

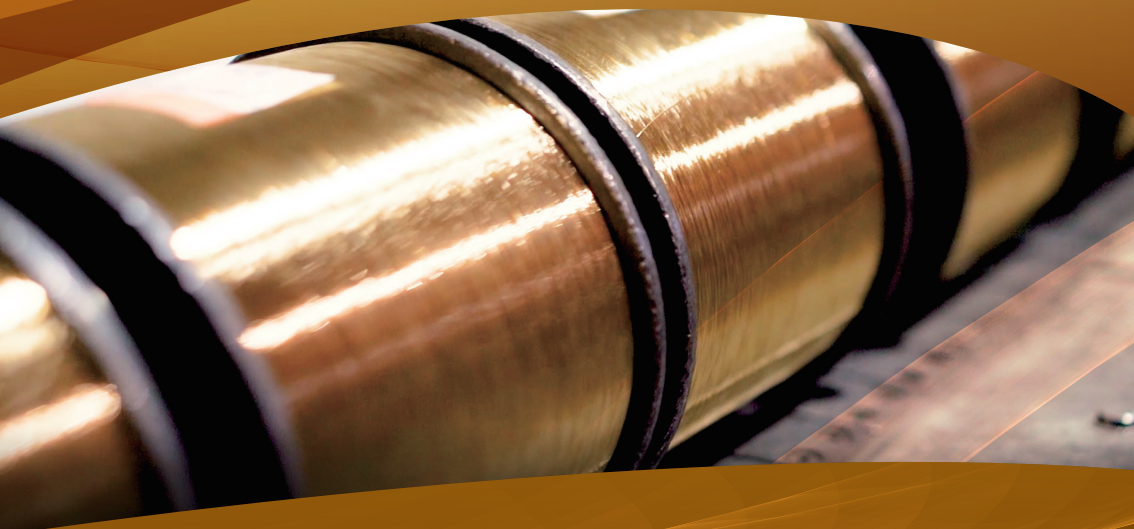


SHOUGANG CENTURY HOLDINGS LIMITED

Stock Code: 103

2022

INTERIM REPORT



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CORPORATE INFORMATION

As at 26 August 2022

Board of Directors

Executive Directors

Su Fanrong (*Chairman and Managing Director*)
Yang Junlin (*Deputy Managing Director*)
Ye Qian
Li Jinping

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 26 August 2022

Principal Bankers	Agricultural Bank of China Bank of China Bank of China (Hong Kong) China CITIC Bank Chong Hing Bank Fubon Bank Industrial and Commercial Bank of China The Bank of East Asia
Auditor	PricewaterhouseCoopers <i>Certified Public Accountants and Registered PIE Auditor</i>
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
HKEx Stock Code	103
Listing Date	9 April 1992

INFORMATION FOR INVESTORS

Share Information

Board lot size:	2,000 Shares
Shares outstanding as at 30 June 2022:	1,971,379,828 Shares
Market capitalisation as at 30 June 2022:	HK\$532,272,554
Closing Share price as at 30 June 2022:	HK\$0.27
Basic earnings per Share for the six months ended 30 June 2022:	HK1.55 cents

Key Date

Announcement of 2022 Interim Results:	26 August 2022
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Investor Relations Contact

Address	:	Room 1215, 12/F., Honour Industrial Centre 6 Sun Yip Street, Chai Wan, Hong Kong
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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 7 to 44, which comprises the condensed consolidated statement of financial position of Shougang Century Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 and the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. 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”. 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, 26 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations			
Revenue	6	1,253,473	1,283,336
Cost of sales	8	(1,087,351)	(1,056,450)
Gross profit		166,122	226,886
Other income	6	18,486	1,232
Other gains/(losses), net	7	13,792	(16,882)
Selling and distribution expenses	8	(59,306)	(61,986)
Administrative expenses	8	(29,178)	(29,149)
Research and development expenses	8	(55,770)	(47,044)
Foreign exchange gains/(losses), net		4,030	(8,668)
Changes in fair values of investment properties (Net impairment losses)/net reversal of	13(a)	–	(450)
impairment losses on financial assets	14(c)	(758)	2,994
Finance costs, net	9	(23,475)	(7,140)
Profit before income tax		33,943	59,793
Income tax expense	10	(3,674)	(7,537)
Profit from continuing operations		30,269	52,256
Discontinued operation			
Loss from discontinued operation	20	–	–
Profit for the period		30,269	52,256
		HK cents	HK cents
Earnings per share for profit from continuing operations attributable to the owners of the Company			
– Basic	11	1.55	2.75
– Diluted	11	1.00	2.63
Earnings per share for profit for the period attributable to the owners of the Company			
– Basic	11	1.55	2.75
– Diluted	11	1.00	2.63

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Profit for the period		30,269	52,256
Other comprehensive (loss)/income arising from continuing operations			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences arising on translation into presentation currency		(82,171)	19,834
Revaluation of leasehold land and buildings	13(b)	–	1,644
Recognition of deferred income tax liability on revaluation of leasehold land and buildings		–	(261)
		(82,171)	21,217
Other comprehensive (loss)/income arising from discontinued operation			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences arising on translation into presentation currency	20	–	483
Total comprehensive (loss)/income for the period, net of tax		(51,902)	73,956
Total comprehensive (loss)/income for the period arises from:			
– Continuing operations		(51,902)	73,473
– Discontinued operation	20	–	483
		(51,902)	73,956

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
ASSETS			
Non-current assets			
Investment properties	13(a)	55,914	57,446
Property, plant and equipment	13(b)	1,244,591	1,306,197
Right-of-use assets		2,290	2,914
Land use rights		137,886	146,264
Intangible assets		–	–
Prepayments and deposits		9,467	38,592
Deferred income tax assets		462	467
Total non-current assets		1,450,610	1,551,880
Current assets			
Inventories		505,815	463,878
Trade receivables	14	718,547	795,968
Bills receivable	14	710,630	812,204
Prepayments, deposits and other receivables		79,146	77,803
Current income tax recoverables		–	2,637
Pledged bank deposits		145,879	195,867
Bank balances and cash		159,243	73,487
Total current assets		2,319,260	2,421,844
Total assets		3,769,870	3,973,724
LIABILITIES			
Non-current liabilities			
Other payables		274	278
Lease liabilities		1,100	1,738
Deferred income tax liabilities		22,958	23,448
Total non-current liabilities		24,332	25,464

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2022

	Notes	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Current liabilities			
Trade and bills payables	15	953,054	1,119,498
Other payables and accruals	16	324,457	405,273
Current income tax liabilities		3,942	1,631
Loan from a related company	17	23,487	24,570
Bank borrowings	18	592,097	479,838
Lease liabilities		1,259	1,226
Financial liability at fair value through profit or loss	19	142,198	183,278
Total current liabilities		2,040,494	2,215,314
Total liabilities		2,064,826	2,240,778
EQUITY			
Share capital	21	1,215,798	1,191,798
Reserves		489,246	541,148
Total equity		1,705,044	1,732,946
Total equity and liabilities		3,769,870	3,973,724

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	(Unaudited)						
	Share capital HK\$'000	Capital reserve HK\$'000 <i>(Note i)</i>	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC reserve funds HK\$'000 <i>(Note ii)</i>	Accumulated losses HK\$'000	Total 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 21)	24,000	-	-	-	-	-	24,000
At 30 June 2022	1,215,798	23,990	140,717	273,985	90,450	(39,896)	1,705,044

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2022

	(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 2021							
At 1 January 2021	1,191,798	23,990	147,738	314,055	82,047	(114,057)	1,645,571
Comprehensive income							
Profit for the period	-	-	-	-	-	52,256	52,256
Other comprehensive income/(loss)							
Exchange differences arising on translation into presentation currency	-	-	-	20,317	-	-	20,317
Revaluation of leasehold land and buildings (Note 13(b))	-	-	1,644	-	-	-	1,644
Recognition of deferred income tax liability on revaluation of leasehold land and buildings	-	-	(261)	-	-	-	(261)
Total comprehensive income for the period	-	-	1,383	20,317	-	52,256	73,956
Transaction with owners in their capacity as owners							
Buy-back of ordinary shares	-	-	-	-	-	(104)	(104)
Transfer to PRC reserve funds	-	-	-	-	8,403	(8,403)	-
At 30 June 2021	1,191,798	23,990	149,121	334,372	90,450	(70,308)	1,719,423

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 2022

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	37,334	140,749
PRC corporate income tax refunded/(paid), net	838	(12,224)
Net cash generated from operating activities from continuing operations	38,172	128,525
Net cash used in operating activities from discontinued operation	–	(15)
Net cash generated from operating activities	38,172	128,510
Cash flows from investing activities		
Placement of pledged bank deposits	(150,604)	(103,545)
Withdrawal of pledged bank deposits	193,324	85,277
Purchase of property, plant and equipment	(100,735)	(84,751)
Prepayments for the acquisition of property, plant and equipment	(6,265)	(29,366)
Proceeds from disposals of property, plant and equipment	807	865
Interest received	1,380	653
Net cash used in investing activities from continuing operations	(62,093)	(130,867)
Net cash generated from investing activities from discontinued operation	–	–
Net cash used in investing activities	(62,093)	(130,867)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Cash flows from financing activities		
Interest paid	(8,088)	(9,105)
Loan transaction costs paid	(368)	(1,254)
Payments for principal elements of lease liabilities	(606)	(597)
Proceeds from bank borrowings	480,495	376,640
Repayment of bank borrowings	(353,647)	(351,339)
Proceeds from loan from a related company	–	24,036
Settlement of convertible bonds	(2,984)	(3,000)
Share repurchase	–	(104)
Net cash generated from financing activities from continuing operations	114,802	35,277
Net cash used in financing activities from discontinued operation	–	–
Net cash generated from financing activities	114,802	35,277
Net increase in cash and cash equivalents	90,881	32,920
Cash and cash equivalents at 1 January	73,487	93,262
Exchange (losses)/gains on cash and cash equivalents	(5,125)	1,054
Cash and cash equivalents at 30 June	159,243	127,236

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2022

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 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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 and interpretations adopted by the Group

A number of new or amended standards became effective for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Projects	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

None of these has material impact on the Group's accounting policies and did not require any adjustments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

3. ACCOUNTING POLICIES (continued)

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

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2022 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 2023
HKFRS 17 and amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to Hong Kong Interpretation 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
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 new standards, interpretations and amendments will be in the period of initial application. It is not yet in a position to state whether these new standards, interpretation and amendments will have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

4. FAIR VALUE ESTIMATION

The table below analyses the Group's financial instrument carried at fair value as at 30 June 2022 and 31 December 2021 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 liability that is measured at fair value as at 30 June 2022 and 31 December 2021:

	(Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2022				
Financial liability at fair value through profit or loss				
– Convertible bonds	–	–	142,198	142,198

	(Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2021				
Financial liability at fair value through profit or loss				
– Convertible bonds	–	–	183,278	183,278

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

4. FAIR VALUE ESTIMATION (continued)

4.1 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 financial instruments for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Financial liability at fair value through profit or loss – Convertible bonds		
At beginning of the period	183,278	168,482
Settlement	(2,984)	(3,000)
Conversion	(24,000)	–
Fair value (gain)/loss recognised in profit or loss (Note 7)	(14,096)	11,493
At end of the period	142,198	176,975

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

4. FAIR VALUE ESTIMATION (continued)

4.1 Fair value measurements using significant unobservable inputs (level 3) (continued)

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 30 June 2022 and 31 December 2021 are:

Valuation techniques	Unobservable inputs	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)
Black-Scholes model with Trinomial Tree method	Dividend yield	5.56%	4.35%
	Volatility	49.71%	44.70%

If the dividend yield increased by 1%, the impact on profit would be HK\$568,000 (31 December 2021: HK\$1,390,000) higher. The higher the dividend yield, the lower the fair value.

If the volatility increased by 5%, the impact on profit would be HK\$2,398,000 (31 December 2021: HK\$3,801,000) lower. The higher the volatility, the higher the fair value.

5. SEGMENT INFORMATION

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

The Group's operations are currently organised into one reportable segment which is steel cord segment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5. SEGMENT INFORMATION (continued)

Segment results represent the profit or loss of each segment without allocation of changes in fair value of investment properties and financial liability at fair value through profit or loss, 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 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 from continuing operations	30,269
Loss from discontinued operation	–
Profit for the period	30,269

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2021

	Steel cord (Unaudited) HK\$'000
Sales of goods:	
Segment revenue from external customers	1,282,582
Segment results	88,942
Unallocated amounts	
Rental income	754
Other income	135
Other losses, net and foreign exchange losses, net	(11,493)
Changes in fair values of investment properties	(450)
Expenses	(10,955)
Finance costs, net	(7,140)
Profit before income tax	59,793
Income tax expense	(7,537)
Profit from continuing operations	52,256
Loss from discontinued operation	–
Profit for the period	52,256

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

6. REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Revenue		
Sales of goods – Manufacturing of steel cords	1,252,713	1,282,582
Rental income	760	754
	1,253,473	1,283,336
Other income		
Government grants (Note)	17,186	514
Sales of scrap materials	1,105	509
Others	195	209
	18,486	1,232

Note:

Government grants mainly represented financial supports for business development by the local governments in the PRC (2021: same). There are no unfulfilled conditions or other contingencies attaching to these grants.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

7. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Fair value gain/(loss) on a financial liability at fair value through profit or loss	14,096	(11,493)
Gain/(loss) on disposals of property, plant and equipment, net	606	(689)
Impairment losses on property, plant and equipment (Note 13(b))	(396)	(4,697)
Others	(514)	(3)
	13,792	(16,882)

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	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Cost of inventories sold (including net provision for/ reversal of provision for inventories)	1,079,688	1,050,151
Employee benefit expense (including directors' emoluments)	146,409	139,534
Depreciation of property, plant and equipment	55,111	51,446
Depreciation of right-of-use assets	625	592
Amortisation of land use rights	2,014	1,999
Auditor's remuneration		
– Audit services	728	728
– Non-audit services	398	398

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

9. FINANCE COSTS, NET

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Finance income		
Interest income on bank deposits	1,380	653
Foreign exchange gains on borrowings	–	2,750
Foreign exchange gains on financial liability at fair value through profit or loss (Note)	–	1,965
	1,380	5,368
Finance costs		
Interest expenses on bank borrowings	(11,230)	(11,118)
Interest expenses on loan from a related company	(668)	(100)
Interest expenses on lease liabilities	(71)	(36)
Loan transaction costs	(368)	(1,254)
Foreign exchange losses on borrowings	(5,318)	–
Foreign exchange losses on financial liability at fair value through profit or loss (Note)	(7,200)	–
	(24,855)	(12,508)
Finance costs, net	(23,475)	(7,140)

Note:

It represented fair value change on financial liability at fair value through profit or loss attributable to foreign exchange translation (Note 19).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current income tax:		
– PRC corporate income tax	4,203	7,317
Overprovision in prior periods	(606)	–
Total current income tax	3,597	7,317
Deferred income tax	77	220
Income tax expense	3,674	7,537
Income tax expense is attributable to:		
– Continuing operations	3,674	7,537
– Discontinued operation (Note 20)	–	–
	3,674	7,537

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 2022 and 2021 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 tax 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 ("JESC") and Tengzhou Eastern Steel Cord Co., Ltd ("TESC") was 15% for the six months ended 30 June 2022 and 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 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	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to the owners of the Company used in calculating basic earnings per share		
– Continuing operations (HK\$'000)	30,269	52,256
– Discontinued operation (HK\$'000)	–	–
	30,269	52,256
Weighted average number of ordinary shares in issue (shares)	1,956,512,927	1,898,853,970
From continuing operations attributable to the owners of the Company (HK cents)	1.55	2.75
From discontinued operation (HK cents)	–	–
Basic earnings per share attributable to the owners of the Company (HK cents)	1.55	2.75

(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 (2021: same) of potentially dilutive ordinary shares: convertible bonds (*Note 19*) (2021: 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

11. EARNINGS PER SHARE (continued)

(b) Diluted (continued)

For the six months ended 30 June 2022 and 2021, 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.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the Company used in calculating basic earnings per share:		
– Continuing operations (HK\$'000)	30,269	52,256
– Discontinued operation (HK\$'000)	–	–
	30,269	52,256
Profit adjustment for convertible bonds (HK\$'000)	(6,896)	9,528
	23,373	61,784
Weighted average number of ordinary shares in issue (shares)	1,956,512,927	1,898,853,970
Adjustment for convertible bonds (shares)	381,818,182	454,545,454
Weighted average number of ordinary shares for diluted earnings per share (shares)	2,338,331,109	2,353,399,424
From continuing operations attributable to the owners of the Company (HK cents)	1.00	2.63
From discontinued operation (HK cents)	–	–
Diluted earnings per share attributable to the owners of the Company (HK cents)	1.00	2.63

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

12. DIVIDENDS

At a board meeting held on 25 March 2022, the directors of the Company recommended the payment of a final dividend of HK1.5 cents per fully paid ordinary share, totalling approximately HK\$29,571,000 for the year ended 31 December 2021, which was paid in July 2022.

No interim dividend has paid or proposed for the six months ended 30 June 2022 and 2021.

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

(a) Investment properties

The movement of the net book amount for investment properties is as follows:

	Leasehold land and buildings (Unaudited) HK\$'000
At 1 January 2021	53,874
Changes in fair values recognised in profit or loss	(450)
Exchange differences	363
	<hr/>
At 30 June 2021	53,787
	<hr/>
At 1 January 2022	57,446
Exchange differences	(1,532)
	<hr/>
At 30 June 2022	55,914
	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

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
At 1 January 2021	1,178,174
Additions	134,250
Disposals	(1,553)
Depreciation	(51,446)
Revaluation	1,644
Impairment loss (Note 7)	(4,697)
Exchange differences	15,550
	<hr/>
At 30 June 2021	1,271,922
	<hr/>
At 1 January 2022	1,306,197
Additions	55,636
Disposals	(201)
Depreciation	(55,111)
Impairment loss (Note 7)	(396)
Exchange differences	(61,534)
	<hr/>
At 30 June 2022	1,244,591

As at 30 June 2022, buildings located in the PRC amounting to HK\$183,494,000 (31 December 2021: HK\$194,288,000) and plant and machinery amounting to HK\$34,274,000 (31 December 2021: HK\$38,760,000) are pledged to secure bank borrowings and loan from a related company respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

14. TRADE RECEIVABLES AND BILLS RECEIVABLE

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Trade receivables (Note (a))	740,721	818,370
Less: provision for impairment losses on trade receivables (Note (c))	(22,174)	(22,402)
	718,547	795,968
Bills receivable (Note (b))	710,630	812,204
	1,429,177	1,608,172

(a) Trade receivables

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

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Up to 90 days	461,941	559,209
91 to 180 days	235,139	200,425
Over 180 days	43,641	58,736
	740,721	818,370

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

14. TRADE RECEIVABLES AND BILLS RECEIVABLE (continued)

(b) Bills receivable

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

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Up to 90 days	163,100	97,875
91 to 180 days	282,854	361,525
Over 180 days	264,676	352,804
	710,630	812,204

As at 30 June 2022, the Group's bills receivable mature within one year (31 December 2021: 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	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
At beginning of the period	22,402	28,958
Net impairment losses/(net reversal of impairment losses) on trade receivables for the period		
– Continuing operations	758	(2,994)
– Discontinued operation (Note 20)	–	–
Exchange differences	(986)	371
At end of the period	22,174	26,335

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

15. TRADE AND BILLS PAYABLES

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Trade payables (Note (a))	550,243	625,882
Bills payable (Note (b))	402,811	493,616
	953,054	1,119,498

(a) Trade payables

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

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Up to 30 days	185,250	234,388
31 to 90 days	158,557	200,353
91 to 180 days	155,027	124,141
181 to 365 days	46,110	60,457
Over 365 days	5,299	6,543
	550,243	625,882

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

15. TRADE AND BILLS PAYABLES (continued)

(b) Bills payable

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

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Up to 30 days	71,166	132,620
31 to 90 days	191,740	48,546
91 to 180 days	126,797	301,733
Over 180 days	13,108	10,717
	402,811	493,616

16. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Contract liabilities	655	922
Accrued wages and salaries	23,215	27,412
Other tax payables	4,606	8,645
Other accruals	5,948	7,762
Other payables (including payables for property, plant and equipment)	290,033	360,532
	324,457	405,273

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

17. LOAN FROM A RELATED COMPANY

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Loan from South China International Leasing Co., Ltd. ("South China Leasing") (Note)	23,487	24,570

Note:

On 31 May 2021, TESC, an indirect wholly-owned subsidiary of the Company, had entered into the finance lease agreement ("Agreement") with South China Leasing, an associate of Shougang Holding (Hong Kong) Limited ("Shougang HK"), whereby TESC agreed to sell certain machineries and equipment ("Machineries and Equipment") to South China Leasing at the purchase consideration of RMB20,000,000 (equivalent to approximately HK\$24,000,000) and South China Leasing agreed to lease back the Machineries and Equipment to TESC for the lease consideration of approximately RMB21,800,000 (equivalent to approximately HK\$26,160,000), comprising the rental principal of RMB20,000,000 (equivalent to approximately HK\$24,000,000), the lease interest of approximately RMB1,650,000 (equivalent to approximately HK\$1,980,000) calculated on the basis of fixed interest rate of 5.5% per annum and the lease handling fee of RMB150,000 (equivalent to approximately HK\$180,000), for a lease term of eighteen (18) months.

As collaterals for the above financing, (i) TESC transferred the ownership title of Machineries and Equipment to South China Leasing; and (ii) the Company entered into a guarantee agreement in favour of South China Leasing for the payment obligations of TESC under the Agreement.

Upon discharging TESC's obligations under the Agreement, South China Leasing will return the ownership title of the Machineries and Equipment to TESC for a nominal purchase price of RMB2,000 (equivalent to approximately HK\$2,400). Despite the Agreement involves a legal form of a lease, the Group accounted for the Agreement as collateralised borrowing in accordance with the substance of the Agreement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

18. BANK BORROWINGS

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Bank loans	494,768	397,620
Discounted bills with recourse	97,329	82,218
	592,097	479,838
Current portion	592,097	479,838
Secured	132,409	153,195
Unsecured	459,688	326,643
	592,097	479,838

The Group's bank borrowings were repayable as follows:

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Within 1 year	592,097	479,838

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

As at 30 June 2022, the carrying amount of fixed rate bank borrowings and variable rate bank borrowings are approximately HK\$542,097,000 (31 December 2021: HK\$479,838,000) and HK\$50,000,000 (31 December 2021: Nil) respectively.

The discounted bills with recourse carry fixed rate.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

18. 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 2022 (Unaudited)	As at 31 December 2021 (Audited)
Effective interest rate per annum:		
Fixed rate borrowings	0.65% to 5.66%	0.65% to 5.66%
Variable rate borrowing	3.76% to 3.84%	N/A

19. 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. (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)

For the six months ended 30 June 2022

19. 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 30 June 2022 and 31 December 2021 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

20. DISCONTINUED OPERATION

In September 2019, the Group discontinued the processing and trading of copper and brass products business in the PRC. Accordingly, the financial results of the discontinued business are presented in the condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income as discontinued operation in accordance with HKFRS 5 “Non-current Assets Held for Sales and Discontinued Operations” issued by the HKICPA. Relevant entity was deregistered in January 2021. The financial performance presented is for the six months ended 30 June 2021.

	Six months ended 30 June 2021 (Unaudited) HK\$'000
Expenses	–
Reversal of net impairment losses on financial assets (<i>Note 14(c)</i>)	–
Loss before income tax	–
Income tax expense (<i>Note 10</i>)	–
Loss from discontinued operation	–
Other comprehensive income	
Exchange differences arising on translation into presentation currency	483
Total comprehensive income from discontinued operation	483
Net cash used in operating activities	(15)
Net cash generated from investing activities	–
Net cash used in financing activities	–
Net decrease in cash and cash equivalents	(15)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

21. SHARE CAPITAL

	Number of shares	
	In thousand	HK\$'000
Issued and fully paid:		
At 1 January 2021	1,899,025	1,191,798
Cancellation of shares (<i>Note (a)</i>)	(372)	–
At 30 June 2021	1,898,653	1,191,798
At 1 January 2022	1,898,653	1,191,798
Issuance of ordinary shares pursuant to the conversion of convertible bonds (<i>Note (b)</i>)	72,727	24,000
At 30 June 2022	1,971,380	1,215,798

Notes:

- (a) During the six months ended 30 June 2021, the Company repurchased 372,000 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 2021. The total amount paid for the share repurchase was approximately HK\$104,000 and was charged to retained earnings within shareholders' equity.
- (b) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

22 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 (the “Expiry Date”).

Since the adoption of the 2012 Scheme, no options have been granted, exercised, lapsed, cancelled or outstanding thereunder as at the Expiry Date.

23. CAPITAL COMMITMENTS

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for at the end of reporting period but not recognised as liabilities	41,911	59,132

24 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

24 RELATED PARTY TRANSACTIONS/BALANCES (continued)

(i) Transactions with PRC government-related entities

(a) Transactions with Shougang Group

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Consultancy fees paid and payable	1,380	1,380
Interest expenses on loan	668	100
Loan transaction costs	–	181
Proceeds from loan	–	24,036
Settlement of convertible bonds	2,984	3,000
Conversion of convertible bonds	24,000	–

(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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

24 RELATED PARTY TRANSACTIONS/BALANCES (continued)

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

(a) Transaction with a shareholder

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Continuing operations		
Royalty expenses	859	319

(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	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Director fees	–	–
Salaries and other benefits	1,339	1,336
Retirement benefit scheme contributions	9	9
	1,348	1,345

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

25. STATEMENT REQUIRED BY SECTION 436(3) OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) (THE "COMPANIES ORDINANCE") IN RELATION TO THE PUBLICATION OF THE NON-STATUTORY ACCOUNTS FOR THE COMPARATIVE FINANCIAL INFORMATION INCLUDED IN THIS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The financial information relating to the year ended 31 December 2021 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 2021 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).

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 2022, the Group recorded revenue of the continuing operations of approximately HK\$1,253,473,000 (2021: HK\$1,283,336,000), representing a decrease of approximately 2.3% as compared with the last corresponding period. Meanwhile, the gross profit for the continuing operations decreased by 26.8% to HK\$166,122,000 (2021: HK\$226,886,000). Therefore, the Group's net profit for the period decreased by 42.1% from the same period last year of HK\$52,256,000 to HK\$30,269,000. The Board considers that the decrease in profit after tax was mainly attributable to the impact of the resurgence of the COVID-19 pandemic on economic activities, which led to (i) a decline in automotive sales and reduction in transportation volume, weakening the demand of accessorial and replacement tyres; and (ii) the fact that the increase in energy and raw material costs could not be fully passed to the downstream, resulting in the reduction in gross profit.

Despite the above situation, the Group's overall operational and financial position remains stable. Bank balances and cash (including pledged bank deposits) as at 30 June 2022 were HK\$305,122,000, higher than those at 31 December 2021. In response to the current challenging operating environment under the ongoing COVID-19 pandemic and the volatile international economic conditions stemmed from geopolitical conflicts, the Group will continue to closely monitor the market situations and make necessary adjustments to its strategies and operations to improve efficiency and profitability.

Business Review

In the first half of 2022, the rebound of pandemic has negatively affected the economic and social activities as well as inflation globally which are worsened by the lingering global supply chain disruption and the Russia-Ukraine conflict. According to the statistics published by the National Bureau of Statistics of China, in the first half of 2022, the gross domestic product of China grew by 2.5% year-on-year to RMB56.3 trillion. However, the total national car sales from January to June 2022 released by the China Association of Automobile Manufacturers fell by 6.6% to approximately 12.06 million units as compared with the corresponding period last year. The demand for radial tyres from the automobile and transportation sectors softened as a result.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Affected by the weaker demand of radial tyres, the steel cord segment sold 94,129 tonnes of steel cord during the period, decreased by 11.2% as compared to 105,947 tonnes in the same period last year. In respect of the sales of sawing wire products, it increased by 27% from 252 tonnes to 320 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 4.3% increase in the sales of our other wire products from 4,560 tonnes to 4,755 tonnes for the corresponding period. The sales volume of this segment for the period is analysed as follows:

	Six months ended 30 June				% change
	2022	% of total sales volume of steel cord	2021	% of total sales volume of steel cord	
	Sales volume (Tonnes)		Sales volume (Tonnes)		
Steel cords for:					
– truck tyres	56,181	59.7	73,833	69.7	-23.9
– off the road truck tyres	4,137	4.4	3,318	3.1	24.7
– passenger car tyres	33,811	35.9	28,796	27.2	17.4
Total for steel cords	94,129	100.0	105,947	100.0	-11.2
Sawing wire products	320		252		27.0
Other wire products	4,755		4,560		4.3
Total	99,204		110,759		-10.4

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review

Revenue

Revenue for the continuing operations of the Group amounted to HK\$1,253,473,000 (2021: HK\$1,283,336,000) for the period, decreased by 2.3% over the same period last year. The breakdown of revenue of the Group for the period is as follows:

	Six months ended 30 June		2021		% change
	2022 HK\$'000	% of total revenue	HK\$'000	% of total revenue	
Steel cord/wire products	1,252,713	99.9	1,282,582	99.9	-2.3
Property rental	760	0.1	754	0.1	0.8
Total	1,253,473	100.0	1,283,336	100.0	-2.3

Gross profit

The gross profit for the continuing operations of the Group decreased by 26.8% over the same period last year to HK\$166,122,000 (2021: HK\$226,886,000), mainly because the increase in energy and raw material costs for the steel cord segment could not be fully passed to the downstream in the first half of 2022. Therefore, the gross profit margin of the Group decreased from 17.7% to 13.3%. The breakdown of gross profit of the Group for the period is as follows:

	Six months ended 30 June		2021		% change
	2022 HK\$'000	Gross profit margin (%)	HK\$'000	Gross profit margin (%)	
Steel cord/wire products	165,509	13.2	226,175	17.6	-26.8
Property rental	613	80.7	711	94.3	-13.8
Total	166,122	13.3	226,886	17.7	-26.8

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Other gains/(losses), net

Other gains/(losses), net for the continuing operations of the Group for the six months ended 30 June 2022 recorded the gains of HK\$13,792,000 while that for the six months ended 30 June 2021 recorded the losses of HK\$16,882,000. This was primarily due to HK\$14,096,000 in fair value gain on Convertible Bonds in the current period.

Selling and distribution expenses

Selling and distribution expenses for the continuing operations amounted to HK\$59,306,000 (2021: HK\$61,986,000) for the period, decreased by HK\$2,680,000 over the same period last year, mainly due to the decrease in sales volume. The ratio of selling and distribution expenses to revenue slightly reduced from 4.8% to 4.7%.

Administrative expenses

Administrative expenses for the continuing operations amounted to HK\$29,178,000 (2021: HK\$29,149,000) for the period, increased by HK\$29,000 as compared to the same period last year. Due to stricter cost control, the ratio of administrative expenses to revenue maintained at 2.3%.

Research and development expenses

Research and development expenses for the continuing operations of the Group amounted to HK\$55,770,000 for the period, increased by HK\$8,726,000 as compared to HK\$47,044,000 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 risks. 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 denominated in 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.

There was an increase in the total number of issued shares of the Company during the period due to conversion of the Convertible Bonds. The total number of issued shares of the Company was 1,971,379,828 Shares as at 30 June 2022 (31 December 2021: 1,898,652,556 Shares). Net asset value of the Group was HK\$1,705,044,000 as at 30 June 2022, decreased by 1.6% as compared to HK\$1,732,946,000 as at 31 December 2021. The decrease in net asset value was mainly due to the depreciation of RMB as at 30 June 2022. Net asset value per Share recorded HK\$0.86 as at 30 June 2022.

Bank balances and cash and interest bearing borrowings

The Group's bank balances and cash (including pledged bank deposits) amounted to HK\$305,122,000 as at 30 June 2022, increased by 13.3% as compared to HK\$269,354,000 as at 31 December 2021. Total interest bearing borrowings of the Group (comprised of loan from a related company, bank borrowings and Convertible Bonds) were HK\$757,782,000 as at 30 June 2022, increased by 10.2% as compared to HK\$687,686,000 as at 31 December 2021. The amount of net interest bearing borrowings (total interest bearing borrowings less bank balances and cash) therefore increased from HK\$418,332,000 as at 31 December 2021 to HK\$452,660,000 as at 30 June 2022.

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 increased from 24.1% as at 31 December 2021 to 26.5% as at 30 June 2022. The current ratio (calculated as current assets divided by current liabilities) of the Group maintained at 1.1 times as at 30 June 2022 and 31 December 2021. 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 for the six months ended 30 June 2022 were at fixed and variable rates. During the period under review, the Group did not use any derivatives instrument for hedging purposes.

We continuously review and adjust the currency composition of our interest bearing borrowings from time to time to minimise our risks on exchange rate 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 2022.

Capital Commitments

As at 30 June 2022, the Group had commitments in respect of the acquisition of property, plant and equipment amounted to approximately HK\$41,911,000.

Business Development Plan

In 2019, TESC entered into agreements with the Tengzhou governmental authorities 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 construction of the factory plant, ancillary facilities and peripheral roads. The new production line of brass wire in the project is expected to bring positive impact on the performance of the steel cord segment as some of the existing production lines of brass wires of JESC, which have been in use for over 20 years, incurs high maintenance and operation cost with relatively low production efficiency and quality instability. The project is carried out by phases according to the market conditions and the financial capacity of the Group 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

As at 30 June 2022, the Group had a total of 2,345 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. Their 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 profit or loss for the period under review amounted to approximately HK\$18,322,000.

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 contingent liabilities as at 30 June 2022.

As at 30 June 2022, the carrying amounts of assets pledged as security for bills payable, bank borrowings and loan from a related company are:

1. Leasehold land and buildings with an aggregate net book value of HK\$183,494,000;
2. Plant and machinery with an aggregate net book value of HK\$34,274,000;
3. Land use rights with an aggregate amount of HK\$58,780,000; and
4. Pledged bank deposit of HK\$145,879,000.

Business Outlook

The COVID-19 pandemic had inevitable impacts on the world economy since 2020. Following the active implementation of effective measures to prevent and control the pandemic by the PRC government, China's economy sustained overall stability and has gradually resumed steady growth since the late first quarter of 2020. In the beginning of 2021, the rollout of effective vaccination programs globally has eased the pandemic and returning our daily life to normalcy. However, the risk posed by the new virus variants and Sino-American relations became more uncertain in the first half of 2022 which have led to supply disruptions of the market lasting longer than expected, and such global supply has caused further inflation in many countries. Therefore, it resulted in the decrease in the net profit for the six months ended 30 June 2022. The second half of the year will still be challenging but we are confident and satisfied with the future prospects of our business in light of the followings:

- With various incentives measures introduced by the PRC government, market consumer confidence will be significantly restored. The effect of the policy of halving the purchase tax will continue to show the recovery momentum of the passenger car market will further increase;
- 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;

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Outlook (continued)

- By taking into consideration the PRC 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;
- 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; and
- Steel cord/wire manufacturing is undoubtedly our mainstay but in the second half of the year, we will make a dedicated exploration in other businesses which we believe to have either a synergetic effect on our principal business or be able to fuel our growth in the 14th Five-Year Plan.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 2022.

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

As at 30 June 2022, 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2022, 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	906,719,179	45.99	Interests of controlled corporations ^{Note (1)}
Jingxi Holdings	454,545,454	23.06	Beneficial owner ^{Note (2)}
Shougang Fund	454,545,454	23.06	Interests of controlled corporations ^{Note (3)}
Shougang Group	1,361,264,633	69.05	Interests of controlled corporations ^{Note (4)}
Bekaert Combustion	250,000,000	12.68	Beneficial owner
Bekaert	250,000,000	12.68	Interests of controlled corporations ^{Note (5)}
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 and is deemed to be interested in 12,370,000 Shares held by Lyre Terrace Management Limited ("Lyre Terrace"), a subsidiary of Capital Industrial Financial as Shougang HK is the holding company of Capital Industrial Financial.

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

Long position in Shares or underlying Shares (continued)

Notes: (continued)

- (2) On 11 January 2022, the Company received a notice from Jingxi Holdings to extend the maturity date of the Convertible Bonds by one year to 11 February 2023. Besides, the Company received a conversion notice from Jingxi Holdings in relation to the exercise of the Conversion Rights 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 per Conversion Share. Accordingly, on 7 February 2022, 72,727,272 Conversion Shares were allotted and issued to Jingxi Holdings in accordance with the terms and conditions of the Convertible Bonds. Immediately after the conversion and the issue of the Conversion Shares, the Shares held by Jingxi Holdings represent 72,727,272 Conversion Shares and 381,818,182 underlying Shares to be allotted and issued upon the exercise of Conversion Rights attaching to the Convertible Bonds.
- (3) As mentioned under Note (2) above, by virtue of the SFO, Shougang Fund is deemed to be interested in 72,727,272 Conversion Shares and 381,818,182 underlying Shares held by Jingxi Holdings, which is a wholly-owned subsidiary of Shougang Fund.
- (4) Shougang Group is the ultimate holding company of Shougang HK and by virtue of the SFO, Shougang Group is deemed to be interested in 894,349,179 Shares held by Fair Union as Fair Union is Shougang HK's wholly-owned subsidiary and Shougang Group is deemed to be interested in 12,370,000 Shares held by Lyre Terrace, a subsidiary of Capital Industrial Financial as Shougang Group is the ultimate holding company of Capital Industrial Financial. As mentioned under Notes (2) and (3) above, and by virtue of the SFO, Shougang Group is also deemed to be interested in the 454,545,454 Shares (including 72,727,272 Conversion Shares and 381,818,182 underlying Shares) held by Jingxi Holdings, a wholly-owned subsidiary of Shougang Fund, which is a wholly-owned subsidiary of Shougang Group.
- (5) By virtue of the SFO, Bekaert is deemed to be interested in 250,000,000 Shares held by Bekaert Combustion, which is a wholly-owned subsidiary of Bekaert.

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 Director are as follows:

Mr. Yang Junlin ("Mr. Yang"), was appointed as an executive Director and a deputy managing Director with effect from 1 July 2022 and 8 July 2022 respectively. At present, he also holds directorship in the wholly-owned subsidiaries of the Company. He graduated from Nankai University with a Bachelor degree in Management. Mr. Yang had been working in various companies under Shougang Group since 2003 and held various senior positions. Mr. Yang had been the general manager of the finance department of Shougang HK prior to his appointment as an executive Director. Mr. Yang is currently a director of various companies (including South China International Leasing Co., Ltd.) under Shougang Group. In all, Mr. Yang has been engaged in financial management for years and has extensive experience and expertise in financing and capital market.

Other than the directorship disclosed above, Mr. Yang has not previously held any position with the Company and/or its subsidiaries, and does not previously held 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.

The current service contract was entered into between Mr. Yang and the Company for a fixed term commencing from 8 July 2022 to 31 December 2024. Mr. Yang is currently entitled to receive a monthly salary of HK\$200,000. Such salary has been recommended by the remuneration committee of the Company and determined by the Board with 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.

Mr. Lam Yiu Kin, being the independent non-executive Director, retired as an independent non-executive director of WWPKG Holdings Company Limited with effect from 2 August 2022.

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 2022, except for deviations from code provisions C.2.1 (previous code provision A.2.1) and C.3.3 (previous code provision D.1.4) 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 Code which stipulates that the roles of chairman and managing director should be separate and should not be performed by the same person. In consideration of Mr. Su’s extensive knowledge and experience in various aspects, in particular the management in the steel industry and sales area, the Board considers this present arrangement still enables the Company to make decisions promptly in the formulation and implementation of the Company’s strategies in achieving corporate goals. In addition, the Board comprises individuals with experienced, high-calibre and adequate independent element in the composition of the Board, and major decisions are made in consultation with the Board members, relevant Board committees and management. The Board is therefore of the view that there are sufficient checks and balances amongst the Board to reach decisions in the interests of the Company and its Shareholders as a whole. The Board will review the management structure from time to time and the need to separate the roles of chairman and managing Director into two individuals.

CORPORATE GOVERNANCE CODE (continued)

Deviation from code provision C.3.3 of the Code

According to the subscription agreement and further agreement dated 22 September 2006 and 24 February 2015 respectively entered into by the Company and Bekaert, Bekaert nominated Mr. Adam Touhig (“Mr. Touhig”) as a non-executive director of the Company. Mr. Touhig does not have any formal letter of appointment setting out the key terms and conditions of his appointment on 15 January 2021, which deviated from the code provision C.3.3 of the Code. Therefore, a service contract has been entered into between Mr. Touhig and the Company for a fixed term commencing from 1 August 2022 to 31 December 2024, in which Mr. Touhig is currently entitled to receive a director’s fee of HK\$150,000 per annum which is determined with 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.

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.

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 2022. 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 2022.

CORPORATE GOVERNANCE CODE (continued)

Audit Committee (continued)

In summary, the audit committee has reviewed the unaudited interim results for the six months ended 30 June 2022. 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 for the continued support and confidence from our customers, suppliers and Shareholders. I would also like to take this opportunity to express sincere gratitude to all the fellow members on the Board for their diligence, valuable contribution, as well as 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 and Managing Director

Hong Kong, 26 August 2022

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
“Conversion Price”	HK\$0.33 per Conversion Share (subject to adjustment)
“Conversion Rights”	the rights to convert the Convertible Bonds into Conversion Shares
“Conversion Share(s)”	the Share(s) issued by the Company upon the holder(s) of the Convertible Bonds exercising its/their Conversion Rights attached to the Convertible Bonds in accordance with the terms and conditions of the instrument constituting the Convertible Bonds
“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 European Union Member States

DEFINITIONS (continued)

“Fair Union”	Fair Union Holdings Limited, a wholly-owned subsidiary of Shougang HK
“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
“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 Shareholder (as defined under the SFO)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this report shall exclude Hong Kong, the Macau Special Administrative Region of the PRC 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’s 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