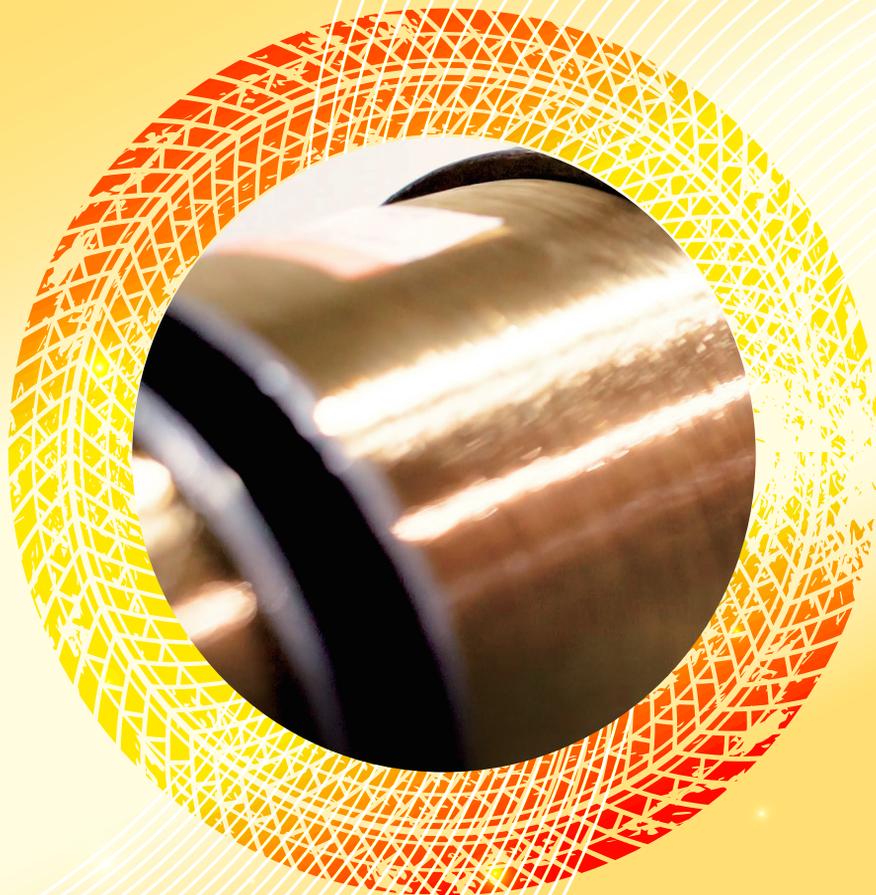




SHOUGANG CENTURY HOLDINGS LIMITED

Stock Code: 103



2023

INTERIM REPORT

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CORPORATE PROFILE

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

The Group is primarily involved in the following activities:

1. manufacturing and sales of steel cords for radial tyres
2. manufacturing and sales of sawing wires and hose wires

Corporate’s Goal

- create an influential “Eastern” brand recognition in steel cord industry based on the principles of integrity, pragmatism and efficiency
- gradually become an enterprise with annual manufacturing capacity in excess of 300,000 tonnes of high-quality steel cord
- become one of the three major manufacturers of steel cord industry in China

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

CORPORATE INFORMATION

As at 23 August 2023

Board of Directors

Executive Directors

Su Fanrong (*Chairman*)
Li Jinping (*Managing Director*)
Yang Junlin (*Deputy Managing Director*)
Zhang Dan

Non-executive Director

Adam Touhig

Independent

Non-executive Directors

Yip Kin Man, Raymond
Lam Yiu Kin
Feng Yaoling

Audit Committee

Yip Kin Man, Raymond (*Chairman*)
Lam Yiu Kin
Feng Yaoling

Remuneration Committee

Yip Kin Man, Raymond (*Chairman*)
Su Fanrong (*Vice Chairman*)
Lam Yiu Kin
Feng Yaoling

Nomination Committee

Su Fanrong (*Chairman*)
Yip Kin Man, Raymond (*Vice Chairman*)
Lam Yiu Kin
Feng Yaoling

Authorised Representatives

Su Fanrong
Cheung Wa Ying

Company Secretary

Cheung Wa Ying

CORPORATE INFORMATION (continued)

As at 23 August 2023

Principal Bankers

Agricultural Bank of China
Bank of China
China CITIC Bank
Chong Hing Bank
Industrial Bank
Industrial and Commercial Bank of China
Macao Development Bank
The Bank of East Asia

Auditor

PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor

Internal Auditor

Moore Advisory Services Limited

Share Registrar

Tricor Tengis Limited
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

Registered Office

Room 1215, 12/F., Honour Industrial Centre
6 Sun Yip Street, Chai Wan
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/shougangcentury/>

HKEx Stock Code

103

Listing Date

9 April 1992

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2023 (Unaudited)	2022 (Unaudited)	Change
Operations			
Revenue (HK\$'000)	1,235,047	1,253,473	-1.5%
Gross profit (HK\$'000)	180,106	166,122	+8.4%
Gross profit margin	14.6%	13.3%	+1.3pp
Profit for the period (HK\$'000)	31,140	30,269	+2.9%
Basic earnings per Share (HK cents)	1.58	1.55	+1.9%
	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)	Change
Financial position			
Net asset (HK\$'000)	1,661,963	1,657,743	+0.3%
Gearing ratio (Note)	21.0%	21.8%	-0.8pp

Note:

Gearing ratio represented total interest-bearing borrowings less bank balances and cash (including pledged bank deposits) divided by total equity.

INFORMATION FOR INVESTORS

Share Information

Board lot size:	2,000 Shares
Shares outstanding as at 30 June 2023:	1,971,035,828 Shares
Market capitalisation as at 30 June 2023:	HK\$340,989,198
Closing Share price as at 30 June 2023:	HK\$0.173
Basic earnings per Share for the six months ended 30 June 2023:	HK1.58 cents

Key Date

Announcement of 2023 Interim Results:	23 August 2023
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Investor Relations Contact

Address	:	Room 1215, 12/F., Honour Industrial Centre 6 Sun Yip Street, Chai Wan, Hong Kong
Telephone	:	(852) 2527 2218
Fax	:	(852) 2861 3527
E-mail address	:	business_link@shougangcentury.com.hk ir@shougangcentury.com.hk schl@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	:	17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong
Telephone	:	(852) 2980 1333
Fax	:	(852) 2810 8185
E-mail address	:	is-enquiries@hk.tricorglobal.com
Website	:	http://www.tricoris.com

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF SHOUGANG CENTURY HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 9 to 42, which comprises the interim condensed consolidated statement of financial position of Shougang Century Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2023 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2023

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)
		HK cents	HK cents
Earnings per share for profit for the period attributable to the owners of the Company			
– Basic	11(a)	1.58	1.55
– Diluted	11(b)	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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2023

	Notes	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	(Unaudited)						
	Share capital HK\$'000	Capital reserve HK\$'000 (Note (i))	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC reserve funds HK\$'000 (Note (ii))	Accumulated losses HK\$'000	Total HK\$'000
For the six months ended 30 June 2023							
At 1 January 2023	1,215,798	23,990	170,390	209,062	98,703	(60,200)	1,657,743
Comprehensive income							
Profit for the period	-	-	-	-	-	31,140	31,140
Other comprehensive (loss)/income							
Exchange differences arising on translation into presentation currency	-	-	-	(26,920)	-	-	(26,920)
Total comprehensive (loss)/income for the period	-	-	-	(26,920)	-	31,140	4,220
Transaction with owners in their capacity as owners							
Transfer to PRC reserve funds (Note (ii))	-	-	-	-	3,968	(3,968)	-
At 30 June 2023	1,215,798	23,990	170,390	182,142	102,671	(33,028)	1,661,963

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2023

	(Unaudited)						Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000 (Note (i))	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC reserve funds HK\$'000 (Note (ii))	Accumulated losses HK\$'000	
For the six months ended 30 June 2022							
At 1 January 2022	1,191,798	23,990	140,717	356,156	90,450	(70,165)	1,732,946
Comprehensive income							
Profit for the period	-	-	-	-	-	30,269	30,269
Other comprehensive (loss)/income							
Exchange differences arising on translation into presentation currency	-	-	-	(82,171)	-	-	(82,171)
Total comprehensive (loss)/income for the period	-	-	-	(82,171)	-	30,269	(51,902)
Transaction with owners in their capacity as owners							
Issuance of ordinary shares pursuant to the conversion of convertible bonds (Note 18)	24,000	-	-	-	-	-	24,000
At 30 June 2022	1,215,798	23,990	140,717	273,985	90,450	(39,896)	1,705,044

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	59,013	37,334
China corporate income tax (paid)/refunded, net	(8,404)	838
Net cash generated from operating activities	50,609	38,172
Cash flows from investing activities		
Placement of pledged bank deposits	(90,135)	(150,604)
Withdrawal of pledged bank deposits	109,487	193,324
Purchase of property, plant and equipment	(24,334)	(100,735)
Prepayments for the acquisition of property, plant and equipment	(16,961)	(6,265)
Proceeds from disposals of property, plant and equipment	453	807
Interest received	985	1,380
Net cash used in investing activities	(20,505)	(62,093)
Cash flows from financing activities		
Interest paid	(9,155)	(8,088)
Loan transaction costs paid	–	(368)
Payments for principal elements of lease liabilities	(638)	(606)
Proceeds from bank borrowings	547,870	480,495
Repayment of bank borrowings	(440,370)	(353,647)
Settlement of convertible bonds	(128,520)	(2,984)
Net cash (used in)/generated from financing activities	(30,813)	114,802
Net (decrease)/increase in cash and cash equivalents	(709)	90,881
Cash and cash equivalents at 1 January	145,807	73,487
Exchange losses on cash and cash equivalents	(4,491)	(5,125)
Cash and cash equivalents at 30 June	140,607	159,243

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 of Hong Kong Limited (the “Stock Exchange”).

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars (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:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

2. BASIS OF PREPARATION (continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

3. ACCOUNTING POLICIES (continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

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 table presents the Group's financial instruments that are measured at fair value as at 30 June 2023 and 31 December 2022:

	(Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2023				
Derivative financial instrument				
– Cross currency swaps	–	1,078	–	1,078

	(Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2022				
Financial liability at fair value through profit or loss				
– Convertible bonds	–	–	(132,074)	(132,074)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

4. FAIR VALUE ESTIMATION (continued)

4.1 Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Valuation techniques used to derive level 2 fair values

Level 2 derivative financial instruments comprise cross currency swaps. The fair value of the derivative financial instrument was determined using forward exchange rates and interest rates that are quoted by financial institutions.

4.2 Financial instruments in level 3

The following table presents the changes in level 3 financial instruments for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Financial liability at fair value through profit or loss – Convertible bonds		
At beginning of the period	132,074	183,278
Settlement	(128,520)	(2,984)
Conversion	–	(24,000)
Fair value gain recognised in profit or loss (Note 7)	(3,554)	(14,096)
	<hr/>	<hr/>
At end of the period	–	142,198
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

4. FAIR VALUE ESTIMATION (continued)

4.2 Financial instruments in level 3 (continued)

Specific valuation techniques used to value level 3 financial instruments include techniques such as Black-Scholes model with Trinomial Tree method.

The Group has engaged an independent and professionally qualified valuer to perform the valuations of financial instruments required for financial reporting purposes, including level 3 fair values.

Quantitative information about fair value measurements using significant unobservable inputs (level 3):

Financial liability at fair value through profit or loss – Convertible bonds

The key unobservable inputs used in the valuation of the convertible bonds as at 31 December 2022 are:

Valuation techniques	Unobservable inputs	As at
		31 December 2022 (Audited)
Black-Scholes model with Trinomial Tree method	Dividend yield	6.82%
	Volatility	55.32%

As at 31 December 2022, if the dividend yield increased by 1%, the impact on profit would be HK\$221,000 higher. The higher the dividend yield, the lower the fair value.

As at 31 December 2022, if the volatility increased by 5%, the impact on profit would be HK\$1,502,000 lower. The higher the volatility, the higher the fair value.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. SEGMENT INFORMATION

The Company's managing director, being the chief operating decision maker (the "CODM"), examines the Group's performance and allocates resources from a product perspective. The Group's operations are currently organised into one reportable segment which is steel cord segment.

Segment results represent the profit or loss of each segment without allocation of changes in fair value of financial liability at fair value through profit or loss and derivative financial instrument, certain foreign exchange gains or losses, central administration costs, the emoluments of directors of the Company, interest income on bank deposits, finance costs and rental and other income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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) HK\$'000
Sales of goods:	
Segment revenue from external customers	1,234,354
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	33,833
Income tax expense	(2,693)
Profit for the period	31,140

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2022

	Steel cord (Unaudited) HK\$'000
Sales of goods:	
Segment revenue from external customers	1,252,713
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	33,943
Income tax expense	(3,674)
Profit for the period	30,269

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

6. REVENUE AND OTHER INCOME

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

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

7. OTHER GAINS, NET

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
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 (Note 13(b))	–	(396)
Others	(280)	(514)
	4,559	13,792

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

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 (Note)	4,488	–
	5,473	1,380
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 (Note)	–	(7,200)
	(17,616)	(24,855)
Finance costs, net	(12,143)	(23,475)

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
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 Jiaying Eastern Steel Cord Co., Ltd and Tengzhou Eastern Steel Cord Co., Ltd was 15% for the six months ended 30 June 2023 and 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

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 (Unaudited)	2022 (Unaudited)
Profit attributable to the owners of the Company used in calculating basic earnings per share (HK\$'000)	31,140	30,269
Weighted average number of ordinary shares in issue (shares)	1,971,035,828	1,956,512,927
Basic earnings per share attributable to the owners of the Company (HK cents)	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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

11. EARNINGS PER SHARE (continued)

(b) Diluted (continued)

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

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 cent 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) HK\$'000
As at 1 January 2022	57,446
Exchange differences	(1,532)
<hr/>	
As at 30 June 2022	55,914
<hr/>	
As at 1 January 2023	55,637
Exchange differences	(1,032)
<hr/>	
As at 30 June 2023	54,605
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Property, plant and equipment

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

	(Unaudited) HK\$'000
As at 1 January 2022	1,306,197
Additions	55,636
Disposals	(201)
Depreciation	(55,111)
Impairment loss (Note 7)	(396)
Exchange differences	(61,534)
As at 30 June 2022	1,244,591
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	1,110,017

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

14. TRADE RECEIVABLES AND BILLS RECEIVABLES

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

(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
	660,065	587,033

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

14. TRADE RECEIVABLES AND BILLS RECEIVABLES (continued)

(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
	630,330	653,069

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 (Unaudited) HK\$'000	2022 (Unaudited) 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15. TRADE AND BILLS PAYABLES

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Trade payables (Note (a))	592,183	601,058
Bills payables (Note (b))	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 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15. TRADE AND BILLS PAYABLES (continued)

(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
	176,446	199,827

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
	190,209	245,910

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

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
	547,831	454,552
Current portion	547,831	454,552
Secured	33,352	335
Unsecured	514,479	454,217
	547,831	454,552

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	547,831	454,552

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17. BANK BORROWINGS (continued)

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) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Effective interest rate per annum:		
Fixed rate borrowings	2.40% to 6.43%	0.65% to 6.47%
Variable rate borrowings	N/A	3.22% to 8.15%

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

18. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. SHARE CAPITAL

	Number of shares	HK\$'000
	In thousand	
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>)	72,727	24,000
At 30 June 2022	1,971,380	1,215,798
At 1 January 2023	1,971,380	1,215,798
Cancellation of shares (<i>Note(b)</i>)	(344)	–
At 30 June 2023	1,971,036	1,215,798

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

20. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the “2002 Scheme”) was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. A new share option scheme (the “2012 Scheme”) was adopted and the 2002 Scheme was terminated by the shareholders of the Company at the annual general meeting held on 25 May 2012.

The 2012 Scheme which serves the same purpose as the 2002 Scheme became effective on 29 May 2012 upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of, and permission to deal in, any shares falling to be issued and allotted upon the exercise of the share options granted, and will remain in force for a period of ten years from that date. The 2012 Scheme has expired on 28 May 2022.

Since the adoption of the 2012 Scheme, no options have been granted, exercised, lapsed, cancelled or outstanding thereunder until it expired on 28 May 2022. No new share option scheme has been adopted after the expiration of the 2012 Scheme.

21. CAPITAL COMMITMENTS

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

22. RELATED PARTY TRANSACTIONS/BALANCES

The Company's substantial shareholder with significant influence is Shougang HK, which is a wholly owned subsidiary of Shougang Group Co., Ltd., a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission. Shougang Group Co., Ltd., together with its associates (as defined in the Listing Rules) other than the Group, will hereinafter be referred to as the "Shougang Group". Accordingly, the Group is significantly influenced by Shougang Group, which is part of a larger group of companies ultimately controlled by the PRC government.

Apart from the transactions with Shougang Group, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business.

(i) Transactions with PRC government-related entities

(a) Transactions and balances with Shougang Group

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Consultancy fees paid and payable	1,380	1,380
Interest expenses on loan	–	668
Settlement of convertible bonds	128,520	2,984
Conversion of convertible bonds	–	24,000

As at 30 June 2023, amount due to Shougang Group was approximately HK\$3,912,000 (31 December 2022: HK\$2,531,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

22. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(i) Transactions with PRC government-related entities (continued)

(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

(a) Transaction and balance with a shareholder

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Royalty expenses	2,175	859

As at 30 June 2023, amount due to a shareholder was approximately HK\$2,135,000 (31 December 2022: HK\$1,345,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

22. RELATED PARTY TRANSACTIONS/BALANCES (continued)

(ii) Transactions with non-PRC government-related entities (continued)

(b) Compensation of key management personnel

The key management of the Group comprises all executive directors of the Company, details of their emoluments are as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Director fees	–	–
Salaries and other benefits	2,731	1,339
Retirement benefit scheme contributions	18	9
	2,749	1,348

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

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 1pp faster than that in the first quarter of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

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				% change
	2023	% of total sales volume of steel cord	2022	% of total sales volume of steel cord	
	Sales volume (Tonnes)		Sales volume (Tonnes)		
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	106,264	100.0	94,129	100.0	+12.9
Sawing wire products	376		320		+17.5
Other wire products	4,816		4,755		+1.3
Total	111,456		99,204		+12.4

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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				
	2023		2022		% change
	HK\$'000	% of total revenue	HK\$'000	% of total 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	1,235,047	100.0	1,253,473	100.0	-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				
	2023		2022		% change
	HK\$'000	Gross profit margin (%)	HK\$'000	Gross profit 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	180,106	14.6	166,122	13.3	+8.4

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

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 decreased 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 risks 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Development Plan (continued)

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 remuneration 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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).

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.

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

As at 30 June 2023, save for the interest of the Directors in the Shares set out as below, none of the Directors and chief executives of the Company 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

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
Yang Junlin	226,000	0.01	Beneficial owner

Save as disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any Shares, debentures or underlying Shares or any of the Company's associated corporations at 30 June 2023.

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

As at 30 June 2023, 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 recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in Shares or underlying Shares

Name of Shareholders	Total number of Shares/ Underlying Shares held	Approximate% of the total number of issued Shares	Capacity in which interests are held
Fair Union	894,349,179	45.37	Beneficial owner
Shougang HK	894,349,179	45.37	Interests of controlled corporations <i>Note (1)</i>
Shougang Group	979,446,451	49.69	Interests of controlled corporations <i>Note (2)</i>
Bekaert Combustion	250,000,000	12.68	Beneficial owner
Bekaert	250,000,000	12.68	Interests of controlled corporations <i>Note (3)</i>
Li Ka Shing Foundation	100,000,000	5.07	Beneficial owner

Notes:

- (1) As Fair Union is Shougang HK's wholly-owned subsidiary, by virtue of the SFO, Shougang HK is deemed to be interested in 894,349,179 Shares held by Fair Union.
- (2) As Shougang Group is the ultimate holding company of Shougang HK and Capital Industrial Financial, by virtue of the SFO, Shougang Group is deemed to be interested in 894,349,179 Shares held by Fair Union, the wholly-owned subsidiary of Shougang HK, and is deemed to be interested in 12,370,000 Shares held by Lyre Terrace Management Limited, a wholly-owned subsidiary of Capital Industrial Financial. By virtue of the SFO, Shougang Group is also deemed to be interested in 72,727,272 Shares held by Jingxi Holdings, a wholly-owned subsidiary of Shougang Fund, which is a wholly-owned subsidiary of Shougang Group.
- (3) 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.

SHARE OPTION SCHEME

At the annual general meeting held on 25 May 2012, the Company adopted a share option scheme (the "Scheme") which became effective on 29 May 2012 (the "Effective Date") 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, and will remain in force for a period of ten years from the Effective Date. The Scheme has expired on 28 May 2022 (the "Expiry Date").

Since the adoption of the Scheme, no options have been granted, exercised, lapsed, cancelled or outstanding thereunder as at the Expiry Date. No new share option scheme has been adopted after the expiration of the Scheme.

DISCLOSURE OF INFORMATION ON DIRECTORS

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

Mr. Zhang Dan (“Mr. Zhang”) was appointed as an executive Director with effect from 1 August 2023. He holds a Master degree in Business Administration from The University of California, Los Angeles and a Bachelor degree in Economics from Beijing University of Technology. Mr. Zhang is also a responsible officer recognised by the Securities and Futures Commission of Hong Kong for engaging in the Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities.

In January 2023, Mr. Zhang joined Shougang Fund. He currently serves as a general manager of the merger and acquisition department of Shougang Fund and a deputy general manager of Jingxi Holdings. Prior to joining Shougang Fund, he was the co-head of general industrials and merger and acquisition of investment banking department of Huatai International Financial Holdings Company Limited and had completed numerous merger and acquisition as well as initial public offering and refinancing projects. He was also a director of the investment banking department of GF Capital (Hong Kong) Limited. In all, Mr. Zhang has over 15 years of extensive experience in Hong Kong capital market.

Other than the directorship and position disclosed above, Mr. Zhang has not previously held any position with the Company and/or its subsidiaries, 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 and does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders.

Mr. Zhang entered into a service contract with the Company for a term commencing from 1 August 2023 to 31 December 2025 (the “Service Contract”). However, he holds 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 of association of the Company (the “Articles”) and thereafter will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles. The emoluments of a Director are determined by reference to his experience and duties, his role played in the Board, the Company’s performance and profitability, the remuneration benchmark in the industry and the prevailing market conditions. Pursuant to the Service Contract, Mr. Zhang voluntarily declined any director’s emoluments.

Mr. Ye Qian resigned as an executive Director with effect from 1 August 2023.

Mr. Li Jinping was appointed as the managing Director with effect from 1 July 2023.

Mr. Su Fanrong resigned as the managing Director with effect from 1 July 2023 but remains as the chairman of the Company.

Mr. Lam Yiu Kin, being the independent non-executive Director, retired as an independent non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Limited with effect from 30 May 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 authorities, 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 with effect from 1 July 2023, and Mr. Su ceased to act as the managing Director from the same date but remains as the chairman of the Company.

Risk Management and Internal Control Systems

The Company has engaged Moore Advisory Services Limited as the internal auditor of the Company since 2015 in relation to the provision of internal audit services to the Company.

Model Code for securities transactions by Directors

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

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

CORPORATE GOVERNANCE CODE (continued)

Audit Committee

The Company's audit committee comprises three independent non-executive Directors, namely Mr. Yip Kin Man, Raymond, Mr. Lam Yiu Kin and Mr. Feng Yaoling. Mr. Yip Kin Man, Raymond acts as the chairman of the audit committee. The audit committee was established with specific written terms of reference with the task including but not limited to monitoring the financial reporting procedures, reviewing risk management and internal control systems of the Group and monitoring the independence and objectivity of the external auditor. The Company has engaged the external auditor to assist the audit committee to review the Group's unaudited condensed consolidated financial information for the six months ended 30 June 2023. During the meetings of the audit committee for the period under review, the audit committee members, amongst other things, had reviewed the accounting principles and practices adopted by the Group; discussed the financial information matters related to the preparation of the unaudited condensed consolidated financial information for the six months ended 30 June 2023.

In summary, 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.

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.

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

Hong Kong, 23 August 2023

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

DEFINITIONS

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

“Bekaert”	NV Bekaert SA, a company incorporated under the laws of Belgium, a substantial Shareholder (as defined under the SFO)
“Bekaert Combustion”	Bekaert Combustion Technology B.V., a wholly owned subsidiary of Bekaert, a substantial Shareholder (as defined under the SFO)
“Board”	the board of Directors
“Capital Industrial Financial”	Capital Industrial Financial Services 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
“Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“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 pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“EUR”	Euros, the lawful currency of the participating states within the European Union
“Fair Union”	Fair Union Holdings Limited, a wholly owned subsidiary of Shougang HK
“Group”	the Company and its subsidiaries

DEFINITIONS (continued)

“HKD”/“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internal Control Manual”	an internal management and control manual of the Company adopted in 1999 and revised from time to time thereafter
“JESC”	Jiaying Eastern Steel Cord Co., Ltd., a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of the Company
“Jingxi Holdings”	Jingxi Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of Shougang Fund
“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 Shareholders (as defined under the SFO)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“pp”	percentage point(s)
“PRC”	the People’s Republic of China, which for the purpose of this report shall exclude Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SCHL Code”	Model Code for Securities Transactions by Directors and Specified Individuals of Shougang Century Holdings Limited adopted in 2004 and revised from time to time thereafter

DEFINITIONS (continued)

“SCHL Corporate Governance Code”	Shougang Century Holdings Limited Code on Corporate Governance (revised from time to time)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shougang Fund”	Beijing Shougang Fund Co., Ltd., a company established in the PRC with limited liability and a wholly-owned subsidiary of Shougang Group
“Shougang Group”	Shougang Group Co., Ltd. (a state-owned enterprise under the direct supervision of the Beijing State-owned Assets Supervision and Administration Commission, established in the PRC), a substantial Shareholder (as defined under the SFO)
“Shougang HK”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with Limited Liability, a substantial Shareholder (as defined under the SFO)
“Stock Exchange”/“HKEx”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 18 December 2018 entered into between the Company and Jingxi Holdings in relation to the subscription for the Convertible Bonds by Jingxi Holdings pursuant to the terms and subject to the conditions of the subscription agreement
“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