual general meeting. The resolutions of AGM were duly passed by way of poll.

During the year ended 31 December 2015, there had been no significant change in the Company's constitutional documents.

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

During the year, on 24 November 2015, the Board adopted the latest Internal Control Manual to maintain an effective risk management and internal control systems of the Company and also reviewed and monitored the internal operation of the Company to align with the latest organizational change of the Group and the changes of relevant laws, rules and regulations.

To comply with amendments to the Code, which incorporated the requirements of establishment of internal audit function, and appropriate and effective risk management and internal control systems, the Company outsourced the internal audit function to a professional firm, Moore Stephens Consulting Limited, as an internal auditors of the Company on 16 December 2015 in relation to the provision of internal audit services to the Company throughout the year of 2016. The Board also determined that the audit committee of the Company takes the responsibility of the review of the risk management and internal control systems, the effectiveness of the Company's internal audit function and its other duties under the Code.

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 39 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS

The Group's loss for the year ended 31 December 2015 and the state of affairs of the Group at that date are set out in the financial statements on pages 91 to 175.

## BUSINESS REVIEW

### Business model and strategy

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

The Board is responsible for the development of business models and setting of strategies, planning and development of the Group, to drive for expansion and new business opportunities. The strategies adopted by the Board will be deployed to managing Director who will motivate the staff to achieve the designated business goals and financial targets under risk tolerance levels prescribed by the Board. The progress of implementation of the strategies and business goals will be reviewed and adjusted to respond to increasingly complicated external environment and further discussed follow-up action regularly at the Board and/or other management meetings throughout the years.

### Review of operations

The Group experienced a difficult period during the year under review. It recorded a substantial loss of HK$376,985,000 and its revenue amounted to HK$1,480,507,000. Such unsatisfactory performance was mainly attributable to the unfavorable performance of Steel cord segment during the year. Further details in respect of the fair review of the Group's businesses, please refer to the sections "**CHAIRMAN'S STATEMENT**" and "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### Risks and uncertainties relating to the Group's business operations

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

2. The Steel cord segment experienced a significant decline in average selling price of steel cords during the year under review, attributable to the overcapacity situation of the steel cord industry and the lower growth rate of demand for steel cords in the PRC. The selling price of steel cords is highly dependent on these two factors, therefore, any change in these two factors will have material impact to the of Steel cord segment.

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

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

5. The revenue from sales to top five customers of the Group accounted for 44.7% of total revenue of the Group for the year under review. Any change to the business operations, financial conditions or purchasing patterns of these customers may have adverse impact to the revenue of the Group.

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

## PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

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

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

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

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

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

2. The majority of the Group's interest bearing borrowings is at floating rates and therefore the Group's finance costs and interest expenses will fluctuate with changes in interest rates. The Group's borrowings in Hong Kong are denominated in HKD or USD, and bear interest rate at a margin above Hong Kong interbank offered rates or London interbank offered rates respectively. Any increase in these benchmark interest rates in the future will increase the interest expenses of the Group, while we are uncertain whether there will have further rate hike by the Federal Reserve of the US due to the unstable global economic and financial conditions. In respect of the Group's borrowings in RMB, the interest rates are mainly determined by the benchmark lending rates of the People's Bank of China ("PBOC"). There were several rate cuts on benchmark lending rates by the PBOC during the year under review; however, the prediction of exact trend of PBOC lending rates in the future is quite uncertain. Furthermore, the margin on costs of borrowings of the Group will also be affected by changes in availability of funding and prevailing interest rate of the credit market. Any change in the interest rate in connection with the currencies the Group borrows will increase the Group's finance costs, and therefore will have adverse impact to the results of operations and financial position of the Group.

## PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

3. The majority of the revenue of the Group is denominated in RMB, while the interest bearing borrowings of the Group at 31 December 2015 were mainly in HKD and USD. The exchange rate of RMB depreciated by approximately by 5.8% against HKD during the year under review. Any further depreciation of the exchange rate of RMB will have material adverse impact to the results of operations of the Group. Furthermore, the results and financial position of the Group are denominated in RMB but presented in HKD for reporting purposes, therefore, the depreciation of RMB will have adverse impact to the financial position of the Group when translating the Group's results and financial position into HKD.

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

5. The Group utilized a certain extent of borrowings to finance its operations. As at 31 December 2015, the gearing ratio of the Group was 65.1%, and the percentage of borrowings due within one year accounted for 82.5% of total borrowings of the Group, therefore the Group will be exposed to the liquidity risks of inability of repaying these borrowings when due. The Group is expected to service the debt repayments due in 2016 by utilizing cash generated from its operations and refinancing from banks, with an objective to gradually reduce the amount of interest bearing borrowings of the Group. However, the Group's ability to generate sufficient cash to service its outstanding debts and obligations will depend on the operating performance of its various business segments in the future, which will be affected by factors such as the prevailing economic and liquidity conditions, the demand of its products and prevailing selling prices. Whether the Group can refinance its borrowings also depends on a number of factors, including the operating performance and financial conditions of the Group, the prevailing economic conditions, the prevailing credit policy of respective lender and the liquidity of the financial markets. If the Group is unable to service any of its borrowings due in 2016, this may result in a default and will have significant adverse impact to the financial position of the Group as the Group will be requested to repay full or part of its outstanding borrowings on an accelerated basis. The management of the Company is seeking for various banks refinancing to mitigate these potential risks.

## FINANCIAL KEY PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the years ended 31 December 2015 and 2014 are summarised as follows:

| | | **2015** | 2014 | **Change** |
|---|---|---|---|---|
| 1. | Current ratio (times) | **1.04** | 0.98 | N/A |
| 2. | Liquid ratio (times) | **0.87** | 0.78 | N/A |
| 3. | Gearing ratio (%) | **65.1** | 65.8 | -0.7 pp |
| 4. | Average turnover period on trade receivables (days) | **109** | 107 | +2 |
| 5. | Percentage of past due trade receivables (%) | **39.1** | 34.3 | +4.8 pp |
| 6. | Average turnover period on inventories (days) | **72** | 73 | -1 |
| 7. | Average turnover period on trade payables (days) | **66** | 60 | +6 |
| 8. | Steel cord production capacity utilisation ratio (%) | **66.0** | 67.7 | -1.7 pp |

### Current ratio

Current ratio (calculated as current assets divided by current liabilities) of the Group was 1.04 times at 31 December 2015, improved as compared to 0.98 times at 31 December 2014.

### Liquid ratio

Liquid ratio (calculated as current assets less inventories divided by current liabilities) of the Group was 0.87 times at 31 December 2015, improved as compared to 0.78 times at 31 December 2014.

### Gearing ratio

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash divided by Shareholders' equity) of the Group lowered from 65.8% at 31 December 2014 to 65.1% at 31 December 2015.

## FINANCIAL KEY PERFORMANCE INDICATORS (continued)

### Average turnover period on trade receivables

Average turnover period on trade receivables (calculated as average trade receivables for the year divided by gross revenue (inclusive of value-added tax in respect of sales in the PRC) times 365 days) was 109 days for the year, as compared to 107 days for the previous year.

### Percentage of past due trade receivables

Percentage of past due trade receivables (calculated as the amount of past due trade receivables divided by total amount of trade receivables) was 39.1% at 31 December 2015 as compared to 34.3% at 31 December 2014.

### Average turnover period on inventories

Average turnover period on inventories (calculated as average amount of inventories for the year divided by cost of sales times 365 days) was 72 days for the year, similar as compared to 73 days for the previous year.

### Average turnover period on trade payables

Average turnover period on trade payables (calculated as average trade payables for the year divided by cost of sales (inclusive of value-added tax in respect of cost of sales in the PRC) times 365 days) was 66 days for the year, longer than 6 days as compared to 60 days for the previous year.

### Steel cord production capacity utilisation ratio

The capacity utilisation ratio in respect of Steel cord segment (calculated as total sales volume of steel cords for the year divided by total production capacity of steel cords of 175,000 tonnes per annum) was 66.0% for the year, lowered by 1.7 percentage points as compared to 67.7% for the previous year.

Further details regarding the above and other financial key performance indicators, please refer to the section "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

## FUTURE DEVELOPMENT OF THE COMPANY'S BUSINESS

Given the straggling conditions in tyres and steel cord markets and economic outlook uncertainty, the Group is prudent to make any investment and develop any new business in 2016 unless financially sound and strategy-fitting opportunities arise. Details of future development of the Company's business, please refer to the sections "**CHAIRMAN'S STATEMENT**" and "**MANAGEMENT DISCUSSION AND ANALYSIS**" of this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of the environment and community in which it engages. The Group stringently controls the production of wastes, waste gases and sewage emission; and complies with the applicable prevention and control regulations and environmental laws and ordinances on wastage, waste gases and sewage emission in Hong Kong and the PRC in the production process. Those laws, ordinances and regulations include the Environmental Protection Law of the PRC (《中國環境保護法》), the Prevention and Control of Atmospheric Pollution of the PRC (《中國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中國水污染防治法》), the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), the Product Eco-responsibility Ordinance (Chapter 603 of the Laws of Hong Kong). All offices of the Group should implement effective energy conservation measures to reduce the use of papers and water, and electricity consumption. During the year under review, the Company has joined and supported environmental protection organisation/programme organised by reputable institution. Discussion on the Group's environmental policies are set out under the heading "**ENVIRONMENTAL, SOCIAL AND GOVERNANCE**" hereunder.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group. The Group is committed to comply with the laws and regulations in which it operates its businesses. It has complied with the Companies Ordinance, Listing Rules, SFO, Employment Ordinance. Company Law of the PRC and Labour Law of the PRC, Labour Contract Law of the PRC, the aforesaid prevention and control regulations and environmental laws and ordinances on wastage, waste gases and sewage emission, and other relevant rules and regulations. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and/or business units of the Group from time to time. The Company also seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, training and oversight of various business units. Certain discussion on the Group's compliance with relevant laws and regulations which have a significant impact on the Group is also contained in the "**CORPORATE GOVERNANCE REPORT**" section on pages 41 to 61 of this annual report.

## RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers and Shareholders.

### Employees

Employees are regarded as the most important and valuable assets of the Group. Most of the management have been serving the Group for a long period of time. However, young talents are also provided with opportunities to work in the Group. In all, the Group offers competitive salaries and benefits, and also provides training programmes or courses for the mainland staff at all levels from different departments and also for Directors and employees of the Company so as to further enhance their skills in management, professional skills and knowledge in order to make continual contribution to the Group. Various business units of the Group from time to time organise activities and sports competition to general staffs together with the management to strengthen their partnership and communication.

## RELATIONSHIPS WITH KEY STAKEHOLDERS (continued)

### Customers

The major customers of Steel cord segment are radial tyres manufacturers and the major customers of Copper and brass products segment are industrial and consumer goods manufacturers. We have maintained good relationship with those customers for many years and provided them with quality products and after-sale services.

### Suppliers

The major suppliers of Steel cord segment are steel wire rods suppliers and the major suppliers of Copper and brass products segment are copper and brass materials suppliers. We have maintained good relationship with those suppliers so as to achieve cost-effectiveness and promote long-term commercial benefits.

### Shareholders

The ultimate operational goal of the Group is to maximize our Shareholders' return. The major Shareholders are Shougang HK and its controlled corporations, Bekaert and Li Ka Shing Foundation and minority Shareholders who are supportive to the Group for a long time in particular under adverse and challenging market conditions.

Further details in respect of the above, please refer to the sections "**MANAGEMENT DISCUSSION AND ANALYSIS**" and "**CORPORATE GOVERNANCE REPORT**" in this annual report and the heading "**ENVIRONMENTAL, SOCIAL AND GOVERNANCE**" hereunder.

## SUMMARY OF FINANCIAL INFORMATION

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

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 | 2013<br>HK$'000 | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) |
|---|---|---|---|---|---|
| (LOSS) PROFIT FOR THE YEAR | **(376,985)** | (275,774) | (16,590) | (299,686) | 3,757 |
| TOTAL ASSETS | **3,006,147** | 3,610,120 | 4,123,008 | 3,917,338 | 4,314,080 |
| TOTAL LIABILITIES | **(1,610,277)** | (1,748,238) | (1,997,754) | (1,852,788) | (1,971,679) |
| | **1,395,870** | 1,861,882 | 2,125,254 | 2,064,550 | 2,342,401 |
| NON-CONTROLLING INTEREST | **–** | – | – | – | (840) |
| SHAREHOLDERS' EQUITY | **1,395,870** | 1,861,882 | 2,125,254 | 2,064,550 | 2,341,561 |

# REPORT OF THE DIRECTORS

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

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

Particulars of the Group's investment properties as at 31 December 2015 are summarised on page 176 of this annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 30 to the financial statements. Share options granted under the 2002 Scheme remain valid and exercisable in accordance with the terms of issue. No share options were granted, exercised, lapsed or cancelled under the 2012 Scheme. Details of share options of the 2002 Scheme are set out under the headings "**EQUITY-LINKED AGREEMENT**", "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereunder and in note 36 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 95 of this annual report and in note 38 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company did not have any reserves available for distribution as calculated in accordance with the provisions of Sections 291, 297 and 299 of the Companies Ordinance.

## DONATIONS

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

## DIRECTORS

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

| | |
|---|---|
| Li Shaofeng *(Chairman)* | |
| Yang Kaiyu *(Managing Director)* | |
| Su Fanrong *(Executive Deputy Managing Director)* | *(appointed on 1 December 2015)* |
| Leung Shun Sang, Tony *(Non-executive Director)* | |
| Zhang Wenhui *(Non-executive Director)* | *(resigned on 1 December 2015)* |
| Tang Cornor Kwok Kau *(Deputy Managing Director)* | |
| Liao Jun *(Non-executive Director)* | *(appointed on 25 February 2015)* |
| Zhang Zhong *(Executive Director)* | *(resigned on 25 February 2015)* |
| Yip Kin Man, Raymond *(Independent Non-executive Director)* | |
| Law, Yui Lun *(Independent Non-executive Director)* | |
| Lam Yiu Kin *(Independent Non-executive Director)* | *(appointed on 1 August 2015)* |
| Chan Chung Chun *(Independent Non-executive Director)* | *(passed away on 8 May 2015)* |

The Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 101 and 102 of the Articles. Messrs. Yang Kaiyu, Leung Shun Sang Tony and Law Yui Lun will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 106 of the Articles, Messrs. Su Fanrong and Lam Yiu Kin will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS OF SUBSIDIARIES

Messrs. Yang Kaiyu and Tang Cornor Kwok Kau serve as directors of all subsidiaries of the Company during the year and up to the date of this report, while Mr. Su Fanrong serves as directors of subsidiaries of the Company since 1 December 2015. Other than the above directors, the persons who serve/had served as directors of subsidiaries of the Company during the year and/or up to the date of this report include Messrs. Li Shaofeng, Cheung Ngai, Tam Yui Ki, Wang Dongming, Wu Siu Man, Li Meng, Yu Zhigao and Ms. Lee Hsiao Chieh.

The list of subsidiaries of the Company is set out in the note 39 “**PRINCIPAL SUBSIDIARIES**” to the financial statements and below.

- Rise Boom International Limited
- Clear Vision Investments Limited
- Efficient Investments Limited
- Endless Inc.
- Messiah Investments Limited
- Shougang Century Metal Products (Holdings) Limited
- Shougang Century Xinyu PC (Holdings) Limited

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" and in note 36 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

## EQUITY-LINKED AGREEMENT

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereunder and in note 36 to the financial statements.

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

As at 31 December 2015, save for the interest of the Directors in the Shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code.

### Long position in Shares

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

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

*Notes:*

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

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

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

### Long position in Shares (continued)

**(b) Share options**

As at 31 December 2015, there were a total of 58,668,000 outstanding share options of the Company granted to Directors under 2002 Scheme, details of which are summarised as follows:

| | Options to subscribe for Shares | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Number of outstanding share options held at the beginning of the year | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Reclassification of categories of grantee | Date of exercise | Number of outstanding share options held at the end of the year | Date of grant *Note (i)* | Exercise period | Exercise price per Share HK$ | Capacity in which interests are held | Approximate % of the total number of issued shares |
| Mr. Li | 13,800,000 | – | – | – | – | – | 13,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.71 |
| Mr. Yang | 5,400,000 | – | – | – | – | – | 5,400,000 | 13/7/2009 | 13/7/2009 to 12/7/2019 | 0.680 | | |
| | 5,400,000 | – | – | – | – | – | 5,400,000 *Note (ii)* | 13/7/2009 | 1/1/2010 to 12/7/2019 | 0.680 | | |
| | 7,200,000 | – | – | – | – | – | 7,200,000 *Note (ii)* | 13/7/2009 | 1/1/2011 to 12/7/2019 | 0.680 | | |
| | 18,000,000 | – | – | – | – | | 18,000,000 | | | | Beneficial owner | 0.93 |
| Mr. Leung | 12,000,000 | – | – | – | – | – | 12,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.62 |
| Mr. Tang | 10,000,000 | – | – | – | – | – | 10,000,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.52 |
| Zhang Zhong | 2,000,000 | – | – | (2,000,000) *Note (iii)* | – | | – | 14/12/2010 | 14/12/2010 to 13/12/2020 | 0.940 | Beneficial owner | 0.10 |
| Yip Kin Man, Raymond | 252,000 | – | – | – | – | – | 252,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | – | – | – | – | – | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,052,000 | – | – | – | – | | 2,052,000 | | | | Beneficial owner | 0.10 |

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

### Long position in Shares (continued)

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

| | Options to subscribe for Shares | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Number of outstanding share options held at the beginning of the year | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Reclassification of categories of grantee | Date of exercise | Number of outstanding share options held at the end of the year | Date of grant *Note (i)* | Exercise period | Exercise price per Share HK$ | Capacity in which interests are held | Approximate % of the total number of issued shares |
| Law, Yui Lun | 1,016,000 | – | – | – | – | – | 1,016,000 | 26/1/2007 | 26/1/2007 to 25/1/2017 | 0.656 | | |
| | 1,800,000 | – | – | – | – | – | 1,800,000 | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | | |
| | 2,816,000 | – | – | – | – | | 2,816,000 | | | | Beneficial owner | 0.14 |
| Chan Chung Chun | 1,800,000 | – | – | – | (1,800,000) *Note (iv)* | – | – | 28/1/2008 | 28/1/2008 to 27/1/2018 | 0.864 | Beneficial owner | 0.09 |
| | 62,468,000 | – | – | (2,000,000) | (1,800,000) | | 58,668,000 | | | | | |

*Notes:*

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

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

*(iii)* 2,000,000 share options held by Mr. Zhang Zhong lapsed with effect from 25 February 2015 following his resignation as an executive Director.

*(iv)* 1,800,000 share options held by the late Mr. Chan Chung Chun, the former independent non-executive Director, has been reclassified under the category of "All other eligible participants" as such options passed to his legal representative in accordance with the terms of 2002 Scheme.

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

Other than the holdings and option holdings disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 31 December 2015.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

| Name of Director | Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of Director's interest in the entity |
|---|---|---|---|
| Li Shaofeng *(Note 1)* | BeijingWest Industries | Manufacturing, sales and trading of auto parts and construction decorative hardware products | Executive director |
| Tang Cornor Kwok Kau *(Note 2)* | Loco Hong Kong | Trading of metals | Independent non-executive director |
| Liao Jun *(Note 3)* | Bekaert | Manufacturing and sale of steel wire and/or cord products | Senior Vice President of Bekaert, General Manager of Rubber Reinforcement North Asia |
| Yip Kin Man, Raymond *(Note 4)* | BeijingWest Industries | Manufacturing, sales and trading of auto parts and construction decorative hardware products | Independent non-executive director |

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

*Notes:*

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

2. Mr. Tang Cornor Kwok Kau was appointed as independent non-executive director of Loco Hong Kong on 22 July 2014, a company listed on the Growth Enterprise Market of the Stock Exchange on 5 August 2014. He does not participate in any decision making on daily operation of Loco Hong Kong.

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

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

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

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

As at 31 December 2015, so far as was known to the Directors, the following parties had an interest or long position or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

### Long position in Shares or underlying Shares

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

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

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

*Notes:*

*(1)* Fair Union is beneficially interested in 135,721,936 Shares and by virtue of the SFO, it is deemed to be interested in the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are its wholly owned subsidiaries.

*(2)* By virtue of the SFO, Shougang International is deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.

*(3)* Shougang HK is beneficially interested in 2,096,000 Shares and by virtue of the SFO, it is deemed to be interested in the 126,984,000 Shares and the 74,034,000 Shares held by Able Legend and Prime Success Investments Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 14,870,000 Shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Grand as Shougang HK is the holding company of Shougang Grand. It is also deemed to be interested in the 135,721,936 Shares held by Fair Union, the 148,537,939 Shares held by Richson and the 402,395,304 Shares held by Casula as it is the controlling shareholder of Shougang International.

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

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

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contract of significance between the Group, Shougang HK and its subsidiaries are set out under the heading "**RELATED PARTY TRANSACTIONS**" hereunder and/or in note 37 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to practicing and achieving a high standard of corporate governance and the Board has approved and adopted the SCCHL Corporate Governance Code on terms no less exacting than those set out in the provisions of the Code. Further information on the Company's Corporate Governance Code is set out in the "**CORPORATE GOVERNANCE REPORT**" on pages 41 to 61 of this annual report.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## PERMITTED INDEMNITY PROVISION

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

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

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

## RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary and usual course of business which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 37 to the financial statements. During the year under review, no continuing connected transaction is subject to annual review requirement under Chapter 14A of the Listing Rules.

## RELATED PARTY TRANSACTIONS (continued)

However, the Group has entered into the following continuing connected transaction during the year:

### Tenancy Agreement

A tenancy agreement (the "Tenancy Agreement") was entered into on 23 December 2015 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, to a wholly owned subsidiary of the Company for a term of twelve (12) months commencing from 1 January 2016 and expiring on 31 December 2016 at a monthly rental of HK$270,000. The annual cap for the financial year ending 31 December 2016 is HK$3,240,000.

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

Regarding the Continuing Connected Transactions in respect of the Tenancy Agreement which take place in 2016, as the applicable percentage ratios (other than the profits ratio) calculated with reference to the annual rent payable under the Tenancy Agreement, being HK$3,240,000, exceeds 0.1% but less than 5%, the Company is subject to annual review requirements pursuant to Chapter 14A of the Listing Rules. Such transactions will be reviewed by independent non-executive Directors and external auditors pursuant to Rule 14A.55 and 14A.56 of the Listing Rules in the financial year of 2016.

## EMOLUMENT POLICY

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

In addition, the Company has adopted a share option scheme as incentive/reward to Directors and eligible participants/qualifying grantees, details of the scheme are set out in note 36 to the financial statements and the heading "**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES OR UNDERLYING SHARES UNDER THE SFO**" hereabove.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 22 March 2016 prior to the issue of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, the revenue from sales to the Group's five largest customers accounted for approximately 44.7% (2014: 36.5%) of total revenue of the Group and the revenue from sales to the largest customer included therein amounted to approximately 11.4% (2014: 10.1%) of total revenue of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 38.9% (2014: 38.7%) of total purchases of the Group for the year and purchases from the largest supplier, included therein amounted to approximately 9.1% (2014: 11.8%) of total purchases of the Group for the year.

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

Further details related to relationship with customers and suppliers, please refer to sections "**MANAGEMENT DISCUSSION AND ANALYSIS**" in this annual report and the heading "**ENVIRONMENTAL, SOCIAL AND GOVERNANCE**" hereunder.

## AUDITORS

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

With an increasing global trend of corporate social responsibility, Environmental, Social and Governance (ESG) Reporting has become a common practice for businesses every year. The Board is fully aware of such trend and also notices the upgrade of "recommended best practice" to "comply or explain" in relation to ESG reporting by the Stock Exchange for the financial year ending of 2016.

Being having a good social responsibility, the Group is committed to the sustainable development through the provision of good working environment, protection of environment proactively and participation in community involvement to achieve its mission to provide quality related diversified metal products with development of a successful "Eastern" brand awareness and recognition in the PRC and worldwide markets.

### A. Environment

The Group stringently controls the production of wastes and waste gases and sewage emission through the production process, and has complied with the applicable prevention and control regulations and environmental ordinances/laws on wastage, waste gases and sewage emission in which it engages. Those regulations and ordinances/laws include the Environmental Protection Law of the PRC (《中國環境保護法》), the Prevention and Control of Atmospheric Pollution of the PRC (《中國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中國水污染防治法》), the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), the Product Eco-responsibility Ordinance (Chapter 603 of the Laws of Hong Kong) etc. The hazardous wastes generated in the production process shall be disposed of properly by passing to qualified disposal corporations to the greatest extent or using other legitimate measures to reduce the production of harmful substances. Most of the non-hazardous wastes shall be disposed of by passing to recycling companies for recycling and reuse or using other legitimate measures. Air emissions and waste water discharges are in line with the standard emissions as stipulated by the environmental regulatory bodies of the PRC. All offices of the Group should implement effective energy conservation measures to reduce the use of papers and water, and electricity consumption.

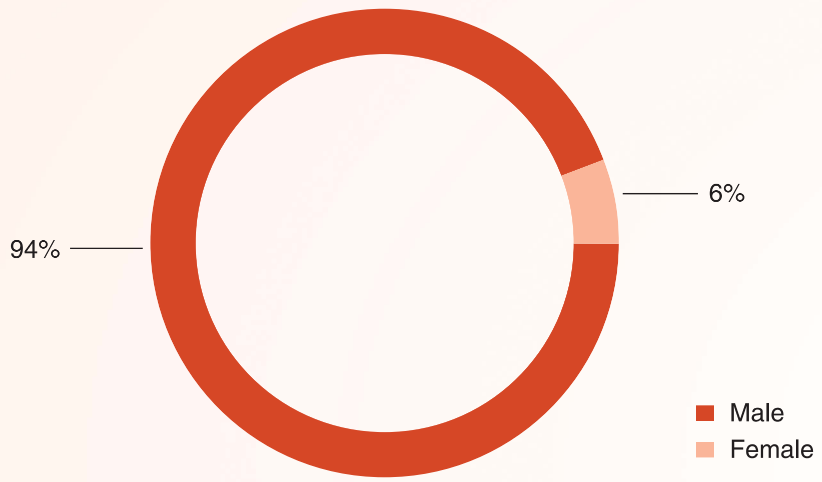
During the year under review, the Company has also joined as a member in "Jockey Club CarbonCare Open Innovation Lab" ("COIL"), which is established by CarbonCare Inn Lab and contributed by the Hong Kong Jockey Club Charities Trust. The COIL holds events and/or seminars monthly, inviting a number of different areas of low-carbon experts or management of companies/organisations to provide information about low-carbon and share their experience in reducing carbon emission. Through participating in events and seminars held and information provided by the COIL, we can have more knowledge in various environmental protection aspects, such as climate justice, carbon reduction, resource conservation and adaptation to future climate scenarios, which helps the Company to devise relevant measures and policies on carbon reduction effectively, and play a role in environment protection to save the world.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

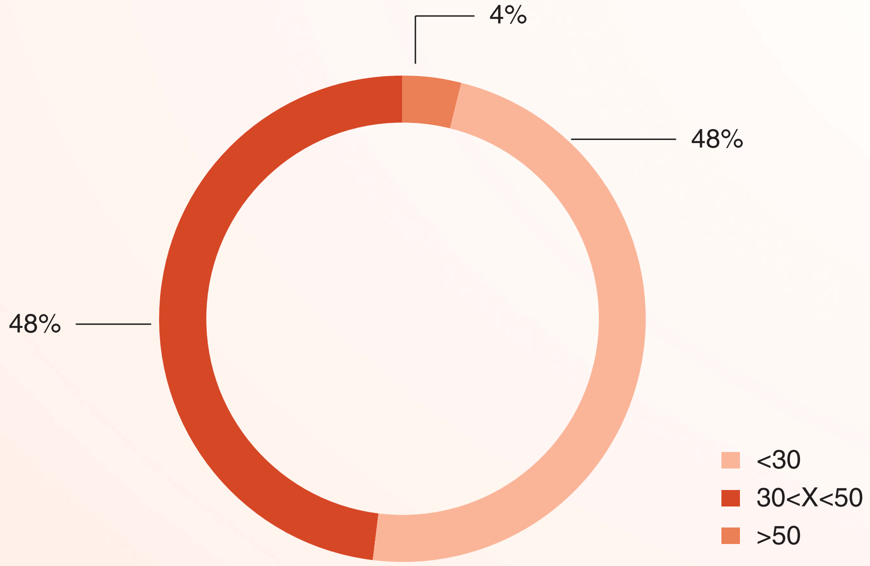
### B. Social

As at 31 December 2015, the Group had a total of 1,874 employees located in Hong Kong and the PRC. The charts of the current total number of employees by gender and age are set forth below respectively:

***The chart of the current total number of employees by gender***




***The chart of the current total number of employees by age***



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### B. Social (continued)

**Employees' management systems of the Group**

The Group has prepared human resources policies, which are stipulated in employees' handbooks and relevant codes of conduct, and implemented employees' management systems in its business units. The areas of those handbooks, codes and systems cover rules and regulations in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, and other benefits and welfare. Regulations and rules contained in those handbooks, codes and systems are in line with the applicable laws and regulations in Hong Kong and the PRC, for instance, the Employment Ordinance, Company Law of the PRC (《中國公司法》), Labour Law of the PRC (《中國勞動法》), Larbour Contract Law of the PRC (《中國勞動合同法》), etc. During the year under review, there was no material breach of or non-compliance with those applicable laws and regulations by the Group.

**Emolument Policies of the Directors and employees of the Group**

The emoluments of the Directors are decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition of the industry. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. Further information for the retirement benefit schemes is contained in note 35 "**RETIREMENT BENEFIT SCHEMES**" to the financial statements.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### B. Social (continued)

**Equal opportunity, recruitment and promotion**

The Group is strictly prohibited any discrimination, harassment, victimisation or vilification on the grounds of age, gender, marital status, pregnancy, disability, family status or race, nationality or religion in the workplace environment for protection of human's rights. Hence, recruitment, promotion and retaining of talents are according to the equal opportunity principles. The Company has regulated complaint channel for any employee to make complaint when he or she suffers from any unequal treatments. Furthermore, the Board has established a Board Diversity Policy to attract and retain talented people as board members. A summary regarding the Board Diversity Policy can refer to the "CORPORATE GOVERNANCE REPORT" section on pages 41 to 61 of this annual report.

**Whistleblowing Policy**

The Group is committed to achieving and maintaining the highest standards of openness, probity and accountability. Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty. In order to maintain a good corporate image and raise the standard of corporate governance of the Group, and also to ensure that any inappropriate behavior that compromise the interest of the shareholders, investors, customers, suppliers and the wider public does not occur, the Company has regulated a whistleblowing policy. Employees, who have concerns about any suspected misconduct or malpractice within the Group, can come forward and voice those concerns or raise written report to the Company through this policy.

**Health and safety**

The Group attaches great importance to staff health and safety. In order to provide a safe and healthy working environment to employees, the Group has formulated production safety regulations and relevant workshop regulations in accordance with the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), Occupational Disease Prevention Law in PRC《中國職業病防治法》, and the Production Safety Laws of the PRC《中國安全生產法》, and set up occupational protective equipment at the workplace. The Group also strictly regulates that employees must take and/or wear protective clothes when they are handling dangerous chemicals or operating machines to protect their health and safety.

The Group has regulated that all new employees in the Mainland must take three levels of production safety trainings before serving, i.e. departmental trainings, workshop trainings and class/team work process trainings. Employees, who served special operations, such as handling of dangerous chemicals, electricians, fitters, welders, forklift operators etc., must follow the operating safety rules. All employees who change the job positions must also re-take the relevant safety trainings before serving.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### B. Social (continued)

**Development and training**

The Group has provided training programmes or courses for the mainland staff at all levels from different departments and also for Directors and employees of the Company so as to further enhance their technical skills in production operation and management, professional skills and knowledge, respectively, and also encourage its employees to attend any external training and courses. Furthermore, the Group encourages its employees to have lifelong learning and training by providing examination leaves benefit to those employees who will obtain the professional qualifications organised by professional bodies or academic institutions to enhance their work-related knowledge and strengthen their professional development and skills.

**Labour Standards**

The Group is prohibited to recruit employee under the age of 16 and prevent forced labour according to the Employment Ordinance and Prohibition of Child Labour of the PRC (《中國禁止使用童工規定》), and relevant laws and regulations. During the year under review, the Group did not aware of any breach of or non-compliance with applicable laws and regulations.

**Supply Chain Management**

The Group has strictly selected with quality assurance and good reputation raw material suppliers and also chose our raw material suppliers by using scoring assessment mechanism to rate those suppliers qualification in accordance to various factors, like their price, exclusivity, convenience transportation, financial condition, quality, techniques and knowhow, reputation, after-sale services and social responsibility. Our purchasing department has strictly monitored the quality of raw materials and revised the rating, if necessary to ensure a suitable supplier with provision of good quality raw materials and services can be selected. We have maintained good relationship with those suppliers so as to achieve cost-effectiveness and promote long-term commercial profits.

**Product Responsibility**

The Group is highly focused on provision of products with good quality and high safety to its customers. We monitor the quality of different specifications of steel cord to ensure that radial tyre manufacturers are satisfied with our products, and their requirement of production of safe radial tyres can be met, so as to obtain their long-term support and trust, in turn increase the profitability of the Group. The Group provides after-sale services to its customers. If we receive a complaint from any customer, we will first communicate with the customer and arrange our technical personnel to visit the customer's site for inspection as the case may be. Thereafter, we will further improve product quality to suit this customer's need.

We have passed the ISO/TS 16949: 2009 quality control system and a certificate in this regard was issued by TÜV Rheinland Cert GmbH, a leading international provider of inspection services, since February 2011. Certification pursuant to the ISO/TS 16949 is intended to build up or enforce the confidence of a customer towards the system and process quality of a supplier.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### B. Social (continued)

**Community Involvement**

Charity Donation

During the year of 2015, the Group has donated "New Hope for Blind Children" in Orbis, an international non-profit medical educational organisation dedicated to saving sight worldwide, to support and assist the developing countries in addressing the problem of avoidable blindness, even our donation is not much.

In the light of the implementation of ESG Reporting, we have been taking the following actions:

1. determining the methods of data collection in relating to ESG information for preparation of ESG Reporting;

2. collecting all relevant policies (if any) regarding emissions, use of resources, the environment and natural resources, employment, health and safety, development and training, labour standards, supply chain management, product responsibility, anti-corruption and community investment from all business units of the Group;

3. setting up an ESG database programme to collect the relevant data of ESG areas, including Environmental (Subject Area A) and Social (Subject Area B) Aspects;

4. providing training to all responsible persons who are responsible for data input and data collection relating to the aforesaid subject areas and requesting those persons using consistent methodologies for data collection in order to obtain accurate and reliable data from all business units for disclosure purpose;

5. conducting the materiality assessment of the data collected; and

6. developing and determining the contents for preparation of ESG Reporting.

In all, the Group will comply with the principles and standards of the ESG Reporting Guide to prepare detailed ESG Report in the coming year.

By order of the Board

**Li Shaofeng**
*Chairman*
Hong Kong
23 March 2016

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shougang Concord Century Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 91 to 175, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## AUDITOR'S RESPONSIBILITY (continued)

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
23 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

| | NOTES | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **1,480,507** | 1,787,444 |
| Cost of sales | | **(1,461,473)** | (1,653,659) |
| Gross profit | | **19,034** | 133,785 |
| Investment and other income | 7 | **1,546** | 3,549 |
| Other gains and losses | 8 | **(178,683)** | (163,561) |
| Distribution and selling expenses | | **(45,602)** | (51,067) |
| Administrative expenses | | **(73,803)** | (73,592) |
| Research and development expenses | | **(47,687)** | (58,374) |
| Finance costs | 9 | **(52,767)** | (65,379) |
| Loss before tax | | **(377,962)** | (274,639) |
| Income tax credit (expense) | 10 | **977** | (1,135) |
| Loss for the year | 11 | **(376,985)** | (275,774) |
| Loss per share | 14 | | |
| Basic and diluted | | **(HK19.61 cents)** | (HK14.34 cents) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Loss for the year | **(376,985)** | (275,774) |
| Other comprehensive (expense) income | | |
| Items that will not be reclassified to profit or loss | | |
| Exchange differences arising on translation of group entities | **(106,709)** | (7,208) |
| Surplus on revaluation of properties | **21,541** | 18,762 |
| Effect on deferred tax liability upon change in tax rate of a subsidiary | **–** | 4,065 |
| Recognition of deferred tax liability on revaluation of properties | **(3,859)** | (3,217) |
| Other comprehensive (expense) income for the year (net of tax) | **(89,027)** | 12,402 |
| Total comprehensive expense for the year | **(466,012)** | (263,372) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | NOTES | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | **50,727** | 48,547 |
| Property, plant and equipment | 16 | **1,357,961** | 1,659,243 |
| Prepaid lease payments | 17 | **159,417** | 178,000 |
| Goodwill | 18 | **–** | 41,672 |
| Club memberships | 19 | **738** | 761 |
| Deposit paid for the acquisition of property, plant and equipment | | **956** | 345 |
| Deferred tax assets | 29 | **–** | 1,282 |
| | | **1,569,799** | 1,929,850 |
| **Current assets** | | | |
| Inventories | 20 | **239,709** | 337,432 |
| Trade receivables | 21 | **463,061** | 566,976 |
| Bills receivable | 21 | **411,547** | 558,370 |
| Prepayments, deposits and other receivables | 23 | **103,951** | 140,005 |
| Prepaid lease payments | 17 | **8,191** | 8,698 |
| Bank balances and cash | 25 | **209,889** | 68,789 |
| | | **1,436,348** | 1,680,270 |
| **Current liabilities** | | | |
| Trade payables | 26 | **334,033** | 288,550 |
| Other payables and accruals | 26 | **107,933** | 118,926 |
| Tax payable | | **18,236** | 15,788 |
| Loan from a related company | 27 | **52,252** | – |
| Bank borrowings - due within one year | 28 | **866,867** | 1,293,837 |
| | | **1,379,321** | 1,717,101 |
| **Net current assets (liabilities)** | | **57,027** | (36,831) |
| **Total assets less current liabilities** | | **1,626,826** | 1,893,019 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

| | NOTES | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings – due after one year | 28 | **199,000** | – |
| Other payable | | **1,118** | 1,122 |
| Deferred tax liabilities | 29 | **30,838** | 30,015 |
| | | **230,956** | 31,137 |
| | | **1,395,870** | 1,861,882 |
| **Capital and reserves** | | | |
| Share capital | 30 | **1,191,798** | 1,191,798 |
| Reserves | | **204,072** | 670,084 |
| | | **1,395,870** | 1,861,882 |

The consolidated financial statements on pages 91 to 175 were approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

**Yang Kaiyu**
*DIRECTOR*

**Tang Cornor Kwok Kau**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 (Note i) | Capital redemption reserve HK$'000 | Property revaluation reserve HK$'000 | Translation reserve HK$'000 | Share option reserve HK$'000 | PRC reserve funds HK$'000 (Note ii) | Retained profits (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 192,290 | 996,784 | 23,990 | 2,724 | 52,576 | 415,937 | 32,080 | 45,468 | 363,405 | 2,125,254 |
| Loss for the year | – | – | – | – | – | – | – | – | (275,774) | (275,774) |
| Exchange differences arising on translation of group entities | – | – | – | – | – | (7,208) | – | – | – | (7,208) |
| Surplus on revaluation of properties | – | – | – | – | 18,762 | – | – | – | – | 18,762 |
| Effect on deferred tax liability upon change in tax rate of a subsidiary | – | – | – | – | 4,065 | – | – | – | – | 4,065 |
| Recognition of deferred tax liability on revaluation of properties | – | – | – | – | (3,217) | – | – | – | – | (3,217) |
| Total comprehensive income (expense) for the year | – | – | – | – | 19,610 | (7,208) | – | – | (275,774) | (263,372) |
| Transfer upon abolition of par value under the Hong Kong Companies Ordinance (Note iii) | 999,508 | (996,784) | – | (2,724) | – | – | – | – | – | – |
| Cancellation of share options | – | – | – | – | – | – | (535) | – | 535 | – |
| At 31 December 2014 | 1,191,798 | – | 23,990 | – | 72,186 | 408,729 | 31,545 | 45,468 | 88,166 | 1,861,882 |
| Loss for the year | – | – | – | – | – | – | – | – | (376,985) | (376,985) |
| Exchange differences arising on translation of group entities | – | – | – | – | – | (106,709) | – | – | – | (106,709) |
| Surplus on revaluation of properties | – | – | – | – | 21,541 | – | – | – | – | 21,541 |
| Recognition of deferred tax liability on revaluation of properties | – | – | – | – | (3,859) | – | – | – | – | (3,859) |
| Total comprehensive income (expense) for the year | – | – | – | – | 17,682 | (106,709) | – | – | (376,985) | (466,012) |
| Lapse of share options | – | – | – | – | – | – | (780) | – | 780 | – |
| At 31 December 2015 | 1,191,798 | – | 23,990 | – | 89,868 | 302,020 | 30,765 | 45,468 | (288,039) | 1,395,870 |

Notes:

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

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

iii. The Company had no authorised share capital and its shares have no par value from the commencement date of the Hong Kong Companies Ordinance (Cap 622) on 3 March 2014.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | NOTES | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss before tax | | **(377,962)** | (274,639) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **128,930** | 148,356 |
| Impairment loss recognised in respect of property, plant and equipment | 16 | **93,000** | 147,000 |
| Impairment loss recognised in respect of goodwill | 18 | **41,672** | – |
| Amortisation of prepaid lease payments | | **8,546** | 8,663 |
| Changes in fair value of investment properties | | **(3,253)** | (1,699) |
| Loss (gain) on disposal of property, plant and equipment, net | | **139** | (17) |
| Interest income | | **(596)** | (1,807) |
| Allowance for inventories recognised, net | | **13,511** | 5,275 |
| Allowance for bad and doubtful debts recognised, net | | **4,511** | 16,830 |
| Bad debts written off | | **4,007** | – |
| Finance costs | | **52,767** | 65,379 |
| Operating cash flows before movements in working capital | | **(34,728)** | 113,341 |
| Decrease (increase) in inventories | | **79,142** | (20,322) |
| Decrease in trade receivables | | **76,465** | 80,446 |
| Increase in bills receivable | | **(348,940)** | (220,562) |
| Decrease in prepayments, deposits and other receivables | | **24,473** | 8,828 |
| Increase in trade payables | | **299,188** | 178,828 |
| Increase in other payables and accruals | | **14,508** | 11,802 |
| Cash generated from operations | | **110,108** | 152,361 |
| PRC Enterprise Income Tax refunded (paid), net | | **3,213** | (11,564) |
| NET CASH FROM OPERATING ACTIVITIES | | **113,321** | 140,797 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (5,122) | (19,318) |
| Deposit paid for the acquisition of property, plant and equipment | (539) | (6,267) |
| Proceeds from disposal of property, plant and equipment | 775 | 146 |
| Interest received | 596 | 1,807 |
| Placement of pledged bank deposits | – | (21,656) |
| Withdrawal of pledged bank deposits | – | 21,656 |
| NET CASH USED IN INVESTING ACTIVITIES | (4,290) | (23,632) |
| FINANCING ACTIVITIES | | |
| New bank loans raised | 1,040,594 | 570,202 |
| Bank advances for discounted bills | 245,183 | 29,515 |
| Loans advanced from a related company | 101,169 | – |
| Trust receipt loans raised | 91,171 | 109,207 |
| Repayment of bank loans | (1,248,496) | (711,812) |
| Repayment of trust receipt loans | (95,776) | (107,979) |
| Repayment of loan to a related company | (51,169) | – |
| Interest paid | (46,821) | (61,131) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 35,855 | (171,998) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 144,886 | (54,833) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 68,789 | 124,010 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | (3,786) | (388) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, Bank balances and cash | 209,889 | 68,789 |

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's substantial shareholder is Shougang Holding (Hong Kong) Limited ("Shougang HK"), and the ultimate holding company of Shougang HK is Shougang Corporation, a company established in the PRC. The address of the registered office of the Company is disclosed in the "**CORPORATE INFORMATION**" section of the annual report.

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing of steel cords and processing and trading of copper and brass products.

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

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

### Application of amendments to HKFRSs

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

| | |
|---|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle |

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

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

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

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[2] |
| Amendments to HKAS 1 | Disclosure Initiative[2] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[2] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[2] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 – 2014 Cycle[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after a date to be determined

### HKFRS 9 *Financial Instruments*

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

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

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

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

Based on the Group's financial assets and financial liabilities as at 31 December 2015, the directors of the Company anticipate that the adoption of HKFRS 9 may not have material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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

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

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

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

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

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

The directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The provisions of the CO (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the CO (Cap 622) and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the CO (Cap 622) or amended Listing Rules are not disclosed in these consolidated financial statements.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

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

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

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

### Goodwill

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

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

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

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

### Property, plant and equipment

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Club memberships

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

### Research and development expenditure

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

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

### Government grants

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

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

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

### Taxation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

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

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

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

Service income is recognised when services are provided.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

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

***The Group as lessor***

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

***The Group as lessee***

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

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

***Leasehold land and buildings***

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

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

### Borrowing costs

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

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

### Retirement benefits costs

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

### Loan transaction costs

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

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

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

***Financial assets***

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

*Effective interest method*

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

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

*Loans and receivables*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets** (continued)*

*Impairment loss on loans and receivables*

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments***

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

*Equity instruments*

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

*Financial liabilities*

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial guarantee contracts*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Derecognition***

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

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

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

### Equity-settled share-based payment transactions

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

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

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

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital (to share premium prior to CO (Cap 622) became effective on 3 March 2014). When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

### Critical judgments in applying accounting policies

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

#### *Deferred taxation on investment properties*

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

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

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

### Key sources of estimation uncertainty

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

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

The directors of the Company estimate the allowance for bad and doubtful debts by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowance are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The directors of the Company reassess the allowance for bad and doubtful debts at the end of the reporting period. As at 31 December 2015, the carrying amount of trade receivables is HK$463,061,000, net of allowance of approximately HK$51,028,000 (2014: HK$566,976,000, net of allowance of HK$49,949,000).

***Estimated impairment of goodwill***

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. The value in use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or there are unfavourable changes in facts and circumstances which result in revisions of the estimated future cash flows, a material impairment loss may arise.

As at 31 December 2015, the carrying amount of goodwill is nil (2014: HK$41,672,000), an impairment loss of HK$41,672,000 (2014: Nil) was recognised in respect of goodwill in the consolidated statement of profit or loss during the year. Details of the recoverable amount calculation are disclosed in Note 18.

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

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

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

### Key sources of estimation uncertainty (continued)

***Estimated impairment of property, plant and equipment** (continued)*

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

During the year ended 31 December 2015, an impairment loss of HK$93,000,000 (2014: HK$147,000,000) was recognised in the consolidated statement of profit or loss of which (i) HK$91,770,000 (2014: HK$145,041,000) was allocated to plant and machinery; (ii) HK$382,000 (2014: HK$697,000) was allocated to furniture, fixtures and equipment; (iii) HK$152,000 (2014: HK$288,000) was allocated to motor vehicles; and (iv) HK$696,000 (2014: HK$974,000) was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. Details of the recoverable amount calculation are disclosed in Note 16.

***Depreciation***

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

At 31 December 2015, the Group's carrying value of property, plant and equipment is HK$1,357,961,000 (2014: HK$1,659,243,000). Depreciation is recognised by the Group so as to write off the cost or revalued amount of items of property, plant and equipment less their residual values over the estimated useful lives of five to fifty years, using the straight-line method commencing from the date the property, plant and equipment are placed into use. The estimated useful lives and the dates that the Group places the property, plant and equipment into use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of that property, plant and equipment.

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

### Key sources of estimation uncertainty (continued)

***Allowance for inventories***

As at 31 December 2015, the carrying amount of the Group's inventories is HK$239,709,000, net of allowance of HK$18,499,000 (2014: HK$337,432,000, net of allowance of HK$14,698,000). At the end of the reporting period, the directors of the Company review an aging analysis of inventories and carries out an inventory review on a product-by-product basis. The directors of the Company provide allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of the Company also estimate the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

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

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

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

## 5. REVENUE

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

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

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Sales of goods | | |
| Manufacturing of steel cords | **1,164,609** | 1,417,930 |
| Processing and trading of copper and brass products | **314,163** | 367,835 |
| | **1,478,772** | 1,785,765 |
| Rental income | **1,735** | 1,679 |
| | **1,480,507** | 1,787,444 |

## 6. SEGMENT INFORMATION

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

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

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

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

### (a) Segment revenues and results

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

**For the year ended 31 December 2015**

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| Segment revenue | | | |
| External sales | 1,164,609 | 314,163 | 1,478,772 |
| Inter-segment sales (Note) | – | 18,853 | 18,853 |
| Total | 1,164,609 | 333,016 | 1,497,625 |
| Segment results | (213,802) | 334 | (213,468) |

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

## 6. SEGMENT INFORMATION (continued)

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

**For the year ended 31 December 2015** (continued)

***Reconciliation of revenue***

| | HK$'000 |
|---|---|
| Total revenue for operating segments | 1,497,625 |
| Rental income | 1,735 |
| Elimination of inter-segment sales | (18,853) |
| Group revenue | 1,480,507 |

***Reconciliation of loss before tax***

| | HK$'000 |
|---|---|
| Total loss for operating segments | (213,468) |
| Profit arising from property investment | 4,494 |
| Unallocated amounts | |
| Unallocated income | 600 |
| Unallocated foreign exchange losses, net | (45,009) |
| Unallocated expenses | (71,812) |
| Unallocated finance costs | (52,767) |
| Loss before tax | (377,962) |

## 6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2014

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

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

*Reconciliation of revenue*

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

## 6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2014 (continued)

***Reconciliation of loss before tax***

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

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

## 6. SEGMENT INFORMATION (continued)

### (b) Segment assets and liabilities

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

*Segment assets*

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Steel cord | **2,633,826** | 3,326,482 |
| Copper and brass products | **103,267** | 114,798 |
| Total segment assets | **2,737,093** | 3,441,280 |
| Bank balances and cash | **209,889** | 68,789 |
| Unallocated assets | **59,165** | 100,051 |
| Consolidated assets | **3,006,147** | 3,610,120 |

*Segment liabilities*

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Steel cord | **425,440** | 392,059 |
| Copper and brass products | **11,224** | 10,632 |
| Total segment liabilities | **436,664** | 402,691 |
| Bank borrowings | **1,065,867** | 1,293,837 |
| Unallocated liabilities | **107,746** | 51,710 |
| Consolidated liabilities | **1,610,277** | 1,748,238 |

## 6. SEGMENT INFORMATION (continued)

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

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

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

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

### (c) Other segment information

**For the year ended 31 December 2015**

| | Steel cord HK$'000 | Copper and brass products HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| **Amounts included in the measure of segment assets or segment profit or loss:** | | | |
| Property, plant and equipment | 1,336,866 | 14,622 | 1,351,488 |
| Capital expenditure | 1,316 | 275 | 1,591 |
| Depreciation | 127,409 | 833 | 128,242 |
| Impairment loss on property, plant and equipment recognised in profit or loss | 93,000 | – | 93,000 |
| Allowance for bad and doubtful debts recognised, net | 4,511 | – | 4,511 |
| Allowance for inventories recognised, net | 12,874 | 637 | 13,511 |
| Loss on disposal of property, plant and equipment | 133 | – | 133 |
| **Amount regularly provided to CODM but not included in the measure of segment profit or loss or segment assets:** | | | |
| Income tax (credit) expense | (1,171) | 35 | (1,136) |

## 6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2014

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

### (d) Geographical information

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

## 6. SEGMENT INFORMATION (continued)

### (e) Information about major customer

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

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Customer A[1] | 168,826 | 180,194 |

1 Revenue from steel cord segment.

## 7. INVESTMENT AND OTHER INCOME

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Investment income** | | |
| Interest income on bank deposits | 596 | 1,807 |
| **Other income** | | |
| Government grants (Note) | 729 | 1,418 |
| Sales of scrap materials | 221 | 324 |
| | 950 | 1,742 |
| | 1,546 | 3,549 |

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

## 8. OTHER GAINS AND LOSSES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Foreign exchange losses, net | **(39,194)** | (1,758) |
| Changes in fair value of investment properties (Note 15) | **3,253** | 1,699 |
| Impairment loss recognised in respect of property, plant and equipment (Note 16) | **(93,000)** | (147,000) |
| Impairment loss recognised in respect of goodwill (Note 18) | **(41,672)** | – |
| Allowance for bad and doubtful debts recognised, net | **(4,511)** | (16,830) |
| Bad debts written off | **(4,007)** | – |
| (Loss) gain on disposal of property, plant and equipment, net | **(139)** | 17 |
| Others | **587** | 311 |
| | **(178,683)** | (163,561) |

## 9. FINANCE COSTS

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Interest expenses on bank borrowings | **46,316** | 61,131 |
| Interest expenses on loan from a related company | **2,757** | – |
| Amortisation of loan transaction costs | **3,694** | 4,483 |
| Total borrowing costs | **52,767** | 65,614 |
| Less: amounts capitalised | **–** | (235) |
| | **52,767** | 65,379 |

During the year ended 31 December 2014, borrowing costs capitalised arose on general borrowing pool and were calculated by applying a capitalisation rate of 3.93% (2015: Nil) per annum to expenditure on qualifying assets. In October 2014, the loan specified for the construction of the qualifying assets was fully repaid and no borrowing cost was capitalised thereafter.

## 10. INCOME TAX (CREDIT) EXPENSE

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| PRC EIT | **767** | 387 |
| Overprovision in prior years: | | |
| PRC EIT | **(772)** | (1,139) |
| Deferred tax (Note 29) | **(972)** | 1,887 |
| | **(977)** | 1,135 |

No provision for Hong Kong Profits Tax for the years ended 31 December 2015 and 2014 as there is no assessable profit subject to Hong Kong Profits Tax for both years.

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

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

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

## 10. INCOME TAX (CREDIT) EXPENSE (continued)

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

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Loss before tax | **(377,962)** | (274,639) |
| Tax at PRC EIT rate of 25% (Note i) | **(94,491)** | (68,660) |
| Tax effect of expenses not deductible in determining taxable profit | **40,174** | 10,750 |
| Tax effect of income not taxable in determining taxable profit | **(21,579)** | (2,264) |
| Tax effect of tax losses not recognised | **50,167** | 26,303 |
| Tax effect on deductible temporary differences not recognised | **28,751** | 35,695 |
| Tax effect on withholding tax on distributable profit of subsidiaries in PRC | **(1,716)** | 98 |
| Effect of tax concessions granted to subsidiaries | **–** | (3,099) |
| Effect of different tax rates in other jurisdiction | **(748)** | (19) |
| Effect of different tax rates for interest income (Note ii) | **(995)** | (993) |
| Overprovision in respect of prior years | **(772)** | (1,139) |
| Effect on deferred tax resulting from an entitlement of preferential tax rate of a subsidiary | **–** | 4,533 |
| Effect of different tax rates for LAT in respect of change in fair value of investment properties located in PRC | **202** | – |
| Others | **30** | (70) |
| Income tax (credit) expense for the year | **(977)** | 1,135 |

Notes:

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

ii. The withholding tax rates on interest income earned from entities in the PRC were 7% and 10%.

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

## 11. LOSS FOR THE YEAR

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Staff costs, including directors' emoluments (Note 12): | | |
| – Salaries, wages, allowances and other benefits | **144,628** | 171,478 |
| – Retirement benefit scheme contributions | **21,444** | 21,642 |
| Total staff costs | **166,072** | 193,120 |
| Cost of inventories recognised as an expense (including allowance for inventories recognised of approximately HK$13,511,000 (2014: HK$5,275,000)) | **1,441,577** | 1,633,446 |
| Depreciation of property, plant and equipment | **128,930** | 148,356 |
| Auditor's remuneration | | |
| – Audit services | **1,360** | 1,321 |
| – Non-audit services | **591** | 413 |
| Amortisation of prepaid lease payments (included in "Cost of sales") | **8,546** | 8,663 |
| Gross rental income from investment properties | **(1,735)** | (1,679) |
| Less: direct operating expenses for investment properties that generate rental income during the year | **114** | 117 |
| Net rental income | **(1,621)** | (1,562) |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Directors' emoluments for the year, disclose pursuant to the applicable Listing Rules and CO, is as follows:

**For the year ended 31 December 2015**

***Executive directors***

| | Li Shaofeng HK$'000 | Yang Kaiyu HK$'000 | Su Fanrong HK$'000 (appointed on 1 December 2015) | Tang Cornor Kwok Kau HK$'000 | Zhang Zhong HK$'000 (resigned on 25 February 2015) | Total HK$'000 |
|---|---|---|---|---|---|---|
| Fees | – | – | – | – | 23 | 23 |
| Other emoluments: | | | | | | |
| Salaries, allowances and other benefits | – | 2,648 | 181 | 1,989 | – | 4,818 |
| Retirement benefit scheme contributions | – | 132 | 2 | 99 | – | 233 |
| Sub-total | – | 2,780 | 183 | 2,088 | 23 | 5,074 |

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

***Non-executive directors***

| | Leung Shun Sang, Tony HK$'000 | Zhang Wenhui HK$'000 (resigned on 1 December 2015) | Liao Jun HK$'000 (appointed on 25 February 2015) | Total HK$'000 |
|---|---|---|---|---|
| Fees | 190 | – | 127 | 317 |
| Other emoluments: | | | | |
| Salaries, allowances and other benefits | – | – | – | – |
| Retirement benefit scheme contributions | – | – | – | – |
| Sub-total | 190 | – | 127 | 317 |

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

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

### (a) Directors' emoluments (continued)

**For the year ended 31 December 2015** (continued)

***Independent non-executive directors***

| | Yip Kin Man, Raymond HK$'000 | Law Yui Lun HK$'000 | Chan Chung Chun HK$'000 (passed away on 8 May 2015) | Lam Yiu Kin HK$'000 (appointed on 1 August 2015) | Total HK$'000 |
|---|---|---|---|---|---|
| Fees | 240 | 240 | 85 | 100 | 665 |
| Other emoluments: | | | | | |
| Salaries, allowances and other benefits | – | – | – | – | – |
| Retirement benefit scheme contributions | – | – | – | – | – |
| Sub-total | 240 | 240 | 85 | 100 | 665 |

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

| | HK$'000 |
|---|---|
| Total | 6,056 |

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

### (a) Directors' emoluments (continued)

For the year ended 31 December 2014

*Executive directors*

| | Li Shaofeng HK$'000 | Yang Kaiyu HK$'000 | Tang Cornor Kwok Kau HK$'000 | Zhang Zhong HK$'000 (resigned on 25 February 2015) | Total HK$'000 |
|---|---|---|---|---|---|
| Fees | – | – | – | 150 | 150 |
| Other emoluments: | | | | | |
| Salaries, allowances and other benefits | – | 2,642 | 1,981 | – | 4,623 |
| Retirement benefit scheme contributions | – | 132 | 99 | – | 231 |
| Sub-total | – | 2,774 | 2,080 | 150 | 5,004 |

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

*Non-executive directors*

| | Leung Shun Sang, Tony HK$'000 | Zhang Wenhui HK$'000 (resigned on 1 December 2015) | Total HK$'000 |
|---|---|---|---|
| Fees | 190 | 127 | 317 |
| Other emoluments: | | | |
| Salaries, allowances and other benefits | – | – | – |
| Retirement benefit scheme contributions | – | – | – |
| Sub-total | 190 | 127 | 317 |

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

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

### (a) Directors' emoluments (continued)

For the year ended 31 December 2014 (continued)

***Independent non-executive directors***

| | Yip Kin Man, Raymond HK$'000 | Law Yui Lun HK$'000 | Chan Chung Chun HK$'000 (passed away on 8 May 2015) | Total HK$'000 |
|---|---|---|---|---|
| Fees | 240 | 240 | 240 | 720 |
| Other emoluments: | | | | |
| Salaries, allowances and other benefits | – | – | – | – |
| Retirement benefit scheme contributions | – | – | – | – |
| Sub-total | 240 | 240 | 240 | 720 |

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

| | HK$'000 |
|---|---|
| Total | 6,041 |

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

Mr. Li Shaofeng and Mr. Zhang Wenhui waived 12 months emoluments of HK$3,150,000 (2014: HK$3,150,000) and 11 months director's fee of HK$174,000 (2014: 4 months director's fee of HK$63,000) respectively during the year ended 31 December 2015.

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

### (b) Employees' emoluments

The five highest paid employees of the Group during the year included two (2014: two) directors of the Company, details of whose emoluments are set out in disclosure above.

For the year ended 31 December 2014, details of the emoluments of the remaining three highest paid individuals who are neither a director nor chief executive of the Company are as below. For the year ended 31 December 2015, the emoluments of two highest paid individuals who are neither a director nor chief executive of the Company and one highest paid individual in the capacity of employee who was appointed as a new director of the Company on 1 December 2015 were as follows:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and other benefits | **4,543** | 2,979 |
| Retirement benefit scheme contributions | **54** | 139 |
| Performances related bonuses | **–** | 587 |
| | **4,597** | 3,705 |

For the year ended 31 December 2015, the emoluments of the remaining two highest paid individuals who are neither a director nor chief executive of the Company and one highest paid individual who was appointed as a new director of the Company on 1 December 2015 (2014: the remaining three highest paid individuals who are neither a director nor chief executive of the Company) were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2015** | 2014 |
| HK$1,000,001 to HK$1,500,000 | **1** | 3 |
| HK$1,500,001 to HK$2,000,000 | **2** | – |
| | **3** | 3 |

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

### (c) Executive directors' emoluments

Three (2014: Two) executive directors of the Company, one of whom was newly appointed as executive director of the Company on 1 December 2015, constitute senior management of the Company, their emoluments were fell within the following bands:

| | 2015 | 2014 |
|---|---|---|
| HK$0 to HK$1,000,000 | 1 | – |
| HK$2,000,001 to HK$2,500,000 | 1 | 1 |
| HK$2,500,001 to HK$3,000,000 | 1 | 1 |
| | 3 | 2 |

## 13. DIVIDENDS

No interim or final dividend was paid or proposed for the years ended 31 December 2015 and 2014, nor has any dividend been proposed since the end of the reporting period.

## 14. LOSS PER SHARE

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

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the purposes of calculation of basic and diluted loss per share | (376,985) | (275,774) |

| | 2015 | 2014 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purposes of calculation of basic and diluted loss per share | 1,922,900,556 | 1,922,900,556 |

For the years ended 31 December 2015 and 2014, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

## 15. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **AT FAIR VALUE** | |
| At 1 January 2014 | **46,907** |
| Exchange realignment | **(59)** |
| Changes in fair value recognised in profit or loss | **1,699** |
| At 31 December 2014 | **48,547** |
| Exchange realignment | **(1,073)** |
| Changes in fair value recognised in profit or loss | **3,253** |
| At 31 December 2015 | **50,727** |

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

The fair values of the Group's investment properties as at 31 December 2015 and 2014 have been arrived at on the basis of valuations carried out on that date by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the recent transactions for similar premises in the proximity and there has been no change from the valuation technique used in the prior year.

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

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

One of the key inputs used in valuing the Group's industrial property units and residential property units was the price per square foot/meter, which was approximately HK$4,600 (2014: HK$4,200) per square foot and ranged from HK$24,000 to HK$33,300 (2014: HK$23,000 to HK$33,800) per square meter, respectively. An increase in the price per square foot/square meter used would result in an increase in fair value measurement of the industrial property units and residential property units, and vice versa.

## 15. INVESTMENT PROPERTIES (continued)

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

**As at 31 December 2015**

| | **Level 3 HK$'000** | **Fair value HK$'000** |
|---|---|---|
| Industrial property units located in Hong Kong | **33,300** | **33,300** |
| Residential property units located in the PRC | **17,427** | **17,427** |
| | **50,727** | **50,727** |

As at 31 December 2014

| | Level 3 HK$'000 | Fair value HK$'000 |
|---|---|---|
| Industrial property units located in Hong Kong | 30,800 | 30,800 |
| Residential property units located in the PRC | 17,747 | 17,747 |
| | 48,547 | 48,547 |

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

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

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Long-term lease in Hong Kong | **33,300** | 30,800 |
| Medium-term lease in other regions in the PRC | **11,698** | 11,536 |
| Long-term lease in other regions in the PRC | **5,729** | 6,211 |
| | **50,727** | 48,547 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 (Note) | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| COST OR VALUATION | | | | | | | |
| At 1 January 2014 | 391,103 | 4,957 | 2,429,921 | 32,046 | 25,649 | 50,147 | 2,933,823 |
| Exchange realignment | (1,276) | (12) | (8,037) | (99) | (69) | (211) | (9,704) |
| Additions | 960 | 50 | 316 | 447 | 275 | 11,123 | 13,171 |
| Reclassification | 24,628 | – | 20,490 | 1,248 | – | (46,366) | – |
| Disposals | – | – | (230) | (155) | (1,693) | – | (2,078) |
| Adjustment on revaluation | (7,182) | – | – | – | – | – | (7,182) |
| At 31 December 2014 | 408,233 | 4,995 | 2,442,460 | 33,487 | 24,162 | 14,693 | 2,928,030 |
| Exchange realignment | (22,733) | (203) | (141,564) | (1,825) | (1,128) | (986) | (168,439) |
| Additions | – | – | 493 | 549 | 233 | 729 | 2,004 |
| Reclassification | – | – | 241 | 66 | – | (307) | – |
| Disposals | – | – | (1,560) | (33) | (553) | – | (2,146) |
| Adjustment on revaluation | (6,969) | – | – | – | – | – | (6,969) |
| At 31 December 2015 | 378,531 | 4,792 | 2,300,070 | 32,244 | 22,714 | 14,129 | 2,752,480 |
| Comprising: | | | | | | | |
| At 31 December 2015 | | | | | | | |
| At cost | – | 4,792 | 2,300,070 | 32,244 | 22,714 | 14,129 | 2,373,949 |
| At valuation | 378,531 | – | – | – | – | – | 378,531 |
| | 378,531 | 4,792 | 2,300,070 | 32,244 | 22,714 | 14,129 | 2,752,480 |
| At 31 December 2014 | | | | | | | |
| At cost | – | 4,995 | 2,442,460 | 33,487 | 24,162 | 14,693 | 2,519,797 |
| At valuation | 408,233 | – | – | – | – | – | 408,233 |
| | 408,233 | 4,995 | 2,442,460 | 33,487 | 24,162 | 14,693 | 2,928,030 |

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

| | Leasehold land and buildings HK$'000 (Note) | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2014 | – | 3,363 | 958,701 | 20,578 | 20,285 | 2,112 | 1,005,039 |
| Exchange realignment | (170) | (8) | (3,407) | (74) | (56) | – | (3,715) |
| Provided for the year | 26,114 | 637 | 115,123 | 4,150 | 2,332 | – | 148,356 |
| Reclassification | – | – | 1,462 | 288 | 6 | (1,756) | – |
| Impairment loss recognised in profit or loss | – | – | 145,041 | 697 | 288 | 974 | 147,000 |
| Eliminated on disposals | – | – | (217) | (151) | (1,581) | – | (1,949) |
| Write back on revaluation | (25,944) | – | – | – | – | – | (25,944) |
| At 31 December 2014 | – | 3,992 | 1,216,703 | 25,488 | 21,274 | 1,330 | 1,268,787 |
| Exchange realignment | (301) | (166) | (63,601) | (1,412) | (976) | – | (66,456) |
| Provided for the year | 28,811 | 395 | 97,059 | 2,260 | 405 | – | 128,930 |
| Impairment loss recognised in profit or loss | – | – | 91,770 | 382 | 152 | 696 | 93,000 |
| Eliminated on disposals | – | – | (728) | (25) | (479) | – | (1,232) |
| Write back on revaluation | (28,510) | – | – | – | – | – | (28,510) |
| At 31 December 2015 | – | 4,221 | 1,341,203 | 26,693 | 20,376 | 2,026 | 1,394,519 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2015 | 378,531 | 571 | 958,867 | 5,551 | 2,338 | 12,103 | 1,357,961 |
| At 31 December 2014 | 408,233 | 1,003 | 1,225,757 | 7,999 | 2,888 | 13,363 | 1,659,243 |

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

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

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

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

Impairment loss recognised during the year ended 31 December 2015:

As a result of the unfavourable performance of Tengzhou Eastern Steel Cord Co., Ltd. ("TESC"), an indirect wholly owned subsidiary of the Company, and due to unexpected significant decline in average selling price of steel cords during the year ended 31 December 2015, the management conducted impairment assessments of the property, plant and equipment of TESC individually. If it is not possible to estimate the recoverable amount of the property, plant and equipment individually, the management determines the recoverable amount of the CGU to which the property, plant and equipment belongs. The management considers that the recoverable amount of the individual property, plant and equipment cannot be determined if (i) the value in use of the asset cannot be estimated to be close to its fair value less costs to sell, and (ii) the asset does not generate cash inflows that are largely independent of those from other assets. TESC is considered as a CGU for the purpose of the impairment test. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

The recoverable amount of TESC as at 31 December 2015 was determined based on value in use calculation and certain key assumptions. Value in use calculation used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value in use calculations is at 10.86%. Cash flow beyond the five-year period was extrapolated using a zero growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2015, an impairment loss of HK$93,000,000 was recognised in the profit or loss of which (i) HK$91,770,000 was allocated to plant and machinery; (ii) HK$382,000 was allocated to furniture, fixtures and equipment; (iii) HK$152,000 was allocated to motor vehicles; and (iv) HK$696,000 was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. The impairment loss has been included in other gains and losses in profit or loss.

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

Impairment loss recognised during the year ended 31 December 2014:

The recoverable amount of TESC as at 31 December 2014 is determined based on value in use calculation and certain key assumptions. Value in use calculation used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value in use calculations is at 10.81%. Cash flow beyond the five-year period was extrapolated using a zero growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation is based on the management's expectations for the market development.

During the year ended 31 December 2014, an impairment loss of HK$147,000,000 was recognised in the profit or loss of which (i) HK$145,041,000 was allocated to plant and machinery; (ii) HK$697,000 was allocated to furniture, fixtures and equipment; (iii) HK$288,000 was allocated to motor vehicles; and (iv) HK$974,000 was allocated to construction in progress on a pro rata basis with reference to their respective carrying amounts before impairment. The impairment loss has been included in other gains and losses in profit or loss.

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The carrying value of leasehold land and buildings comprises: | | |
| Leasehold land and buildings in Hong Kong | **17,100** | 15,900 |
| Buildings in other regions in the PRC | **361,431** | 392,333 |
| | **378,531** | 408,233 |

As at 31 December 2015 and 2014, leasehold land and buildings of the Group were valued by Grant Sherman, an independent qualified professional valuer not connected with the Group.

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

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

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

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

| Leasehold land and buildings | Carrying values as at 31 December 2015 HK$'000 | 2014 HK$'000 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Sensitivity |
|---|---|---|---|---|---|---|
| Industrial properties in Hong Kong | **17,100** | 15,900 | Level 3 | Market Comparable Approach<br><br>The key input is price per square foot. | Price per square foot, based on recent market transactions for comparable properties which ranged from HK$4,600 to HK$5,100 (2014: HK$4,300 to HK$4,700) per square foot. | An increase in the price per square foot used would result in an increase in fair value measurement of the property, and vice versa. |
| Commercial property in the PRC | **955** | 1,013 | Level 3 | Market Comparable Approach<br><br>The key input is price per square meter. | Price per square meter, based on recent market transactions for comparable properties which was approximately HK$21,500 (2014: HK$22,800) per square meter. | An increase in the price per square meter used would result in an increase in fair value measurement of the property, and vice versa. |
| Industrial properties in the PRC | **360,476** | 391,320 | Level 3 | Depreciated Replacement Cost Approach<br><br>The key inputs are:<br>(1) Unit replacement cost; and<br>(2) Adopted depreciation rate. | Unit replacement cost, based on current cost of replacement (reproduction) of a property which ranged from HK$905 to HK$2,029 (2014: HK$970 to HK$2,180) per square meter.<br><br>Adopted depreciation rate, based on valuer's professional judgement. | If the unit replacement cost to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would increase/decrease by approximately HK$17.9 million (2014: HK$19.5 million), respectively.<br><br>If the adopted depreciation rate to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the property would decrease/increase by approximately HK$3.0 million (2014: HK$3.4 million), respectively. |

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

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

**As at 31 December 2015**

| | Level 3 HK$'000 | Fair value HK$'000 |
|---|---|---|
| Industrial property units located in Hong Kong | **17,100** | **17,100** |
| Commercial property unit located in the PRC | **955** | **955** |
| Industrial property units located in the PRC | **360,476** | **360,476** |
| | **378,531** | **378,531** |

As at 31 December 2014

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

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

If leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK$313,544,000 (2014: HK$351,173,000).

Applications for property ownership certificates of the buildings located in the PRC with aggregate carrying values of approximately HK$2,272,000 (2014: HK$2,463,000) are still in progress as at 31 December 2015. In spite of the above, the directors of the Company are of the opinion that the Group has acquired the beneficial title of these properties and corresponding legal titles will be obtained in due time.

## 17. PREPAID LEASE PAYMENTS

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Medium-term leasehold land located in the PRC analysed for reporting purposes as: | | |
| Current asset | **8,191** | 8,698 |
| Non-current asset | **159,417** | 178,000 |
| | **167,608** | 186,698 |

At 31 December 2015, included in prepaid lease payments was land use rights with carrying amount of HK$79,308,000 (2014: HK$87,914,000) which the Group was in the process of obtaining the land use right certificates.

## 18. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 41,672 |
| IMPAIRMENT | |
| At 1 January 2014 and 31 December 2014 | – |
| Impairment loss recognised in profit or loss | 41,672 |
| At 31 December 2015 | 41,672 |
| CARRYING VALUE | |
| At 31 December 2015 | – |
| At 31 December 2014 | 41,672 |

For the purposes of impairment testing, goodwill has been allocated to one CGU, comprising a subsidiary in the steel cord segment, JESC. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

## 18. GOODWILL (continued)

The recoverable amount of the CGU was determined based on value in use calculation and certain key assumptions. Value in use calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10.38% (2014: 10.81%). The cash flow of the CGU beyond the five-year period was extrapolated using a zero growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted revenue, gross margin and other direct costs. Such estimation was based on the management's expectations for the market development.

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

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

## 19. CLUB MEMBERSHIPS

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Club memberships, at cost | **2,234** | 2,238 |
| Exchange realignment | **(23)** | (2) |
| Less: impairment losses | **(1,473)** | (1,475) |
| | **738** | 761 |

## 20. INVENTORIES

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **81,782** | 122,220 |
| Work in progress | **41,743** | 58,394 |
| Finished goods | **116,184** | 156,818 |
| | **239,709** | 337,432 |

## 21. TRADE RECEIVABLES/BILLS RECEIVABLE

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Trade receivables | **514,089** | 616,925 |
| Less: allowance for bad and doubtful debts | **(51,028)** | (49,949) |
| | **463,061** | 566,976 |
| Bills receivable | **411,547** | 558,370 |
| | **874,608** | 1,125,346 |

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

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| 0 – 90 days | **332,284** | 379,379 |
| 91 – 180 days | **115,770** | 158,199 |
| Over 180 days | **15,007** | 29,398 |
| | **463,061** | 566,976 |

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| 0 – 90 days | **35,534** | 11,346 |
| 91 – 180 days | **240,893** | 195,981 |
| Over 180 days | **135,120** | 351,043 |
| | **411,547** | 558,370 |

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

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

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

Included in the Group's trade receivables balances are debtors with an aggregate carrying amount of approximately HK$181,220,000 (2014: HK$194,422,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as they have been substantially settled subsequent to the end of the reporting period or there were no historical default of payments by the respective customers. The Group does not hold any collateral over these balances.

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

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **161,182** | 149,583 |
| 91 – 180 days | **14,990** | 35,077 |
| Over 180 days | **5,048** | 9,762 |
| | **181,220** | 194,422 |

Movement in the allowance for bad and doubtful debts:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **49,949** | 47,374 |
| Exchange realignment | **(1,653)** | (150) |
| Amount written off as uncollectible | **(1,779)** | (14,105) |
| Impairment losses recognised on receivables | **4,511** | 16,830 |
| Balance at end of the year | **51,028** | 49,949 |

## 22. TRANSFERS OF FINANCIAL ASSETS

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

**As at 31 December 2015**

| | **Bills receivable discounted to banks with full recourse HK$'000** | **Bills receivable endorsed to suppliers with full recourse HK$'000** |
|---|---|---|
| Carrying amount of bills receivable | **17,905** | **260,288** |
| Carrying amount of associated secured borrowings | **(17,905)** | **–** |
| Carrying amount of associated trade payables | **–** | **(227,147)** |
| Carrying amount of associated other payables | **–** | **(17,785)** |
| Carrying amount of associated deposits and other receivables | **–** | **(15,356)** |

As at 31 December 2014

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

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Other receivables are unsecured and interest free. Except for value added tax receivables of approximately HK$85,641,000 (2014: HK$109,710,000) as at 31 December 2015, the remaining balances are repayable on demand.

## 24. PLEDGE OF ASSETS

At the end of the reporting period, the following assets are pledged to secure certain bank borrowings as set out in Note 28:

(i) the leasehold land and buildings with an aggregate net book value of HK$12,600,000 (2014: HK$11,700,000); and

(ii) the equity interests in certain subsidiaries of the Company.

## 25. BANK BALANCES AND CASH

As at 31 December 2015, bank balances carry interest at market rates which ranging from 0.01% to 0.47% per annum (2014: 0.01% to 0.35% per annum). At the end of the reporting period, the bank balances and cash that are denominated in currencies other than the functional currency of respective group entities are set out below:

| | Denominated in | | |
|---|---|---|---|
| | **HKD** | **USD** | **Others** |
| | HK$'000 | HK$'000 Equivalent | HK$'000 Equivalent |
| As at 31 December 2015 | 29,354 | 67,894 | 9,504 |
| As at 31 December 2014 | 4,555 | 29,480 | 3,352 |

## 26. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| 0 – 30 days | **70,985** | 55,034 |
| 31 – 90 days | **128,768** | 89,798 |
| 91 – 180 days | **98,029** | 128,977 |
| 181 – 365 days | **27,043** | 10,276 |
| Over 1 year | **9,208** | 4,465 |
| | **334,033** | 288,550 |

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

Included in other payables and accruals are payables for purchase of property, plant and equipment of approximately HK$51,114,000 (2014: HK$70,269,000).

## 27. LOAN FROM A RELATED COMPANY

The amount represents the loan from and interest payable to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang HK. The Company is an associate of Shougang HK. The loan is unsecured, bears interest at 6% per annum and repayable within one year.

## 28. BANK BORROWINGS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Other bank loans | **1,030,249** | 1,254,053 |
| Less: loan transaction costs | **(4,936)** | (1,159) |
| | **1,025,313** | 1,252,894 |
| Trust receipt loans | **22,649** | 27,235 |
| Discounted bills with recourse | **17,905** | 13,708 |
| | **1,065,867** | 1,293,837 |
| Secured | **16,622** | 22,926 |
| Unsecured | **1,049,245** | 1,270,911 |
| | **1,065,867** | 1,293,837 |

The above amounts are repayable as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Within one year | **717,076** | 859,546 |
| In the second year | **199,000** | – |
| | **916,076** | 859,546 |
| Carrying amount of bank loans contain a repayment on demand clause: | | |
| – within one year | **149,791** | 284,500 |
| – in the second year | **–** | 149,791 |
| | **149,791** | 434,291 |
| | **1,065,867** | 1,293,837 |
| Less: Amount shown under current liabilities | **(866,867)** | (1,293,837) |
| Amount shown under non-current liabilities | **199,000** | – |

## 28. BANK BORROWINGS (continued)

As at 31 December 2015, the carrying amount of fixed-rate borrowings and variable-rate borrowings are HK$341,349,000 (2014: HK$169,125,000) and HK$724,518,000 (2014: HK$1,124,712,000), respectively.

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

The range of effective interest rates (which are also equal to contractual interest rates) on bank borrowings is as follows:

| | **2015** | 2014 |
|---|---|---|
| Effective interest rate per annum: | | |
| Fixed-rate borrowings | **2.45% to 5.62%** | 1.37% to 6.00% |
| Variable-rate borrowings | **1.89% to 3.90%** | 1.89% to 7.07% |

Bank borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | **Equivalent** | Equivalent |
| HKD | **714,527** | 861,185 |
| USD | **32,641** | 76,791 |

## 29. DEFERRED TAX

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

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **–** | (1,282) |
| Deferred tax liabilities | **30,838** | 30,015 |
| | **30,838** | 28,733 |

## 29. DEFERRED TAX (continued)

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

| | Accelerated tax depreciation HK$'000 | Allowance for bad and doubtful debts HK$'000 | Allowance for inventories HK$'000 | Revaluation of properties HK$'000 | Tax loss HK$'000 | Withholding tax on distributable profit of subsidiaries in the PRC HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 3,004 | (3,937) | (533) | 20,075 | (13,247) | 19,860 | 2,500 | 27,722 |
| Exchange realignment | (82) | 35 | 7 | (59) | 71 | – | – | (28) |
| (Credit) charge to profit or loss for the year | (2,168) | (2,474) | (199) | (18) | 2,472 | 98 | (357) | (2,646) |
| Effect of change in tax rate charge to profit or loss | 3,326 | 1,126 | 81 | – | – | – | – | 4,533 |
| Effect of change in tax rate credit to equity | – | – | – | (4,065) | – | – | – | (4,065) |
| Charge to equity for the year | – | – | – | 3,217 | – | – | – | 3,217 |
| At 31 December 2014 | 4,080 | (5,250) | (644) | 19,150 | (10,704) | 19,958 | 2,143 | 28,733 |
| Exchange realignment | (1,388) | 609 | 92 | (1,131) | 1,037 | – | (1) | (782) |
| (Credit) charge to profit or loss for the year | (1,019) | (5,182) | (1,489) | 361 | 8,430 | (1,716) | (357) | (972) |
| Charge to equity for the year | – | – | – | 3,859 | – | – | – | 3,859 |
| At 31 December 2015 | 1,673 | (9,823) | (2,041) | 22,239 | (1,237) | 18,242 | 1,785 | 30,838 |

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$656,700,000 (2014: HK$542,439,000) available for offset against future profits. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$364,329,000 (2014: HK$223,803,000). A deferred tax asset has been recognised in respect of approximately HK$50,516,000 (2014: HK$24,994,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK$313,813,000 (2014: HK$198,809,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

## 29. DEFERRED TAX (continued)

Under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004.

## 30. SHARE CAPITAL

| | Number of shares '000 | Amount HK$'000 |
|---|---|---|
| **Authorised** | | |
| At 1 January 2014 | | |
| – Ordinary shares of HK$0.10 each | 5,000,000 | 500,000 |
| At 31 December 2014 and 2015 (Note i) | N/A | N/A |
| **Issued and fully paid** | | |
| At 1 January 2014 | | |
| – Ordinary shares of HK$0.10 each | 1,922,901 | 192,290 |
| Transfer from share premium and capital redemption reserve upon abolition of par value (Note ii) | – | 999,508 |
| At 31 December 2014 and 2015 | | |
| – Ordinary shares with no par value | 1,922,901 | 1,191,798 |

Notes:

i. Under the CO (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 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.

ii. In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the CO (Cap 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital.

## 31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes loan from a related company and bank borrowings disclosed in Notes 27 and 28, respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

## 32. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **1,087,244** | 1,222,664 |
| **Financial liabilities** | | |
| Amortised cost | **1,533,457** | 1,674,388 |

### b. Financial risk management objectives and policies

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

## 32. FINANCIAL INSTRUMENTS (continued)

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

***Market risk***

*(i) Currency risk*

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

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

| | **2015 HK$'000 Equivalent** | 2014 HK$'000 Equivalent |
|---|---|---|
| **Monetary assets denominated in** | | |
| HKD | **40,079** | 21,660 |
| USD | **116,802** | 88,088 |
| Others | **27,413** | 3,520 |
| **Monetary liabilities denominated in** | | |
| HKD | **770,067** | 864,716 |
| USD | **33,385** | 95,626 |
| Others | **826** | 389 |

*Sensitivity analysis for non-derivative financial instruments*

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

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

## 32. FINANCIAL INSTRUMENTS (continued)

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

***Market risk** (continued)*

*(i) Currency risk (continued)*

*Sensitivity analysis for non-derivative financial instruments (continued)*

| | HKD | | USD | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Decrease (increase) in loss | **36,499** | 42,153 | **(4,171)** | 377 |

*(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate deposits (see Note 25) and fixed-rate borrowings (see Notes 27 and 28 for details of these borrowings). The Group currently does not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 28 for details of these borrowings). It is the Group's policy to reduce its exposure to cash flow interest rate risk for borrowings by hedging should the need arises.

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

*Sensitivity analysis*

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

## 32. FINANCIAL INSTRUMENTS (continued)

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

***Market risk** (continued)*

*(ii) Interest rate risk (continued)*

*Sensitivity analysis (continued)*

At the end of the reporting period if interest rates had been 50 basis points (2014: 50 basis points) higher/lower for variable-rate bank borrowings, and all other variables were held constant, pre-tax loss for the years ended 31 December 2015 and 2014 would increase/decrease by HK$3,623,000 and HK$5,624,000, respectively.

***Credit risk***

Maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

Concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 83.6% (2014: 86.8%) of the total trade receivables as at 31 December 2015.

***Liquidity risk***

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2015, the Group has available undrawn borrowing facilities of approximately HK$127,378,000 (2014: HK$220,258,000).

## 32. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk** (continued)*

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

*Liquidity and interest rate risk tables*

| | Weighted average effective interest rate % (Note) | On demand HK$'000 | Less than 3 months HK$'000 | 4 – 6 months HK$'000 | 7 – 12 months HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2015 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | – | 415,338 | – | – | – | 415,338 | 415,338 |
| Loan from a related company | 6.00 | – | 53,036 | – | – | – | 53,036 | 52,252 |
| Bank borrowings | | | | | | | | |
| – fixed rate | 4.70 | – | 200,487 | 91,574 | 56,235 | – | 348,296 | 341,349 |
| – variable rate | 3.31 | 149,791 | – | – | 388,167 | 212,177 | 750,135 | 724,518 |
| | | 149,791 | 668,861 | 91,574 | 444,402 | 212,177 | 1,566,805 | 1,533,457 |

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

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

## 32. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk** (continued)*

Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2015, the aggregate carrying amount of these bank loans amounted to HK$149,791,000 (2014: HK$434,291,000). Taking into account the Group's financial position, the directors of the Company do not believe that the banks will exercise their discretionary rights to demand immediate repayment. For the purpose of managing liquidity risk, the directors of the Company review the expected cash flow information of the Group's bank borrowings carried variable interest rates based on the scheduled repayment dates set out in the bank loan agreements as set out in the table below:

| | Weighted average effective interest rate | Less than 3 months | 3 months to less than 1 year | 1 year to less than 2 years | Total undiscounted cash flows | Carrying amount as at 31 December |
|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank borrowings that contain a repayment on demand clause – variable rate | | | | | | |
| 2015 | 1.89 | – | 152,626 | – | 152,626 | 149,791 |
| 2014 | 2.44 | 52,695 | 237,796 | 157,110 | 447,601 | 434,291 |

### c. Fair values

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

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

## 33. OPERATING LEASES

### The Group as lessee

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Minimum lease payments under operating leases in respect of land and buildings during the year | **7,017** | 7,047 |

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Within one year | **7,547** | 4,847 |
| In the second to fifth year inclusive | **2,456** | 2,988 |
| | **10,003** | 7,835 |

Operating lease payments represents rental payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms of one to three years (2014: one to three years).

### The Group as lessor

Property rental income earned during the year was HK$1,735,000 (2014: HK$1,679,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Within one year | **1,443** | 1,106 |
| In the second to fifth year inclusive | **658** | 472 |
| | **2,101** | 1,578 |

## 34. CAPITAL COMMITMENTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Commitments in respect of the acquisition of property, plant and equipment – contracted for but not provided in the consolidated financial statements | **276** | 1,123 |

## 35. RETIREMENT BENEFIT SCHEMES

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the respective local municipal government. These PRC subsidiaries are required to contribute 9% to 21% (2014: 9% to 21%) of its basic payroll costs to the scheme/fund. The contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme/fund.

## 36. SHARE-BASED PAYMENT TRANSACTIONS

### The Company's share option scheme

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

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

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

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

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

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

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

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

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

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

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

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

No share options were granted under the 2002 Scheme during the years ended 31 December 2015 and 2014, since the 2002 Scheme was terminated. During the year ended 31 December 2015, no share options granted under the 2002 Scheme had been exercised or cancelled while 2,000,000 share options lapsed. Also, no share options granted under the 2002 Scheme have been exercised or lapsed while 2,000,000 share options had been cancelled during the year ended 31 December 2014.

No share options were granted, exercised, cancelled or lapsed under the 2012 Scheme during the years ended 31 December 2015 and 2014.

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

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

The following table discloses details of the Company's share options granted under the 2002 Scheme held by eligible participants and movements in such holdings in relation thereto during the years ended 31 December 2015 and 2014:

| Grantees | Number of share options for 2015 At 1.1.2015 | Lapsed during the year | Reclassification of categories of grantee | At 31.12.2015 | Date of grant (Note c) | Exercise period | Exercise price per share HK$ |
|---|---|---|---|---|---|---|---|
| Directors of the Company | 1,268,000 | – | – | 1,268,000 | 26.1.2007 | 26.1.2007–25.1.2017 | 0.656 |
| | 5,400,000 | – | – | 5,400,000 | 13.7.2009 | 13.7.2009–12.7.2019 | 0.680 |
| | 5,400,000 | – | – | 5,400,000 (Note d) | 13.7.2009 | 1.1.2010–12.7.2019 | 0.680 |
| | 7,200,000 | – | – | 7,200,000 (Note d) | 13.7.2009 | 1.1.2011–12.7.2019 | 0.680 |
| | 41,200,000 | – | (1,800,000) (Note b) | 39,400,000 | 28.1.2008 | 28.1.2008–27.1.2018 | 0.864 |
| | 2,000,000 | (2,000,000) (Note a) | – | – | 14.12.2010 | 14.12.2010–13.12.2020 | 0.940 |
| | 62,468,000 | (2,000,000) | (1,800,000) | 58,668,000 | | | |
| Employees other than directors of the Company | 32,200,000 | – | – | 32,200,000 | 28.1.2008 | 28.1.2008–27.1.2018 | 0.864 |
| | 100,000 | – | – | 100,000 (Note e) | 28.1.2008 | 28.1.2011–27.1.2018 | 0.864 |
| | 1,350,000 | – | – | 1,350,000 | 13.7.2009 | 13.7.2009–12.7.2019 | 0.680 |
| | 1,350,000 | – | – | 1,350,000 (Note d) | 13.7.2009 | 1.1.2010–12.7.2019 | 0.680 |
| | 1,800,000 | – | – | 1,800,000 (Note d) | 13.7.2009 | 1.1.2011–12.7.2019 | 0.680 |
| | 36,800,000 | – | – | 36,800,000 | | | |
| All other eligible participants | 17,000,000 | – | 1,800,000 (Note b) | 18,800,000 | 28.1.2008 | 28.1.2008–27.1.2018 | 0.864 |
| | 116,268,000 | (2,000,000) | – | 114,268,000 | | | |
| Exercisable at year end | | | | 114,268,000 | | | |
| Weighted average exercise price | 0.827 | 0.94 | 0.864 | 0.825 | | | |

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

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

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

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

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

Notes:

a. 2,000,000 share options held by Mr. Zhang Zhong lapsed with effect from 25 February 2015 following his resignation as an executive director.

b. 1,800,000 share options held by the late Mr. Chan Chung Chun, the former independent non-executive director, has been reclassified under the category of "All other eligible participants" as such options passed to his legal representative in accordance with the terms of 2002 Scheme.

c. The vesting period of the share options is from the date of grant to the beginning of the exercise period except for the share options set out under Notes (d) and (e) below.

d. 5,400,000 share options have a vesting period from the date of grant to 31 December 2009 and 7,200,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Directors of the Company". 1,350,000 share options have a vesting period from the date of grant to 31 December 2009 and 1,800,000 share options have a vesting period from the date of grant to 31 December 2010 under the category of "Employees other than the directors of the Company".

e. 100,000 share options have a vesting period of three years from the date of grant.

f. 2,000,000 share options at the exercise price of HK$0.864 were cancelled during the year ended 31 December 2014 due to resignation and retirement of employees.

## 37. RELATED PARTY TRANSACTIONS/BALANCES

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

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

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

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

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Consultancy fees paid to Shougang HK Group | **960** | 960 |
| Rental expenses paid to Shougang HK Group | **2,376** | 2,376 |
| Loan from Shougang HK Group | **101,169** | – |
| Loan repaid to Shougang HK Group | **51,169** | – |
| Interest expenses on loans from Shougang HK Group | **2,757** | – |

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

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

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

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

*Compensation of key management personnel*

The key management of the Group comprises all executive directors of the Company, details of their emoluments and share-based payment transactions are disclosed in Notes 12 and 36, respectively. The emoluments of the directors of the Company are decided by the remuneration committee of the Company having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

## 38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

### Statement of financial position of the Company

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | **563,787** | 525,522 |
| Advances to subsidiaries | **1,165,919** | 1,213,217 |
| Club memberships | **378** | 401 |
| | **1,730,084** | 1,739,140 |
| **Current assets** | | |
| Prepayments and other receivables | **296** | 361 |
| Amounts due from subsidiaries | **564,163** | 857,013 |
| Bank balances and cash | **23,752** | 574 |
| | **588,211** | 857,948 |
| **Current liabilities** | | |
| Other payables and accruals | **8,157** | 1,888 |
| Loan from a related company | **52,252** | – |
| Bank borrowings – due within one year | **496,065** | 808,950 |
| | **556,474** | 810,838 |
| **Net current assets** | **31,737** | 47,110 |
| **Total assets less current liabilities** | **1,761,821** | 1,786,250 |
| **Non-current liability** | | |
| Bank borrowings – due after one year | **199,000** | – |
| | **1,562,821** | 1,786,250 |
| **Capital and reserves** | | |
| Share capital | **1,191,798** | 1,191,798 |
| Reserves | **371,023** | 594,452 |
| | **1,562,821** | 1,786,250 |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

| | |
|---|---|
| **Yang Kaiyu** | **Tang Cornor Kwok Kau** |
| *DIRECTOR* | *DIRECTOR* |

## 38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

### Movement in the Company's reserves

| | Share premium HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Translation reserve HK$'000 | Share option reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 996,784 | 23,990 | 2,724 | 207,810 | 32,080 | 298,921 | 1,562,309 |
| Profit for the year | – | – | – | – | – | 35,964 | 35,964 |
| Translation adjustment | – | – | – | (4,313) | – | – | (4,313) |
| Total comprehensive (expense) income for the year | – | – | – | (4,313) | – | 35,964 | 31,651 |
| Transfer upon abolition of par value under the CO (Cap 622) | (996,784) | – | (2,724) | – | – | – | (999,508) |
| Cancellation of share options | – | – | – | – | (535) | 535 | – |
| At 31 December 2014 | – | 23,990 | – | 203,497 | 31,545 | 335,420 | 594,452 |
| Loss for the year | – | – | – | – | – | (149,453) | (149,453) |
| Translation adjustment | – | – | – | (73,976) | – | – | (73,976) |
| Total comprehensive expense for the year | – | – | – | (73,976) | – | (149,453) | (223,429) |
| Lapse of share options | – | – | – | – | (780) | 780 | – |
| At 31 December 2015 | – | 23,990 | – | 129,521 | 30,765 | 186,747 | 371,023 |

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

## 39. PRINCIPAL SUBSIDIARIES

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

| Name of subsidiaries | Place of incorporation/ registration and operation | Issued and paid-up capital | Attributable equity interest of the Group 2015 | Attributable equity interest of the Group 2014 | Principal activities |
|---|---|---|---|---|---|
| Bigland Investment Limited | Hong Kong/PRC | 2 ordinary shares | **100%** | 100% | Property investment |
| Eastern Century Metal Products Limited | Hong Kong | 1,000,000 ordinary shares | **100%** | 100% | Trading of metals and investment holding |
| Everwinner Investments Limited | Hong Kong | 1,000,000 ordinary shares | **100%** | 100% | Investment holding |
| Fair Win Development Limited | Hong Kong/PRC | 500,000 ordinary shares | **100%** | 100% | Property investment |
| Heroland Investment Limited | Hong Kong | 2 ordinary shares | **100%** | 100% | Property investment |
| Hing Cheong Metals (China & Hong Kong) Limited | Hong Kong | 1,000,000 ordinary shares | **100%*** | 100%* | Processing and trading of copper and brass products |
| Jiaxing Eastern Steel Cord Co., Ltd.# 嘉興東方鋼簾線有限公司 | PRC | US$70,000,000 | **100%** | 100% | Manufacturing of steel cords |
| Online Investments Limited | British Virgin Islands/ Hong Kong | 31,000,000 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| Tengzhou Eastern Steel Cord Co., Ltd. # 滕州東方鋼簾線有限公司 | PRC | US$82,000,000 | **100%** | 100% | Manufacturing of steel cords |

## 39. PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiaries | Place of incorporation/ registration and operation | Issued and paid-up capital | Attributable equity interest of the Group 2015 | 2014 | Principal activities |
|---|---|---|---|---|---|
| Wei Hua International Trading (Shanghai) Co., Ltd. # 巍華國際貿易(上海)有限公司 | PRC | US$5,000,000 | **100%*** | 100%* | Trading of metal products |
| 東莞興銅五金有限公司# | PRC | US$5,700,000 (2014: US$5,200,000) | **100%** | 100% | Processing and trading of copper and brass products |
| 首長寶佳(上海)管理有限公司# | PRC | US$2,000,000 | **100%** | 100% | Provision of management services |

# A wholly foreign owned enterprise

* Directly held by the Company

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

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

# SUMMARY OF INVESTMENT PROPERTIES

Particulars of the investment properties held by the Group as at 31 December 2015 are as follows:

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

# DEFINITIONS

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

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

# DEFINITIONS

| | |
|---|---|
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| "Continuous Disclosure Obligation Policy" | Shougang Concord Century Holdings Limited Continuous Disclosure Obligation Policy adopted on 28 March 2011 and revised from time to time thereafter |
| "Copper and brass products" | processing and trading of copper and brass products |
| "Director(s)" | the director(s) of the Company |
| "Employment Ordinance" | the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) |
| "Fair Union" | Fair Union Holdings Limited, a wholly owned subsidiary of Shougang International |
| "Global Digital" | Global Digital Creations Holdings Limited (Stock Code: 8271), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange |
| "Group" | the Company and its subsidiaries |
| "HKD/HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hing Cheong" | Hing Cheong Metals (China & Hong Kong) Limited, a company incorporated in Hong Kong, an indirect wholly owned subsidiary of the Company |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Internal Control Manual" | an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter |
| "JESC" | Jiaxing Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company |
| "Li Ka Shing Foundation" | Li Ka Shing Foundation Limited, a "charitable body" within the meaning of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a substantial shareholder (as defined under the SFO) of the Company |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |

# DEFINITIONS

| | |
|---|---|
| "Loco Hong Kong" | Loco Hong Kong Holdings Limited, (Stock Code: 8162), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "PRC" | the People's Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan |
| "Richson" | Richson Limited, a subsidiary of Shougang International |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SCCHL Code" | Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Concord Century Holdings Limited adopted in 2004 and revised from time to time thereafter |
| "SCCHL Corporate Governance Code" | Shougang Concord Century Holdings Limited Code on Corporate Governance (revised from time to time) |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of the Company |
| "Shareholder(s)" | holder(s) of the Shares |
| "Shareholders' Communication Policy" | Shougang Concord Century Holdings Limited Shareholders' Communication Policy adopted in 2012 and revised from time to time thereafter |
| "Shareholders' Rights" | Principal rights of Shareholders under the Articles and the Companies Ordinance listed as required under the Code |
| "Shougang Fushan" | Shougang Fushan Resources Group Limited (Stock Code: 639), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |

# DEFINITIONS

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