

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



SHOUGANG CENTURY HOLDINGS LIMITED 首佳科技製造有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 103)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The Board presents the unaudited consolidated interim results of the Group for the six months ended 30 June 2023 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2023 (Unaudited) HK\$'000 | 2022 (Unaudited) HK\$'000 |
| Revenue | 6 | 1,235,047 | 1,253,473 |
| Cost of sales | 8 | (1,054,941) | (1,087,351) |
| Gross profit | | 180,106 | 166,122 |
| Other income | 6 | 4,602 | 18,486 |
| Other gains, net | 7 | 4,559 | 13,792 |
| Selling and distribution expenses | 8 | (64,959) | (59,306) |
| Administrative expenses | 8 | (27,572) | (29,178) |
| Research and development expenses | 8 | (52,192) | (55,770) |
| Foreign exchange gains, net | | 2,699 | 4,030 |
| Net impairment losses on financial assets | 14(c) | (1,267) | (758) |
| Finance costs, net | 9 | (12,143) | (23,475) |
| Profit before income tax | | 33,833 | 33,943 |
| Income tax expense | 10 | (2,693) | (3,674) |
| Profit for the period attributable to the owners of the Company | | 31,140 | 30,269 |
| Other comprehensive loss | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Exchange differences arising on translation into presentation currency | | (26,920) | (82,171) |
| Total comprehensive income/ (loss) for the period attributable to the owners of the Company | | 4,220 | (51,902) |

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| <i>Notes</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share for profit for the period attributable to the owners of the Company | | |
| - Basic | <i>11(a)</i> 1.58 | 1.55 |
| - Diluted | <i>11(b)</i> 1.12 | 1.00 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

| | Notes | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|--|-------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | 13(a) | 54,605 | 55,637 |
| Property, plant and equipment | 13(b) | 1,110,017 | 1,187,280 |
| Right-of-use assets | | 1,041 | 1,665 |
| Land use rights | | 124,282 | 130,142 |
| Intangible assets | | - | - |
| Prepayments and deposits | | 33,929 | 20,928 |
| Deferred income tax assets | | 5,717 | 1,505 |
| Total non-current assets | | 1,329,591 | 1,397,157 |
| Current assets | | | |
| Inventories | | 357,887 | 422,303 |
| Trade receivables | 14 | 637,896 | 565,447 |
| Bills receivables | 14 | 630,330 | 653,069 |
| Prepayments, deposits and other receivables | | 46,278 | 63,546 |
| Derivative financial instrument | | 1,078 | - |
| Pledged bank deposits | | 58,446 | 80,101 |
| Bank balances and cash | | 140,607 | 145,807 |
| Total current assets | | 1,872,522 | 1,930,273 |
| Total assets | | 3,202,113 | 3,327,430 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Other payables | | 134 | 102 |
| Lease liabilities | | - | 446 |
| Deferred income tax liabilities | | 26,739 | 28,007 |
| Total non-current liabilities | | 26,873 | 28,555 |
| Current liabilities | | | |
| Trade and bills payables | 15 | 768,629 | 800,885 |
| Other payables and accruals | 16 | 190,209 | 245,910 |
| Current income tax liabilities | | 5,508 | 6,419 |
| Bank borrowings | 17 | 547,831 | 454,552 |
| Lease liabilities | | 1,100 | 1,292 |
| Financial liability at fair value through profit or loss | 18 | - | 132,074 |
| Total current liabilities | | 1,513,277 | 1,641,132 |
| Total liabilities | | 1,540,150 | 1,669,687 |
| EQUITY | | | |
| Share capital | 19 | 1,215,798 | 1,215,798 |
| Reserves | | 446,165 | 441,945 |
| Total equity | | 1,661,963 | 1,657,743 |
| Total equity and liabilities | | 3,202,113 | 3,327,430 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Shougang Century Holdings Limited (the “Company”) is an investment holding company and together with its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing of steel cords.

The Company is a limited company incorporated in Hong Kong. The address of its registered office is Room 1215, 12/F., Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong.

The Company’s shares were listed on the Main Board of The Stock Exchange Hong Kong Limited (the “Stock Exchange”).

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollar (HK\$’000), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This condensed consolidated interim financial information does not include all the notes of the type normally included in the annual financial statements, accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2022 that is included in this condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Cap. 622).

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance (Cap. 622).

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the estimation of income tax (*Note 10*) and the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

A number of new and amended standards became effective for the current reporting period:

| | |
|---|--|
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform - Pillar Two Model Rules |
| HKFRS 17 | Insurance Contracts |
| HKFRS 17 | Amendments to HKFRS 17 |
| HKFRS 17 | Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information |

None of these has material impact on the Group's condensed consolidated interim financial information.

3.2 Impact of amended standards and interpretations issued but not yet applied by the Group

The following amended standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2023 and have not been early adopted by the Group:

| | | Effective for accounting periods beginning on or after |
|---|--|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback | 1 January 2024 |
| Hong Kong Interpretation 5 (Revised) | Presentation of Financial Statement - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | 1 January 2024 |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

The Group is still assessing what the impact of the amended standards and interpretations will be in the period of initial application. It is not yet in a position to state whether these amended standards and interpretations will have a significant impact on the Group's results of operations and financial position.

4. FAIR VALUE ESTIMATION

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2023 and 31 December 2022 by level of valuation techniques used to measure its fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

For the six months ended 30 June 2023

| | Steel cord (Unaudited) <i>HK\$'000</i> |
|---|--|
| <u>Sales of goods:</u> | |
| Segment revenue from external customers | <u>1,234,354</u> |
| Segment results | 54,194 |
| Unallocated amounts | |
| Rental income | 693 |
| Other income | 25 |
| Other gains, net and foreign exchange losses, net | 1,713 |
| Expenses | (10,649) |
| Finance costs, net | (12,143) |
| Profit before income tax | <u>33,833</u> |
| Income tax expense | (2,693) |
| Profit for the period | <u>31,140</u> |

For the six months ended 30 June 2022

| | Steel cord (Unaudited) <i>HK\$'000</i> |
|--|--|
| <u>Sales of goods:</u> | |
| Segment revenue from external customers | <u>1,252,713</u> |
| Segment results | 54,388 |
| Unallocated amounts | |
| Rental income | 760 |
| Other income | 129 |
| Other gains, net and foreign exchange gains, net | 12,091 |
| Expenses | (9,950) |
| Finance costs, net | (23,475) |
| Profit before income tax | <u>33,943</u> |
| Income tax expense | (3,674) |
| Profit for the period | <u>30,269</u> |

6. REVENUE AND OTHER INCOME

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | | |
| Sales of goods - Manufacturing of steel cords | 1,234,354 | 1,252,713 |
| Rental income | 693 | 760 |
| | <u>1,235,047</u> | <u>1,253,473</u> |
| Other income | | |
| Government grants (<i>Note</i>) | 3,334 | 17,186 |
| Sales of scrap materials | 1,131 | 1,105 |
| Others | 137 | 195 |
| | <u>4,602</u> | <u>18,486</u> |

Note: Government grants mainly represented financial supports for business development by the local governments in the PRC (2022: same). There are no unfulfilled conditions or other contingencies attaching to these grants.

7. OTHER GAINS, NET

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fair value gain on a financial liability at fair value through profit or loss | 3,554 | 14,096 |
| Fair value gain on derivative financial instrument | 1,078 | - |
| Gain on disposals of property, plant and equipment, net | 207 | 606 |
| Impairment losses on property, plant and equipment (<i>Note 13(b)</i>) | - | (396) |
| Others | (280) | (514) |
| | <u>4,559</u> | <u>13,792</u> |

8. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and research and development expenses are analysed as follows:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2023 (Unaudited) HK\$'000 | 2022 (Unaudited) HK\$'000 |
| Cost of inventories sold (including net provision for inventories) | 1,049,770 | 1,079,688 |
| Employee benefit expense (including directors' emoluments) | 146,363 | 146,409 |
| Depreciation of property, plant and equipment | 52,209 | 55,111 |
| Depreciation of right-of-use assets | 625 | 625 |
| Amortisation of land use rights | 1,887 | 2,014 |

9. FINANCE COSTS, NET

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2023 (Unaudited) HK\$'000 | 2022 (Unaudited) HK\$'000 |
| Finance income | | |
| Interest income on bank deposits | 985 | 1,380 |
| Foreign exchange gains on financial liability at fair value through profit or loss (<i>Note</i>) | 4,488 | - |
| | <u>5,473</u> | <u>1,380</u> |
| Finance costs | | |
| Interest expenses on bank borrowings | (11,333) | (11,230) |
| Interest expenses on loan from a related company | - | (668) |
| Interest expenses on lease liabilities | (39) | (71) |
| Amortisation of loan transaction costs | - | (368) |
| Foreign exchange losses on borrowings | (6,244) | (5,318) |
| Foreign exchange losses on financial liability at fair value through profit or loss (<i>Note</i>) | - | (7,200) |
| | <u>(17,616)</u> | <u>(24,855)</u> |
| Finance costs, net | <u>(12,143)</u> | <u>(23,475)</u> |

Note: It represented fair value change on financial liability at fair value through profit or loss attributable to foreign exchange translation (Note 18).

10. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current income tax: | | |
| - China corporate income tax | 7,036 | 4,203 |
| Under-provision / (over-provision) in prior periods | 948 | (606) |
| Total current income tax | 7,984 | 3,597 |
| Deferred income tax | (5,291) | 77 |
| Income tax expense | 2,693 | 3,674 |

Income tax is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. No provision for Hong Kong profits tax for the six months ended 30 June 2023 and 2022 as there is no assessable profit subject to Hong Kong profits tax for both periods.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies in the PRC are subject to income tax of 25% unless preferential rate is applicable.

If a subsidiary is subject to CIT and qualified as High and New Technology Enterprise, the applicable CIT tax rate is 15%. The applicable CIT tax rate for Jiaxing Eastern Steel Cord Co., Ltd and Tengzhou Eastern Steel Cord Co., Ltd was 15% for the six months ended 30 June 2023 and 2022.

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to the owners of the Company used in calculating basic earnings per share (<i>HK\$'000</i>) | 31,140 | 30,269 |
| Weighted average number of ordinary shares in issue (<i>shares</i>) | 1,971,035,828 | 1,956,512,927 |
| Basic earnings per share attributable to the owners of the Company (<i>HK cents</i>) | 1.58 | 1.55 |

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has one category of potentially dilutive ordinary shares: convertible bonds (*Note 18*) (2022: same). For the convertible bonds, calculations are done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to outstanding convertible bonds.

For the six months ended 30 June 2023 and 2022, convertible bonds issued are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The convertible bonds have not been included in the determination of basic earnings per share.

The convertible bonds were matured in February 2023 and the Company has made full redemption of outstanding principal amount of HK\$126,000,000 of the convertible bonds.

| | Six months ended 30 June | |
|--|---------------------------------|---------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to the owners of the Company used in calculating basic earnings per share (<i>HK\$ '000</i>) | 31,140 | 30,269 |
| Profit adjustment for convertible bonds (<i>HK\$ '000</i>) | (8,042) | (6,896) |
| | 23,098 | 23,373 |
| Weighted average number of ordinary shares in issue (<i>shares</i>) | 1,971,035,828 | 1,956,512,927 |
| Adjustment for convertible bonds (<i>shares</i>) | 86,489,201 | 381,818,182 |
| Weighted average number of ordinary shares for diluted earnings per share (<i>shares</i>) | 2,057,525,029 | 2,338,331,109 |
| Diluted earnings per share attributable to the owners of the Company (<i>HK cents</i>) | 1.12 | 1.00 |

12. DIVIDENDS

At a board meeting held on 24 March 2023, the directors of the Company recommended the payment of a final dividend of HK0.73 cents per fully paid ordinary share, totalling approximately HK\$14,389,000 for the year ended 31 December 2022, which was paid in July 2023.

No interim dividend has paid or proposed for the six months ended 30 June 2023 and 2022.

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

(a) Investment properties

The movement of fair value for investment properties is as follows:

| | Leasehold land and buildings (Unaudited) <i>HK\$'000</i> |
|----------------------|--|
| As at 1 January 2022 | 57,446 |
| Exchange differences | (1,532) |
| As at 30 June 2022 | <u>55,914</u> |
| | |
| As at 1 January 2023 | 55,637 |
| Exchange differences | (1,032) |
| As at 30 June 2023 | <u>54,605</u> |

(b) Property, plant and equipment

The movement of the net book amount for property, plant and equipment is as follows:

| | (Unaudited) <i>HK\$'000</i> |
|-----------------------------------|--------------------------------|
| As at 1 January 2022 | 1,306,197 |
| Additions | 55,636 |
| Disposals | (201) |
| Depreciation | (55,111) |
| Impairment loss (<i>Note 7</i>) | (396) |
| Exchange differences | (61,534) |
| As at 30 June 2022 | <u>1,244,591</u> |
| | |
| As at 1 January 2023 | 1,187,280 |
| Additions | 12,202 |
| Disposals | (245) |
| Depreciation | (52,209) |
| Exchange differences | (37,011) |
| As at 30 June 2023 | <u>1,110,017</u> |

14. TRADE RECEIVABLES AND BILLS RECEIVABLES

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|---|--|--|
| Trade receivables (<i>Note (a)</i>) | 660,065 | 587,033 |
| Less: provision for impairment losses on trade receivables (<i>Note (c)</i>) | (22,169) | (21,586) |
| | <u>637,896</u> | <u>565,447</u> |
| Bills receivables (<i>Note (b)</i>) | 630,330 | 653,069 |
| | <u>1,268,226</u> | <u>1,218,516</u> |

(a) Trade receivables

The Group's credit terms to trade debtors range from 30 to 90 days. The aging analysis of the trade receivables based on invoice date was as follows:

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|----------------|--|--|
| Up to 90 days | 462,893 | 317,331 |
| 91 to 180 days | 136,263 | 202,979 |
| Over 180 days | 60,909 | 66,723 |
| | <u>660,065</u> | <u>587,033</u> |

(b) Bills receivables

The aging analysis of the bills receivables based on invoice date was as follows:

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|----------------|--|--|
| Up to 90 days | 91,913 | 34,226 |
| 91 to 180 days | 262,937 | 288,126 |
| Over 180 days | 275,480 | 330,717 |
| | <u>630,330</u> | <u>653,069</u> |

As at 30 June 2023, the Group's bills receivables mature within one year (31 December 2022: same).

(c) Provision for impairment losses on trade receivables

The movement on the provision for impairment losses on trade receivables is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| At beginning of the period | 21,586 | 22,402 |
| Net impairment losses on trade receivables for the period | 1,267 | 758 |
| Exchange differences | (684) | (986) |
| At end of the period | 22,169 | 22,174 |

15. TRADE AND BILLS PAYABLES

| | As at | As at |
|------------------------------------|---------------------|------------------|
| | 30 June 2023 | 31 December 2022 |
| | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 |
| Trade payables (<i>Note (a)</i>) | 592,183 | 601,058 |
| Bills payables (<i>Note (b)</i>) | 176,446 | 199,827 |
| | 768,629 | 800,885 |

(a) Trade payables

The Group's credit period granted by the suppliers is 30 days. The aging analysis of the trade payables based on invoice date was as follows:

| | As at | As at |
|-----------------|---------------------|------------------|
| | 30 June 2023 | 31 December 2022 |
| | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 |
| Up to 30 days | 240,236 | 164,146 |
| 31 to 90 days | 188,822 | 135,552 |
| 91 to 180 days | 124,642 | 232,148 |
| 181 to 365 days | 29,849 | 62,714 |
| Over 365 days | 8,634 | 6,498 |
| | 592,183 | 601,058 |

(b) Bills payables

The aging analysis of the bills payables based on invoice date was as follows:

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|----------------|--|--|
| Up to 30 days | 30,207 | 15,673 |
| 31 to 90 days | 69,286 | 37,984 |
| 91 to 180 days | 74,813 | 139,065 |
| Over 180 days | 2,140 | 7,105 |
| | <u>176,446</u> | <u>199,827</u> |

16. OTHER PAYABLES AND ACCRUALS

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|--|--|--|
| Contract liabilities | 561 | 861 |
| Accrued wages and salaries | 24,947 | 25,372 |
| Other tax payables | 7,632 | 7,336 |
| Other accruals | 10,383 | 8,088 |
| Other payables (including payables for property, plant and equipment) | 146,686 | 204,253 |
| | <u>190,209</u> | <u>245,910</u> |

17. BANK BORROWINGS

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|--------------------------------|--|--|
| Bank loans | 514,479 | 454,217 |
| Discounted bills with recourse | 33,352 | 335 |
| | <u>547,831</u> | <u>454,552</u> |
| Current portion | <u>547,831</u> | <u>454,552</u> |
| Secured | 33,352 | 335 |
| Unsecured | 514,479 | 454,217 |
| | <u>547,831</u> | <u>454,552</u> |

The Group's bank borrowings were repayable as follows:

| | As at 30 June 2023 (Unaudited) HK\$'000 | As at 31 December 2022 (Audited) HK\$'000 |
|---------------|--|--|
| Within 1 year | <u>547,831</u> | <u>454,552</u> |

The carrying amounts of the bank borrowings approximate their fair values.

As at 30 June 2023, the carrying amount of fixed rate bank borrowings and variable rate bank borrowings are approximately HK\$547,831,000 (31 December 2022: HK\$274,552,000) and nil (31 December 2022: HK\$180,000,000) respectively.

The discounted bills with recourse carry at fixed rate.

The range of effective interest rates (which are also equal to contractual interest rates) on bank borrowings are as follows:

| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Audited) |
|------------------------------------|--------------------------------------|--|
| Effective interest rate per annum: | | |
| Fixed rate borrowings | 2.40% to 6.43% | 0.65% to 6.47% |
| Variable rate borrowings | <u>N/A</u> | <u>3.22% to 8.15%</u> |

18. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

On 11 February 2019 (the “Issuance Date”), the Company issued convertible bonds in the principal amount of HK\$150,000,000 (the “Convertible Bonds”) to Jingxi Holdings Limited (“Jingxi Holdings”), a wholly owned subsidiary of Shougang Group Co., Ltd (“Shougang Group”, which is the substantial shareholder with significant influence of the Company). The consideration for the Convertible Bonds was HK\$150,000,000. The Convertible Bonds are interest bearing at a coupon rate of 4% per annum.

The holder of the Convertible Bonds has:

- (i) the option to demand the Company to redeem the Convertible Bonds on 11 February 2022 (the “Original Maturity Date”) at 100% of the principal amount outstanding plus any accrued and unpaid interest;
- (ii) the option to convert the Convertible Bonds into ordinary shares of the Company at a conversion price derived on certain conditions at the date of conversion falling 6 months from the Issuance Date and up to the maturity date of the Convertible Bonds; and
- (iii) the option to extend the Original Maturity Date twice by one year each to the date falling on 11 February 2024.

The Convertible Bonds, together with the abovementioned options, were designated as a financial liability at fair value through profit or loss.

The Convertible Bonds are initially recognised at the fair value as financial liability at fair value through profit or loss. The fair value of the Convertible Bonds as at 31 December 2022 were valued by an independent and professionally qualified valuer, Greater China Appraisal Limited. The valuation was determined using Black-Scholes model with Trinomial Tree method.

During the six months ended 30 June 2022, the Company received from the holder of the Convertible Bond an extension notice to extend the maturity date to 11 February 2023 and a conversion notice to convert the Convertible Bonds in the principal amount of HK\$24,000,000 at the conversion price of HK\$0.33 per share. The conversion shares were issued on 7 February 2022. As a result of conversion and revaluation of the remaining extended Convertible Bonds, a gain on fair value of HK\$14,096,000 was recorded in profit or loss during the six months ended 30 June 2022.

The Convertible Bonds were matured in February 2023 and the Company has made full redemption of outstanding principal amount of HK\$126,000,000 of the Convertible Bonds. As a result of redemption of the remaining extended Convertible Bonds, a gain on fair value of HK\$3,554,000 was recorded in profit or loss during the six months ended 30 June 2023.

19. SHARE CAPITAL

| | Number of shares <i>In thousand</i> | <i>HK\$'000</i> |
|---|--|-------------------------|
| Issued and fully paid: | | |
| At 1 January 2022 | 1,898,653 | 1,191,798 |
| Issuance of ordinary shares pursuant to the conversion of convertible bonds (<i>Note(a)</i>) | <u>72,727</u> | <u>24,000</u> |
| At 30 June 2022 | <u>1,971,380</u> | <u>1,215,798</u> |
| At 1 January 2023 | 1,971,380 | 1,215,798 |
| Cancellation of shares (<i>Note(b)</i>) | <u>(344)</u> | <u>-</u> |
| At 30 June 2023 | <u>1,971,036</u> | <u>1,215,798</u> |

Notes:

- (a) On 7 February 2022, the Company issued 72,727,272 ordinary shares in relation to the exercise of the conversion right attaching to the Convertible Bonds to convert the Convertible Bonds in the principal amount of HK\$24,000,000 at the conversion price of HK\$0.33.
- (b) During the year ended 31 December 2022, the Company repurchased 344,000 ordinary shares in the market in order to achieve an increase in the condensed consolidated net asset value per share and/or earnings per share. All of the repurchased shares were cancelled during the six months ended 30 June 2023.

20. CAPITAL COMMITMENTS

| | As at 30 June 2023 (Unaudited) <i>HK\$'000</i> | As at 31 December 2022 (Audited) <i>HK\$'000</i> |
|---|--|---|
| Commitments in respect of the acquisition of property, plant and equipment - contracted for but not provided in the condensed consolidated interim financial information | <u>90,016</u> | <u>119,083</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in the manufacturing of steel cords for radial tyres, sawing wires and hose wires. For the six months ended 30 June 2023, the Group recorded revenue of approximately HK\$1,235,047,000 (2022: HK\$1,253,473,000), representing a decrease of approximately 1.5% as compared with the last corresponding period. However, the gross profit increased by 8.4% to HK\$180,106,000 (2022: HK\$166,122,000). Therefore, the Group's net profit increased by 2.9% from the same period last year of HK\$30,269,000 to HK\$31,140,000.

BUSINESS REVIEW

The economy and society in general resumed normal activities in the first half of 2023. However, global political and economic situations remained complicated, and the foundation for sustained recovery and development of the domestic economy was still unstable. During the first half of 2023, China's economic development showed the momentum of recovery, with the gross domestic product reaching RMB59,303.4 billion, up by 5.5% year-on-year, and 1 percentage point faster than that in the first quarter of 2023.

During the period under review, the steel cord segment sold 106,264 tonnes of steel cord during the period, increased by 12.9% as compared to 94,129 tonnes in the same period last year. In respect of the sales of sawing wire products, it increased by 17.5% from 320 tonnes to 376 tonnes for the corresponding period last year attributable to our persistent effort in exploring new customers as well as the improvement of the photovoltaic, sapphire, and magnetic material markets. There was a 1.3% increase in the sales of our other wire products from 4,755 tonnes to 4,816 tonnes for the corresponding period. The sales volume of this segment for the period is analysed as follows:

| | Six months ended 30 June | | | | |
|----------------------------|--------------------------|----------------------------------|-----------------------|----------------------------------|--------|
| | 2023 | % of | 2022 | % of | % |
| | Sales volume (Tonnes) | total sales volume of steel cord | Sales volume (Tonnes) | total sales volume of steel cord | Change |
| Steel cords for: | | | | | |
| - truck tyres | 59,635 | 56.1 | 56,181 | 59.7 | +6.1 |
| - off the road truck tyres | 7,323 | 6.9 | 4,137 | 4.4 | +77.0 |
| - passenger car tyres | 39,306 | 37.0 | 33,811 | 35.9 | +16.3 |
| Total for steel cords | <u>106,264</u> | <u>100.0</u> | <u>94,129</u> | <u>100.0</u> | +12.9 |
| Sawing wire products | 376 | | 320 | | +17.5 |
| Other wire products | <u>4,816</u> | | <u>4,755</u> | | +1.3 |
| Total | <u>111,456</u> | | <u>99,204</u> | | +12.4 |

FINANCIAL REVIEW

Revenue

Revenue of the Group amounted to HK\$1,235,047,000 (2022: HK\$1,253,473,000) for the period, decreased by 1.5% over the same period last year, mainly because of depreciation of RMB and the average selling price of the steel cords decreasing with the drop in the cost of raw materials. However, our sales team made great effort on grasping every opportunity in the markets, so the total sales volumes for the steel cord during the period increased by 12.9% over same period last year. This segment sold 111,456 tonnes of steel cord/ wire products for the six months ended 30 June 2023, increased by 12.4% as compared to 99,204 tonnes last corresponding period. The breakdown of revenue of the Group for the period is as follows:

| | Six months ended 30 June | | 2022 | | % change |
|---------------------------|--------------------------|--------------|------------------|--------------|----------|
| | 2023 | % of total | 2022 | % of total | |
| | <i>HK\$'000</i> | revenue | <i>HK\$'000</i> | revenue | |
| Steel cord/ wire products | 1,234,354 | 99.9 | 1,252,713 | 99.9 | -1.5 |
| Property rental | 693 | 0.1 | 760 | 0.1 | -8.8 |
| Total | <u>1,235,047</u> | <u>100.0</u> | <u>1,253,473</u> | <u>100.0</u> | -1.5 |

Gross profit

The gross profit of the Group increased by 8.4% over the same period last year to HK\$180,106,000 (2022: HK\$166,122,000). Despite of the abovementioned decrease in revenue of the steel cord segment, its gross profit margin increased from 13.2% to 14.5% for the period as compared to the same period last year primarily because we made effort to implement our incessant cost cutting measures and fine-tune our sales mix. Therefore, the gross profit margin of the Group increased from 13.3% to 14.6%. The breakdown of gross profit of the Group for the period is as follows:

| | Six months ended 30 June | | 2022 | | % change |
|---------------------------|--------------------------|--------------|-----------------|--------------|----------|
| | 2023 | Gross profit | 2022 | Gross profit | |
| | <i>HK\$'000</i> | margin (%) | <i>HK\$'000</i> | margin (%) | |
| Steel cord/ wire products | 179,460 | 14.5 | 165,509 | 13.2 | +8.4 |
| Property rental | 646 | 93.2 | 613 | 80.7 | +5.4 |
| Total | <u>180,106</u> | <u>14.6</u> | <u>166,122</u> | 13.3 | +8.4 |

Other gains, net

Other gains, net of the Group for the six months ended 30 June 2023 recorded HK\$4,559,000 while that for the six months ended 30 June 2022 was HK\$13,792,000. This was primarily due to the fair value gain on Convertible Bonds decreased from HK\$14,096,000 to HK\$3,554,000 in the current period.

Selling and distribution expenses

Selling and distribution expenses amounted to HK\$64,959,000 (2022: HK\$59,306,000) for the period, increased by HK\$5,653,000 over the same period last year, mainly due to the increase in sales volume of steel cord segment.

Administrative expenses

Administrative expenses amounted to HK\$27,572,000 (2022: HK\$29,178,000) for the period, decreased by HK\$1,606,000 as compared to the same period last year. Due to stricter cost control, the ratio of administrative expenses to revenue decreases from 2.3% to 2.2%.

Research and development expenses

Research and development expenses of the Group amounted to HK\$52,192,000 for the period, decreased by HK\$3,578,000 as compared to HK\$55,770,000 for the same period last year. Such expenses were all incurred by the steel cord segment.

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 risk. The objectives are to ensure the Group has adequate financial resources to maintain business growth with a viable financial position.

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

SHARE CAPITAL, LIQUIDITY AND FINANCIAL RESOURCES

Share capital and net asset value

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

The total number of issued shares of the Company was 1,971,035,828 Shares at 30 June 2023 (31 December 2022: 1,971,379,828 Shares). Net asset value of the Group was HK\$1,661,963,000 at 30 June 2023, increased by 0.3% as compared to HK\$1,657,743,000 at 31 December 2022. Net asset value per Share remained at HK\$0.84 at 30 June 2023.

Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash (including pledged bank deposits) amounted to HK\$199,053,000 at 30 June 2023, decreased by 11.9% as compared to HK\$225,908,000 at 31 December 2022. Total interest bearing borrowings of the Group (comprised of bank borrowings and Convertible Bonds) were HK\$547,831,000 at 30 June 2023, decreased by 6.6% as compared to HK\$586,626,000 at 31 December 2022. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash) therefore decreased from HK\$360,718,000 at 31 December 2022 to HK\$348,778,000 at 30 June 2023.

Debt and liquidity ratios

Gearing ratio (calculated as total interest bearing borrowings less bank balances and cash (including pledged bank deposits) divided by Shareholders' equity) of the Group decreased from 21.8% at 31 December 2022 to 21.0% at 30 June 2023. The current ratio (calculated as current assets divided by current liabilities) of the Group maintained at 1.2 times at 30 June 2023 and 31 December 2022. We are committed to improving our liquidity ratios in order to attain a vibrant and yet manageable position to facilitate a sustainable growth of our business.

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's source of revenue is mainly denominated in EUR, RMB and USD, while those of purchases and payments are mainly denominated in RMB and HKD. In respect of exposure to interest rate risk, the interest bearing borrowings at 30 June 2023 were at fixed rates. During the period under review, the Group has managed its exchange rate exposure and interest rate exposure by entering into the foreign currency hedging contract and cross currency swap transactions with aggregate notional amount of approximately HK\$11,175,000 and HK\$100,000,000 respectively.

We continuously review and adjust the currency composition of our interest bearing borrowings from time to time to minimise 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 minimise our exchange and interest rate risks when needed, such as entering into the derivative financial instruments to hedge the risk of exchange rate and interest rate in the second half of 2023.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had commitments in respect of the acquisition of property, plant and equipment amounted to approximately HK\$90,016,000.

BUSINESS DEVELOPMENT PLAN

In 2019, TESC entered into agreements with the governmental authorities of Tengzhou in relation to the investment of a construction project to be carried out on the three parcels of land through a public auction in 2010 and 2011 (the “Lands”). Pursuant to the agreements, TESC shall invest in construction of the production lines for an annual capacity of 100,000 tonnes steel cords on the Lands. The Tengzhou governmental authorities shall assist TESC in the construction project, such as handling relevant procedures for the construction, facilitating in the construction of infrastructure of the project such as water, electricity and roads, and assisting in application of governmental policy support and applicable support funds.

Since November 2019, the construction project has commenced to acquire the machineries and construct the factory plant, ancillary facilities and peripheral roads. The new production line of brass wire in the project can bring positive impact on the performance of the steel cord segment as some of the production lines of brass wires of JESC, which had been in use for over 20 years, incurred high maintenance and operation cost with relatively low production efficiency and quality instability. The project has been carried out by phases according to the market conditions and the financial capacity of the Company from time to time. Its expected sources of funding will be internal resources and/ or other financing of the Group. As the construction progress is satisfactory, this project can further drive the Group towards its goal to become an enterprise commanding an annual manufacturing capacity in excess of 300,000 tonnes of high-quality steel cords. This increase in productivity also significantly enhances the Group’s core competitiveness and profitability.

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 30 June 2023, the Group had a total of 2,458 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, hospitalisation 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 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 or loss as they are incurred. The amount charged to condensed consolidated statement of comprehensive income for the period under review amounted to approximately HK\$21,279,000.

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 conditions.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no material contingent liabilities at 30 June 2023.

As at 30 June 2023, the carrying amounts of assets pledged as security for bank borrowings and bills payables were:

1. Bills receivables of HK\$33,352,000; and
2. Bank deposits of HK\$58,446,000.

BUSINESS OUTLOOK

The moderation of the epidemic and gradual relaxation of the government across the globe's quarantine measures had a positive effect on returning our daily life to normalcy gradually. In the first half of 2023, China has gradually resumed steady economic growth. However, the threat posed by the Sino-American relations and the Russia-Ukraine conflict still brought uncertainty in the global economy in the second half of 2023. But we, Shougang Century, are confident and optimistic about our business in light of the followings:

- To continue the construction of our production lines at TESC to facilitate the expansion plan of an additional 100,000 tonnes of steel cord manufacturing capacity within the 14th Five-Year Plan;
- The PRC's macro-economic environment in infrastructure investment is expected to improve, this leads the sales in the automotive and tyre industry to increase continuously;
- By taking into consideration the Chinese government's regulations on energy conservation and emission reduction, the constant increase in output of electric cars drives demand for their accessorial tyres, which will in turn expedite the market expansion of steel cords for domestic radial tyres and bring a more ample room for development to steel cord industry in the long term; and
- To reduce carbon emissions through reduction of energy consumption, application of clean energy, research and development on low-carbon products, the application of new technologies and new equipment and so on, the Group can achieve the green, low-carbon and sustainable corporate development and fulfil social responsibilities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2023. In addition, the independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim financial information for the period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

CORPORATE GOVERNANCE CODE

The Board is committed to practising and achieving a high standard of corporate governance. It also recognises that effective risk management and internal control systems are crucial to the long term development of the Company. Thus, the Board reviews from time to time the daily corporate governance practices and procedures of the Company and its subsidiaries and procures the Company and its subsidiaries to strictly comply with the relevant laws and regulations, and the rules and guidelines of regulatory bodies, aiming to maintain sound and effective risk management and internal control systems of the Group, such as financial, operational and compliance controls and risk management functions. The Company has adopted the SCHL Corporate Governance Code and the Internal Control Manual, which will be amended and revised where appropriate, in order to enhance the effectiveness of the corporate governance practices and the risk management and internal control systems, and to get in line with the relevant amendments of law, rules and regulations.

In the opinion of the Board, the Company has complied with all the principles and code provisions of the Code and also the SCHL Corporate Governance Code throughout the six months ended 30 June 2023, except for deviation from code provision C.2.1 of the Code as below:

Deviation from code provision C.2.1 of the Code

The roles of chairman and managing director in the Company are performed by Mr. Su Fanrong ("Mr. Su") which constitutes the deviation from the code provision C.2.1 of the CG Code which stipulates that the roles of chairman and managing director should be separate and should not be performed by the same person. In order to satisfy the requirement of the code provision C.2.1 of the CG Code, the Board appointed Mr. Li Jinping as the managing director of the Company with effect from 1 July 2023, and Mr. Su ceased to act as the managing director of the Company from the same date but remains as the chairman of the Company.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt thanks to our customers, suppliers and Shareholders for their continued support and trust. I would also like to take this opportunity to express my sincere gratitude to all the fellow members on the Board for their diligence and valuable contributions, as well as to the management and colleagues for their unwavering commitment, dedication and continued hard work to the Group throughout the period under review.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions have the meanings set out below:

| | |
|----------------------------------|---|
| “Board” | the board of Directors |
| “Code” | the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange |
| “Company”/ “Shougang Century” | Shougang 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 |
| “Convertible Bonds” | the 4% unsecured fixed coupon convertible bonds in the aggregate principal amount of HK\$150,000,000 due 2022 (extendable to 2024) issued by the Company to Jingxi Holdings Limited pursuant to the subscription agreement dated 18 December 2018 |
| “Director(s)” | the director(s) of the Company |
| “EUR” | Euros, the lawful currency of the participating states within the European Union |
| “Group” | the Company and its subsidiaries |
| “HKD”/ “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “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 |
| “PRC” | the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administration Region of the PRC and Taiwan |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SCHL Corporate Governance Code” | Shougang Century Holdings Limited’s Code on Corporate Governance (revised from time to time) |
| “Share(s)” | ordinary share(s) of the Company |
| “Shareholder(s)” | shareholder(s) of the Company |

| | |
|------------------|--|
| “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” | United States dollars, the lawful currency of the United States of America |
| “%” | per cent. |

By order of the Board
Shougang Century Holdings Limited
SU Fanrong
Chairman

Hong Kong, 23 August 2023

As at the date of this announcement, the Board comprises the following Directors:

Mr. Su Fanrong (Chairman), Mr. Li Jinping (Managing Director), Mr. Yang Junlin (Deputy Managing Director), Mr. Zhang Dan (Executive Director), Mr. Adam Touhig (Non-executive Director), Mr. Yip Kin Man, Raymond (Independent Non-executive Director), Mr. Lam Yiu Kin (Independent Non-executive Director) and Mr. Feng Yaoling (Independent Non-executive Director).

This interim results announcement is published on the websites of the Company at <http://www.irasia.com/listco/hk/shougangcentury/> and the Stock Exchange at <http://www.hkexnews.hk>. The 2023 Interim Report will be despatched to Shareholders and made available on the above websites in due course.