# Huajin International Holdings Limited
# 華津國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 2738**

Interim Report

2018

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Xu Songqing *(Chairman)*
Mr. Luo Canwen *(Chief Executive Officer)*
Mr. Chen Chunniu
Mr. Xu Songman

### Non-executive Director

Mr. Xu Jianhong

### Independent non-executive Directors

Mr. Goh Choo Hwee
Mr. Tam Yuk Sang Sammy
Mr. Wu Chi Keung

## AUDIT COMMITTEE

Mr. Wu Chi Keung *(Chairman)*
Mr. Goh Choo Hwee
Mr. Tam Yuk Sang Sammy

## REMUNERATION COMMITTEE

Mr. Tam Yuk Sang Sammy *(Chairman)*
Mr. Xu Songqing
Mr. Goh Choo Hwee
Mr. Wu Chi Keung

## NOMINATION COMMITTEE

Mr. Xu Songqing *(Chairman)*
Mr. Goh Choo Hwee
Mr. Tam Yuk Sang Sammy
Mr. Wu Chi Keung

## COMPANY SECRETARY

Mr. Wong Chak Keung

## PRINCIPAL BANKERS

Agricultural Bank of China (Muzhou Branch)
Xinhui Rural Commercial Bank (Muzhou Branch)
Jiangmen Ronghe Rural Commercial Bank (Head Office)

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.,
Two Chinachem Exchange Square,
338 King's Road, North Point,
Hong Kong

## REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

## HEADQUARTER IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Xinsha Industrial Zone of Muzhou Town
Xinhui District, Jiangmen City
Guangdong Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 518, Tower A
New Mandarin Plaza
No. 14 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

## STOCK CODE

2738

## WEBSITE

www.huajin-hk.com

# FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2018 (Unaudited)** | 2017 (Unaudited) | Change |
| Revenue *(RMB million)* | **1,426.7** | 1,384.8 | +3.0% |
| Gross profit *(RMB million)* | **76.0** | 109.4 | -30.5% |
| Gross profit margin *(%)* | **5.3%** | 7.9% | |
| EBITDA *(RMB million) (note 1)* | **68.2** | 109.3 | -37.6% |
| EBITDA margin *(%)* | **4.8%** | 7.9% | |
| Profit attributable to owners of the Company *(RMB million)* | **13.9** | 54.5 | -74.5% |
| *Net profit margin (%)* | **1.0%** | 3.9% | |
| Basic earnings per shares *(RMB cent)* | **2.32** | 9.08 | -74.4% |
| Interim dividend per share *(HK cents)* | **n/a** | 3.5 | |
| Sales volume (tonne) *(note 2)* | **303,442** | 323,659 | -6.2% |
| Average processing fee *(note 3)* per tonne *(RMB)* | **504** | 613 | -17.8% |

| | **As at 30.6.2018 (Unaudited)** | As at 31.12.2017 (Audited) | Change |
|---|---|---|---|
| Net asset value *(RMB million)* | **606.5** | 596.6 | +1.7% |
| Net asset value per share *(RMB)* | **1.01** | 0.99 | +2.0% |
| Borrowings *(RMB million)* | **1,160.5** | 958.0 | +21.1% |
| Gearing ratio *(%) (note 4)* | **191.3%** | 160.6% | |

*Notes:*

1. EBITDA is calculated at profit before taxation subtracted by finance costs, – net and adding back depreciation of property, plant and equipment, and amortisation of prepaid lease payments.

2. Sales volume of cold-rolled steel products and galvanized steel products during the reporting period.

3. The average processing fee is the difference between the average selling price and the average cost of direct materials charged for its cold-rolled steel products and galvanized steel products.

4. Gearing ratio is calculated at borrowings divided by net asset value.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is a leading cold-rolled steel processor in Guangdong Province, the PRC. The Group is principally engaged in processing of hot-rolled steel coils into cold-rolled steel products and galvanized steel products customised to the specification of the customers covering a wide range of industries, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. The Group provides processing, cutting, slitting, warehousing and delivery services on customized cold-rolled steel products and galvanized steel products.

During the first half of 2018, the Group recorded revenue of approximately RMB1,426.7 million and a profit attributable to owners of approximately RMB13.9 million, representing an increase of 3.0% and a decrease of 74.5%, respectively, from the first half of 2017.

In late 2017, one of our PRC subsidiaries was required to conduct self-inspection for tax obligations of previous financial years. Based on the self-inspection report prepared by the PRC subsidiary, it was assessed by the PRC tax authorities that the PRC subsidiary had to settle additional value-added tax and surcharges of approximately RMB0.1 million for the financial years from 2014 to 2016, additional real estate tax and surcharges of approximately RMB5.5 million for the financial years from 2012 to 2016 and additional stamp duty of RMB15,000 for the financial year of 2010. Pursuant to the deed of indemnity dated 23 March 2016 executed by Intrend Ventures Limited, Zhong Cheng International Limited, Haiyi Limited, Mr. Xu Songqing and Mr. Luo Canwen (collectively the "Indemnifiers") in favour of the Company to provide certain indemnities, the Company served a demand notice to the Indemnifiers and the additional taxes and surcharges of approximately RMB5.6 million had been borne and indemnified by Mr. Xu in May 2018. Such additional taxes and surcharges had been recognized by the Group under "cost of sales" and "other income, other gains and losses" during the financial year of 2017 while the amount indemnified was credited to capital reserve as deemed contribution from a shareholder during the first half of 2018.

In order to maintain its business growth in the long run, the Group continued to invest substantially in property, plant and equipment, and land use rights to strengthen the scale and processing capacity of the existing production base and facilities. During the first half of 2018, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB90.2 million. The Group also completed the acquisition of land use rights located at Zhoulang Village, Gujing Town, Xinhui District, Jiangmen City, Guangdong Province, the PRC (中國廣東省江門市新會區古井鎮洲朗村) with an aggregate site area of approximately 284,860 sq.m. by settling the balance payment and transaction levy of approximately RMB91.0 million in early 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of the Company consider that the expansion in the production capacity by acquiring property, plant and equipment, and land use rights is in line with the business development strategy and plan of the Group. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the years ahead.

## FINANCIAL REVIEW

### Revenue

Our Group primarily generates revenue from the sales of cold-rolled steel products and galvanized steel products. Our revenue slightly increased to approximately RMB1,426.7 million in the first half of 2018, by approximately RMB41.9 million or 3.0%, as compared with that of approximately RMB1,384.8 million in the first half of 2017.

The slight revenue growth was resulted from the increase in our average selling price by approximately RMB422 per tonne or 10.4% from approximately RMB4,059 per tonne during the first half of 2017 to approximately RMB4,481 per tonne during the first half of 2018, offset by the decrease in our sales volume of cold-rolled steel products and galvanized steel products by approximately 20,217 tonnes or 6.2% from approximately 323,659 tonnes to approximately 303,442 tonnes in the corresponding period.

The average selling price of our cold-rolled steel products increased to approximately RMB4,424 per tonne in the first half of 2018 as compared with that of RMB4,018 per tone in the first half of 2017. The average selling price of our galvanized steel products increased to approximately RMB4,739 per tonne in the first half of 2018 as compared with that of RMB4,229 per tone in the first half of 2017. Our sales volume of cold-rolled steel products decreased to approximately 248,977 tonnes in the first half of 2018, by approximately 11,808 tonnes or 4.5%, as compared with that of 260,785 tonnes in the first half of 2017. Our sales volume of galvanized steel products decreased to approximately 54,465 tonnes in the first half of 2018, by approximately 8,409 tonnes or 13.4%, as compared with that of 62,874 tonnes in the first half of 2017.

Our domestic sales in the PRC market contributed over 99% of the Group's revenue while the remaining portion was attributable to sales to our customers located in Southeast Asia.

Other revenue was primarily attributable to the trading of steel products, sales of scrap steel which was the residual in our manufacturing process to recycling agents and the provision of processing service to the customers who engage us to process hot-rolled steel coils provided by them. Such other revenue accounted for about 4.7% of our total revenue during the first half of 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out the breakdown of our revenue during the reporting period:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***RMB'000*** **(Unaudited)** | ***%*** | *RMB'000* (Unaudited) | *%* |
| Sales of cold-rolled steel products | **1,101,490** | **77.2** | 1,047,841 | 75.7 |
| — cold-rolled steel strips and sheets | **1,015,358** | **71.2** | 959,588 | 69.3 |
| — welded steel tubes | **86,132** | **6.0** | 88,253 | 6.4 |
| Sales of galvanized steel products | **258,104** | **18.1** | 265,887 | 19.2 |
| Others | **67,057** | **4.7** | 71,051 | 5.1 |
| | **1,426,651** | **100.0** | 1,384,779 | 100.0 |

### *Cost of sales*

Our cost of sales increased to approximately RMB1,350.7 million in the first half of 2018, by approximately RMB75.3 million or 5.9%, as compared with that of approximately RMB1,275.4 million in the first half of 2017.

The following table sets out the breakdown of our cost of sales for the periods indicated:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***RMB'000*** **(Unaudited)** | ***%*** | *RMB'000* (Unaudited) | *%* |
| Direct materials | **1,206,749** | **89.3** | 1,115,230 | 87.4 |
| Utilities | **48,889** | **3.6** | 58,806 | 4.6 |
| Consumables | **40,807** | **3.0** | 32,554 | 2.6 |
| Depreciation expense | **23,161** | **1.8** | 23,383 | 1.8 |
| Direct labour | **29,286** | **2.2** | 38,141 | 3.0 |
| Others | **1,805** | **0.1** | 7,266 | 0.6 |
| | **1,350,697** | **100.0** | 1,275,380 | 100.0 |

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 89% of our cost of sales during the first half of 2018. Such increase in direct materials was mainly attributable to the increasing the prevailing market price of our direct materials during the period under review. The price of raw materials, namely hot-rolled steel coils, went up substantially during the first half of 2018, hitting the highest level in the past five years.

Utilities expense related primarily to electricity, water, and natural gas consumed throughout our production process. Utilities expenses decreased to approximately RMB48.9 million in the first half of 2018, by approximately RMB9.9 million or 16.8%, as compared with that of approximately RMB58.8 million in the first half of 2017. The decrease in utilities expense was in line with our decreased level of sales volume.

Consumables consisted of machinery spare parts and supplies consumed in the production process. Our consumables increased to approximately RMB40.8 million in the first half of 2018, by approximately RMB8.2 million or 25.2%, as compared with that of approximately RMB32.6 million in the first half of 2017. Such increase was mainly attributable to the additional consumption of consumables in the production of our galvanized steel products.

Depreciation expense experienced a slightly decrease to approximately RMB23.2 million in the first half of 2018, by approximately RMB0.2 million or 0.9%, as compared with that of approximately RMB23.4 million in the first half of 2017.

Our direct labour cost decreased to approximately RMB29.3 million in the first half of 2018, by approximately RMB8.8 million or 23.1%, as compared with that of approximately RMB38.1 million in the first half of 2017. The decrease in direct labour cost was in line with our decreased level of sales volume.

Other costs primarily comprised other taxes and surcharges, repair and maintenance, and other miscellaneous expenses.

***Gross profit***

The price of raw materials, namely hot-rolled steel coils, went up substantially during the first half of 2018, hitting the highest level in the past five years. Some of our customers adopted a wait and see approach in reordering their stock which resulted in a decrease in our sales volume as compared to the corresponding period of 2017. In addition, we reduced our average processing fee (being the difference between the selling price and the cost of direct materials) charged for our cold-rolled steel products and galvanized steel products from approximately RMB613 per tonne during the first half of 2017 to approximately RMB504 per tonne during the first half of 2018 in order to maintain our business flow in view of the keen competition in the market and rising raw material cost to our customers. Accordingly, the Group recorded a gross profit of approximately RMB76.0 million in the first half of 2018, representing a decrease of approximately RMB33.4 million or 30.5%, as compared with that of approximately RMB109.4 million in the first half of 2017 and a gross profit margin of 5.3%, representing a decrease of approximately 2.6 percentage points as compared with that of 7.9% in the corresponding period.

# MANAGEMENT DISCUSSION AND ANALYSIS

### *Other income, other gains and losses*

Other income, other gains and losses decreased to approximately RMB4.5 million in the first half of 2018, by approximately RMB2.0 million or 30.8%, as compared with that of approximately RMB6.5 million in the first half of 2017. Such decrease was mainly attributable to the decrease in government grants to our PRC subsidiaries during the period under review.

### *Selling expenses*

Our selling expenses decreased to approximately RMB14.8 million in the first half of 2018, by approximately RMB5.9 million or 28.5%, as compared with that of approximately RMB20.7 million in the first half of 2017. The decrease in selling expenses during the period under review was mainly attributable to the decrease in delivery costs and other selling related expenses.

### *Administrative expenses*

Our administrative expenses decreased to approximately RMB17.7 million in the first half of 2018, by approximately RMB0.9 million or 4.8%, as compared with that of approximately RMB18.6 million in the first half of 2017. Such decrease was primarily due to the decrease in staff costs and other administrative expenses.

### *Investment loss*

The Group entered into certain commodity futures contracts to hedge against the risks associated with the volatility in the raw materials price during the first half of 2018. Net realised loss and fair value loss on derivative financial instruments at fair value through profit or loss in amount of approximately RMB6.6 million was recognised during the first half of 2018.

### *Finance costs*

The finance costs comprised interest expenses on borrowings which were charged at interest rates ranging from 1.00% to 8.10% (first half of 2017: 4.35% to 8.39%) per annum for the first half of 2018. Finance costs increased to approximately RMB24.6 million in the first half of 2018, by approximately RMB4.2 million or 20.6%, as compared with that of approximately RMB20.4 million in the first half of 2017. Such increase was primarily resulted from the increase in borrowings during the period under review.

### *Income tax expenses*

Income tax expenses decreased to approximately RMB3.7 million in the first half of 2018, by approximately RMB4.8 million or 56.5%, as compared with that of approximately RMB8.5 million in the first half of 2017. The decrease was in line with the decrease in profit before taxation by approximately RMB45.4 million or 72.1% in the first half of 2018 as compared to the corresponding period in 2017.

### *Profit for the period*

Our profit attributable to owners of the Company decreased to approximately RMB13.9 million in the first half of 2018, by approximately RMB40.6 million or 74.5%, as compared with that of approximately RMB54.5 million in the first half of 2017.

Net profit margin decreased to approximately 1.0% in the first half of 2018 by approximately 2.9 percentage points from approximately 3.9% in the first half of 2017.

## Liquidity and financial resources

As at 30 June 2018, the Group's bank balances and cash increased to approximately RMB144.1 million, by approximately RMB16.1 million or 12.6%, from approximately RMB128.0 million as at 31 December 2017. The Group's restricted bank deposits increased to approximately RMB111.5 million as at 30 June 2018, by approximately RMB13.1 million or 13.3%, from approximately RMB98.4 million as at 31 December 2017.

As at 30 June 2018, the Group had the net current liabilities and the net assets of approximately RMB32.7 million (31 December 2017: net current assets of RMB80.9 million) and approximately RMB606.5 million (31 December 2017: RMB596.6 million), respectively. As at 30 June 2018, the current ratio calculated based on current assets divided by current liabilities of the Group was 97.6% as compared with 106.9% as at 31 December 2017.

At 30 June 2018, the Group's borrowings amounted to approximately RMB1,160.5 million (31 December 2017: RMB958.0 million) and total equity amounted to approximately RMB606.5 million (31 December 2017: RMB596.6 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 1.91 times (31 December 2017: 1.61 times) as at 30 June 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2018, the Group had total financing facilities relating to borrowings amounted to approximately RMB1,891.9 million (31 December 2017: RMB1,028.7 million), of which approximately RMB930.8 million (31 December 2017: RMB738.6 million) had been utilised. The Group believes it has and will have sufficient financing facilities to meet its business operation, capital expenditures and expansion.

## Foreign currency exposure

As the functional currency of our PRC subsidiaries is RMB and a portion of our revenue is derived from sales to overseas customers who settle in USD, we are exposed to risks associated with fluctuations in USD against RMB. In addition, we are exposed to foreign currency risk arising from certain bank balances which are denominated in USD, RMB, HKD and SGD. Our Group currently does not have any foreign currency hedging policy. However, our management closely monitors its exposure to foreign currency risk and will consider hedging significant foreign currency exposure should the need arise.

## Financial instruments

During the period under review, apart from the commodity futures contacts, the Group had not entered into any financial instruments for hedging purpose.

## Material acquisitions and disposal

During the first half of 2018, the Group had no material acquisitions or disposal of subsidiaries, associates and joint ventures.

## Capital structure

Details of the share capital are set out in note 15 to the condensed consolidated financial statements.

## Capital commitments

Details of the capital commitments are set out in note 16 to the condensed consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Pledge of assets

Details of the pledge of assets are set out in note 17 to the condensed consolidated financial statements.

## Contingent liabilities

During the period under review, the Company provided guarantees to banks as securities for banking facilities granted to certain subsidiaries of the Company in the PRC. The Group did not provide any guarantee to any third parties and did not have contingent liabilities as at 30 June 2018 (31 December 2017: nil).

## Employees

As at 30 June 2018, the Group had a total of 1,109 (31 December 2017: 1,034) full-time employees in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) during the first half of 2018 amounted to approximately RMB41.0 million (first half of 2017: RMB54.1 million). The Group remunerated the employees based on their performance, experience and prevailing market practices. The Company has share option scheme in place as a means to encourage and reward the eligible employees (including the Directors) for their contributions to the Group's results and business development based on their individual performance. No share option was granted during the six months ended 30 June 2018.

## Changes since 31 December 2017

The net current liabilities position as at 30 June 2018 was primarily attributable to the fact that short-term borrowings were obtained to finance the non-current capital expenditures on property, plant and equipment, and land use rights. The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group, and (ii) the Group's presently available financing facilities and the intended renewal of the existing financing facilities upon maturity, the Group had sufficient working capital to meet its current liabilities or expand its operations as anticipated. Save as disclosed above, since 31 December 2017, there were no other significant changes in the Group's financial position and there were no other significant changes in relation to the information disclosed under the section headed "Management Discussion and Analysis" in the annual report of the Company for the year ended 31 December 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Outlook

The Guangdong-Hong Kong-Macau Greater Bay Area (the "Greater Bay Area") Initiative was introduced by the Chinese government in March 2017. In recent years, the local government of Jiangmen City has vigorously promoted the development and construction of the Greater Guanghai Bay Economic Zone* (大廣海灣經濟區) and it is also promoted at national strategic level. Shenzhen and Guangzhou are leading in the innovative industry, Hong Kong is strong in finance industry and the other cities (including Jiangmen) in the whole Pearl River Delta are competitive in intelligent manufacturing and high-end manufacturing. The development of the Greater Bay Area together with the Greater Guanghai Bay Economic Zone linking into an integrated economic and business hub may bring significant business opportunities and encourage investment activities in Guangdong Province, including Jiangmen, where the Group primarily operates.

With a view to expand our market share and achieve our comparative advantage, our Group will strive towards the expansion of production capacity for our cold-rolled steel products and galvanized steel products by increasing investments in property, plant and equipment. It is believed that these investments in production plants and facilities, including the acquisition of three parcels of industrial land located at Zhoulang Village, Gujing Town, Xinhui District, Jiangmen City, Guangdong Province, the PRC (中國廣東省江門市新會區古井鎮洲朗村) for the expansion of our production capacity will contribute to the Group's business growth and net profit margin improvement in the years ahead. Our management is committed to achieving sustainable business growth and bringing long-term values to our shareholders.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company and their associates in the ordinary share(s) of HK$0.01 each in the share capital of the Company (the "Shares") and underlying Shares of the Company which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in the Shares of the Company

| Name of Directors | Nature of interest | Number of Shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Xu Songqing ("Mr. Xu") | Interest held jointly with another person *(note 1)*; Interest of controlled corporation *(note 2)* | 450,000,000 | 75.00% |
| Mr. Luo Canwen ("Mr. Luo") | Interest held jointly with another person *(note 1)*; Interest of controlled corporation *(note 2)* | 450,000,000 | 75.00% |

# DISCLOSURE OF INTERESTS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

### Long positions in the Shares of the Company *(Continued)*

*Notes:*

1. On 4 January 2016, Mr. Xu and Mr. Luo entered into the acting in concert agreement, pursuant to which, among other things, Mr. Xu and Mr. Luo acknowledged and confirmed that they, as ultimate shareholders of our Group, have been parties acting in concert throughout the period and up to the date thereof and will continue to act in concert thereafter. As such, our ultimate controlling shareholders together control 75.0% interest in the share capital of our Company through Intrend Ventures, Zhong Cheng and Haiyi (as defined below). As a result, each of our ultimate controlling shareholders and their respective holding company is deemed to be interested in such 75.0% interest in the share capital of our Company.

2. The entire issued share capital of Intrend Ventures is legally and beneficially wholly-owned by Mr. Xu. Intrend Ventures owns 87.0% of the issued share capital of Haiyi and is taken to be interested in all the Shares held by Haiyi for the purposes of the SFO. Haiyi is legally and beneficially owned as to 12.0% by Zhong Cheng, an investment holding company wholly-owned by Mr. Luo.

3. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the Shares or underlying Shares of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) who/which had interests and/or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were:

### Long positions in Shares of the Company

| Name of shareholders | Nature of interest | Number of Shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Intrend Ventures Limited ("Intrend Ventures") | Interest held jointly with another person *(note 1)*; Interest of controlled corporation *(note 2)* | 450,000,000 | 75.00% |
| Zhong Cheng International Limited ("Zhong Cheng") | Interest held jointly with another person *(note 1)*; Interest of controlled corporation *(note 2)* | 450,000,000 | 75.00% |
| Haiyi Limited ("Haiyi") | Beneficial owner | 450,000,000 | 75.00% |

# DISCLOSURE OF INTERESTS

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

### Long positions in Shares of the Company *(Continued)*

*Notes:*

1. On 4 January 2016, Mr. Xu and Mr. Luo entered into the acting in concert agreement, pursuant to which, among other things, Mr. Xu and Mr. Luo acknowledged and confirmed that they, as ultimate shareholders of our Group, have been parties acting in concert throughout the period and up to the date thereof and will continue to act in concert thereafter. As such, our ultimate controlling shareholders together control 75.0% interest in the share capital of our Company through Intrend Ventures, Zhong Cheng and Haiyi. As a result, each of our ultimate controlling shareholders and their respective holding company is deemed to be interested in such 75.0% interest in the share capital of our Company.

2. The entire issued share capital of Intrend Ventures is legally and beneficially wholly-owned by Mr. Xu. Intrend Ventures owns 87.0% of the issued share capital of Haiyi and is taken to be interested in all the Shares held by Haiyi for the purposes of the SFO. Haiyi is legally and beneficially owned as to 12.0% by Zhong Cheng, an investment holding company wholly-owned by Mr. Luo.

3. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, the Company has not been notified by any person nor corporation (other than Directors or the chief executive of the Company) who/which had interests or short positions in the Shares or underlying Shares of the Company 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 under Section 336 of the SFO.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

Based on the offer price of HK$2.38 per Share and the actual listing expenses incurred, the net proceeds from the global offering received by the Company amounted to approximately HK$330.7 million (equivalent of approximately RMB276.8 million) and the balance of unutilised net proceeds of approximately HK$1.8 million (equivalent of approximately RMB1.5 million) were kept at the bank accounts of the Group as at 30 June 2018.

The net proceeds from the global offering (adjusted on a pro rata basis based on the actual net proceeds) are substantially utilised in accordance with the purposes set out in the section "Future Plans and Use of Proceeds" of the prospectus of the Company dated 5 April 2016. The below table sets out the planned applications of the net proceeds and usage up to 30 June 2018:

| Use of proceeds | Planned applications *(HK$ million)* | % of total net proceeds *(%)* | Actual usage up to 30 June 2018 *(HK$ million)* | Actual usage up to 30 June 2018 *(RMB million)* |
|---|---|---|---|---|
| To repay working capital loans from PRC commercial banks | 150.0 | 45.4 | 150.0 | 126.1 |
| To purchase production machinery and equipment | 71.0 | 21.5 | 71.0 | 59.6 |
| To finance the acquisition of two parcels of industrial lands and the operational buildings erected thereon from Mr. Xu | 48.6 | 14.7 | 48.6 | 40.5 |
| To finance the construction and operation of Workshop No. 4 | 27.3 | 8.2 | 27.3 | 22.7 |
| To upgrade our ERP system | 4.1 | 1.2 | 2.3 | 2.0 |
| For general working capital and other general corporate purposes | 29.7 | 9.0 | 29.7 | 24.5 |
| Total | 330.7 | 100.0 | 328.9 | 275.4 |

# OTHER INFORMATION

## SHARE OPTIONS

Pursuant to the written resolution of all the shareholders of the Company passed on 23 March 2016, the Company adopted a share option scheme conditional upon the Listing of the Company's Shares on the Stock Exchange. Since the adoption of the share option scheme on 23 March 2016 and up to 30 June 2018, no option has been granted by the Company.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: HK3.5 cents per share).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's Shares during the six months ended 30 June 2018.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2018 was the Company or its subsidiary a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code during the six months ended 30 June 2018, except as noted hereunder:

### Code provision A.4.1

In respect of the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. All the independent non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election by the shareholders at the forthcoming annual general meeting in accordance with the Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

The Directors will continue to use their best endeavours to procure the Company to comply with the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the Model Code at all applicable times during the six months ended 30 June 2018.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors as at date of this report, the Company has maintained the prescribed public float required by the Listing Rules for the six months ended 30 June 2018 and up to the date of this report.

## REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 in conjunction with the Company's external auditor. Based on the review and discussions with the management, the Audit Committee was satisfied that the unaudited condensed consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2018.

## CHANGES IN INFORMATION OF DIRECTORS

The changes in the information of Directors which are required to be disclosed under Rule 13.51B(1) of the Listing Rules subsequent to the Company's 2017 annual report are set out below:

Mr. Xu Jianhong received his Bachelor of Science degree from The University of Melbourne, Australia in July 2018.

Save for the information disclosed above, there is no other information of the Directors' and chief executives' required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# OTHER INFORMATION

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation of the support from our shareholders, customers and suppliers. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

On behalf of the Board
**Huajin International Holdings Limited**
**Xu Songqing**
*Chairman*

Hong Kong, 24 August, 2018

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

**TO THE BOARD OF DIRECTORS OF**
**HUAJIN INTERNATIONAL HOLDINGS LIMITED**
**華津國際控股有限公司**
*(incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Huajin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 56, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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 the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
24 August 2018

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

*For the six months ended 30 June 2018*

| | Notes | Six months ended 30 June<br>**2018**<br>***RMB'000***<br>**(Unaudited)** | <br>2017<br>*RMB'000*<br>(Unaudited) |
|---|---|---|---|
| Revenue | 3 | **1,426,651** | 1,384,779 |
| Cost of sales | | **(1,350,697)** | (1,275,380) |
| Gross profit | | **75,954** | 109,399 |
| Other income, other gains and losses | | **4,518** | 6,490 |
| Selling expenses | | **(14,841)** | (20,668) |
| Administrative expenses | | **(17,653)** | (18,586) |
| Profit before investment (loss) gain, net finance costs and taxation | | **47,978** | 76,635 |
| Investment (loss) gain | | **(6,555)** | 5,841 |
| Finance income | 4 | **726** | 911 |
| Finance costs | 4 | **(24,587)** | (20,389) |
| Finance costs, net | 4 | **(23,861)** | (19,478) |
| Profit before taxation | | **17,562** | 62,998 |
| Income tax expenses | 5 | **(3,712)** | (8,492) |
| Profit for the period | 6 | **13,850** | 54,506 |
| Other comprehensive income for the period | | | |
| — exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss | | **485** | 172 |
| Total comprehensive income for the period | | **14,335** | 54,678 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | **13,945** | 54,506 |
| Non-controlling interests | | **(95)** | – |
| | | **13,850** | 54,506 |
| Total comprehensive income (expense) for the period attributable to: | | | |
| Owners of the Company | | **14,430** | 54,678 |
| Non-controlling interests | | **(95)** | – |
| | | **14,335** | 54,678 |
| Earnings per share for profit attributable to owners of the Company, | 7 | | |
| — basic (RMB cents) | | **2.32** | 9.08 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | Notes | 30.6.2018 *RMB'000* (Unaudited) | 31.12.2017 *RMB'000* (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 549,844 | 487,234 |
| Prepaid lease payments | | 191,834 | 82,782 |
| Deposits paid for acquisition of property, plant and equipment and land use rights | | 38,867 | 33,054 |
| Deferred tax assets | | 4,337 | 4,208 |
| | | 784,882 | 607,278 |
| **CURRENT ASSETS** | | | |
| Prepaid lease payments | | 4,151 | 2,116 |
| Inventories | | 255,467 | 309,938 |
| Trade, bills and other receivables | 10 | 814,177 | 707,689 |
| Derivative financial instruments at fair value through profit or loss | 11 | 18,114 | 11,490 |
| Tax recoverable | | 1,775 | 1,650 |
| Restricted bank deposits | | 111,533 | 98,365 |
| Bank balances and cash | | 144,108 | 127,955 |
| | | 1,349,325 | 1,259,203 |
| **CURRENT LIABILITIES** | | | |
| Trade, bills and other payables and accrued expenses | 12 | 170,095 | 228,871 |
| Contract liabilities | | 59,670 | – |
| Tax payables | | 1,346 | 1,738 |
| Amounts due to related parties | 13 | 45,526 | 52,471 |
| Borrowings — due within one year | 14 | 1,095,237 | 895,242 |
| Dividend payable | | 10,117 | – |
| | | 1,381,991 | 1,178,322 |
| **NET CURRENT (LIABILITIES) ASSETS** | | (32,666) | 80,881 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 752,216 | 688,159 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | Notes | **30.6.2018** ***RMB'000*** **(Unaudited)** | 31.12.2017 *RMB'000* (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Amount due to a related party | 13 | **53,593** | – |
| Borrowings — due more than one year | 14 | **65,226** | 62,750 |
| Deferred income | | **26,400** | 28,050 |
| Deferred tax liabilities | | **500** | 753 |
| | | **145,719** | 91,553 |
| **NET ASSETS** | | **606,497** | 596,606 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 15 | **4,999** | 4,999 |
| Reserves | | **592,223** | 582,237 |
| Equity attributable to owners of the Company | | **597,222** | 587,236 |
| Non-controlling interests | | **9,275** | 9,370 |
| **TOTAL EQUITY** | | **606,497** | 596,606 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2018*

| | Equity attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 (Note i) | Capital reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2017 (audited) | 4,999 | 282,623 | 29,287 | 58,696 | 561 | 157,126 | 533,292 | 4,000 | 537,292 |
| Profit for the period | – | – | – | – | – | 54,506 | 54,506 | – | 54,506 |
| Other comprehensive income for the period | – | – | – | – | 172 | – | 172 | – | 172 |
| Total comprehensive income for the period | – | – | – | – | 172 | 54,506 | 54,678 | – | 54,678 |
| Capital contributed to a subsidiary | – | – | – | – | – | – | – | 5,600 | 5,600 |
| Dividend recognised as distribution | – | – | – | – | – | (18,010) | (18,010) | – | (18,010) |
| At 30 June 2017 (unaudited) | 4,999 | 282,623 | 29,287 | 58,696 | 733 | 193,622 | 569,960 | 9,600 | 579,560 |
| **At 1 January 2018 (audited)** | **4,999** | **264,429** | **38,120** | **58,696** | **(2,261)** | **223,253** | **587,236** | **9,370** | **596,606** |
| Profit (loss) for the period | **–** | **–** | **–** | **–** | **–** | **13,945** | **13,945** | **(95)** | **13,850** |
| Other comprehensive income for the period | **–** | **–** | **–** | **–** | **485** | **–** | **485** | **–** | **485** |
| Total comprehensive income (expense) for the period | **–** | **–** | **–** | **–** | **485** | **13,945** | **14,430** | **(95)** | **14,335** |
| Dividend recognised as distribution | **–** | **(10,086)** | **–** | **–** | **–** | **–** | **(10,086)** | **–** | **(10,086)** |
| Deemed contribution from a shareholder (Note ii) | **–** | **–** | **–** | **5,642** | **–** | **–** | **5,642** | **–** | **5,642** |
| At 30 June 2018 (unaudited) | **4,999** | **254,343** | **38,120** | **64,338** | **(1,776)** | **237,198** | **597,222** | **9,275** | **606,497** |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2018*

*Notes:*

(i) Amount represents statutory reserve of the Group's subsidiaries in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the Group's subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

(ii) Pursuant to the request made by the Jiangmen Municipal Office, State Administration of Taxation, and Jiangmen Municipal Local Taxation Bureau to major entities in Xinhui District, Jiangmen in late 2017, Jiangmen Huamu Metals Company Limited ("Jiangmen Huamu"), the Company's PRC subsidiary, was required to conduct self-inspection of tax obligations for previous financial years. Jiangmen Huamu submitted the self-inspection report to the relevant tax authorities in late December 2017. Based on the self-inspection report, it was assessed that Jiangmen Huamu had to settle additional value-added tax and surcharges of RMB168,000 for the financial years ended 31 December 2014 to 2016, additional real estate tax and surcharges of RMB5,459,000 for the financial years ended 31 December 2012 to 2016 and additional stamp duty of RMB15,000 for the financial year ended 31 December 2010. The entire tax liabilities of RMB5,642,000 above had been borne and indemnified by Mr. Xu Songqing ("Mr. Xu") in May 2018. Such amount is therefore accounted for as deemed contribution from a shareholder.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(5,234)** | (113,406) |
| **INVESTING ACTIVITIES** | | |
| Placement of restricted bank deposits | **(119,232)** | (73,137) |
| Deposit paid for acquisition and purchase of property, plant and equipment | **(98,524)** | (51,199) |
| Payment for land use right | **(91,044)** | (22,075) |
| Purchase of derivative financial instruments at fair value through profit or loss | **(62,500)** | (3,773) |
| Withdrawal of restricted bank deposits | **106,064** | 65,900 |
| Settlement of derivative financial instruments at fair value through profit or loss | **41,500** | – |
| Repayment from related parties | **11,016** | – |
| Increase in loan receivable | **–** | (26,038) |
| Proceeds on disposal of property, plant and equipment | **–** | 5,382 |
| Other investing cash flows | **725** | 911 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(211,995)** | (104,029) |
| **FINANCING ACTIVITIES** | | |
| New bank borrowings raised | **1,238,436** | 820,063 |
| New borrowing from a related party | **53,360** | – |
| Repayment of borrowings | **(1,032,756)** | (604,263) |
| Capital contributed by non-controlling interests of a subsidiary | **–** | 5,600 |
| Dividend paid | **–** | (18,010) |
| Other financing cash flows | **(24,355)** | (20,389) |
| **NET CASH FROM FINANCING ACTIVITIES** | **234,685** | 183,001 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **17,456** | (34,434) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **127,955** | 119,328 |
| Effect of foreign exchange rate changes | **(1,303)** | – |
| **CASH AND CASH EQUIVALENTS AT 30 JUNE,** represented by bank balances and cash | **144,108** | 84,894 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In preparing the condensed consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB32,666,000 as at 30 June 2018.

In the opinion of the directors of the Company, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration that the available bank facilities from various banks which are renewable in full upon their maturity for the operation requirements of the Group, the past history of renewal of such facilities and the good relationships of the Group with the banks.

Based on the aforesaid factors, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the directors of the Company consider that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfer of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies amounts reported and/or disclosures as described below.

### *2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### 2.1 ***Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers*** *(Continued)*

The Group recognises revenue from the following major sources:

- sales of cold-rolled steel products (including cold-rolled steel strips and sheets and welded steel tubes);
- sales of galvanized steel products; and
- sales of scrap steels residual in the manufacturing process of the Group.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated.

*2.1.1 Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### ***2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers*** *(Continued)*

*2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)*

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue from the sale of cold-rolled steel products, galvanized steel products and scrap steels residual is recognised at a point in time when the control of the goods has transferred, i.e. have been delivered to customers.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### *2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)*

*2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)*

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

As at 1 January 2018, receipts in advance from customers of RMB57,792,000 previously included in trade, bills and other payables and accrued expenses were reclassified to contract liabilities for the same amount.

The directors of the Company assessed that the application of HKFRS 15 have no material impact on the timing and amounts of revenue recognised.

#### *2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments*

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### *2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (Continued)*

*2.2.1 Key changes in accounting policies resulting from application of HKFRS 9*

*Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

*2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income, other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no impact in classification and measurement on the Group's financial assets.

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

### *2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (Continued)*

*2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Impairment under ECL model (Continued)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix based primarily on the debtors' aging, grouped by debtor balances that are not yet due and different aging brackets of numbers of days past due.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### *2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments* (Continued)

*2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

### 2.2 *Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (Continued)*

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Significant increase in credit risk (Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The trade receivable past due over 90 days has no history of default on repayments. The management of the Group considers these trade receivable are of good quality given the conditions settlement from customers.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### ***2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments*** *(Continued)*

*2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Measurement and recognition of ECL (Continued)*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. There is no impact on adoption of HKFRS 9.

*Classification and measurement of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Application of new and amendments to HKFRSs *(Continued)*

#### *2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation*

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated.

As at 1 January 2018, receipts in advance from customers of RMB57,792,000 previously included in trade, bills and other payables and accrued expenses were reclassified to contract liabilities for the same amount on the condensed consolidated statement of financial position.

## 3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers (the "CODM"), being Mr. Xu and Mr. Luo Canwen, in order to allocate resources to segments and to assess their performance. During the period ended 30 June 2018 and 2017, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in production and sales of cold-rolled steel products and galvanized steel products. Therefore, the management considers that the Group has one operating segment only. The Group mainly operates in the PRC and the Group's non-current assets are also located in the PRC.

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Sales of cold-rolled steel products | | |
| — cold-rolled steel strips and sheets | **1,015,358** | 959,588 |
| — welded steel tubes | **86,132** | 88,253 |
| Sales of galvanized steel products | **258,104** | 265,887 |
| Sales of scrap steels residual in the manufacturing process | **67,057** | 71,051 |
| | **1,426,651** | 1,384,779 |

During the six months ended 30 June 2018, all revenue of the Group are recognised at a point in time.

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

The Group's revenue is mainly derived from customers located in the PRC and the Southeast Asia. The Group's revenue by the geographical locations of the customers, determined based on the destination of goods delivered, irrespective of the origin of goods, is detailed below:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| PRC | **1,424,055** | 1,344,743 |
| Southeast Asia | **2,596** | 40,036 |
| | **1,426,651** | 1,384,779 |

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the six months ended 30 June 2018 (six months ended 30 June 2017: nil (unaudited)).

## 4. FINANCE INCOME AND COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest income from bank deposits | **726** | 911 |
| Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB2,670,000 (six months ended 30 June 2017: RMB1,000,000) | **(24,587)** | (20,389) |
| Finance costs, net | **(23,861)** | (19,478) |

Borrowing costs capitalised during the six months ended 30 June 2018 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.4% (six months ended 30 June 2017: 5.7%) per annum to expenditure on qualifying assets.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 5. INCOME TAX EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current tax charge: | | |
| — Hong Kong Profits Tax | **1** | 180 |
| — PRC Enterprise Income Tax ("EIT") | **4,083** | 8,090 |
| — PRC withholding income tax | **–** | 2,000 |
| | **4,084** | 10,270 |
| Under provision in prior year: | | |
| — PRC EIT | **10** | 3,677 |
| Deferred tax credit | **(382)** | (5,455) |
| Income tax expenses for the period | **3,712** | 8,492 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2018 and 2017.

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC, except for as set out below.

Two major subsidiaries established in the PRC are approved as enterprises that satisfied the conditions as high and new technology enterprises and obtained the Certificates of High and New Technology Enterprises enjoying the preferential PRC EIT rate of 15% for a consecutive three calendar years from 2016 to 2018.

10% PRC withholding income tax is generally imposed on dividends declared in respect of profits earned by the Group's PRC subsidiaries to Inter Consortium Holdings Limited ("Inter Consortium"). Inter Consortium entitles a reduced PRC withholding income tax rate of 5% according to PRC tax regulations when Inter Consortium is qualified as a Hong Kong tax resident.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 6. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit for the period has been arrived at after charging (crediting): | | |
| Directors' remuneration | | |
| — fees | **274** | 265 |
| — other emoluments, salaries, allowances and other benefits | **345** | 375 |
| — retirement benefit scheme contributions | **13** | 16 |
| | **632** | 656 |
| Other staff salaries, allowances and other benefits | **35,962** | 49,044 |
| Retirement benefit scheme contributions, excluding those of directors | **4,367** | 4,417 |
| Total employee benefits expenses | **40,961** | 54,117 |
| Amortisation of prepaid lease payments | **1,886** | 909 |
| Depreciation of property, plant and equipment | **24,939** | 25,919 |
| Loss on disposal of property, plant and equipment | **14** | 303 |
| Fair value loss of derivative financial instruments at fair value through profit or loss | **4,196** | 476 |
| Net realised loss (gain) on derivative financial instruments at fair value through profit or loss | **2,359** | (6,317) |
| Exchange loss (gain), net | **2,278** | (1,564) |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share are based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Earnings: | | |
| Profit for the period attributable to owners of the Company for the purpose of basic earnings per share | **13,945** | 54,506 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands) | **600,000** | 600,000 |

No diluted earnings per share is presented for the six months ended 30 June 2018 and 30 June 2017 as the Group had no potential dilutive ordinary shares in issue during these periods.

## 8. DIVIDENDS

During the current interim period, a final dividend of HK2.0 cents per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: HK3.4 cents per share in respect of the year ended 31 December 2016) was recognised as distribution to the owners of the Company. The aggregate amount of the final dividend declared in this interim period amounted to HK$12,000,000 (equivalent to RMB10,086,000). The aggregate amount of the final dividend declared and paid in the six months ended 30 June 2017 amounted to HK$20,400,000 (equivalent to RMB18,010,000).

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment and incurred construction costs of RMB90,166,000 (unaudited) (six months ended 30 June 2017: RMB18,909,000 (unaudited)).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 10. TRADE, BILLS AND OTHER RECEIVABLES

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **291,191** | 268,727 |
| Bills receivables | **277,691** | 245,531 |
| Prepayments to suppliers | **175,643** | 129,313 |
| Prepaid transportation costs | **14,653** | 9,139 |
| Value-added tax recoverable | **43,131** | 40,461 |
| Deposits paid for acquisition of property, plant and equipment and land use rights | **–** | 11,016 |
| Other prepayments, deposits and other receivables | **11,868** | 3,502 |
| | **814,177** | 707,689 |

No allowance for bad and doubtful was provided for the six months ended 30 June 2018 and 30 June 2017, and no provision for bad and doubtful debt balances were recognised as at the end of the reporting period.

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 120 days. For other customers, the Group demands for full settlement upon delivery of goods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 10. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

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

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables: | | |
| Within 30 days | **272,101** | 217,827 |
| 31 – 60 days | **9,324** | 44,439 |
| 61 – 90 days | **7,230** | 108 |
| 91 – 120 days | **1,990** | 2,410 |
| 121 – 180 days | **506** | 684 |
| 181 – 365 days | **35** | 472 |
| Over 1 year | **5** | 2,787 |
| | **291,191** | 268,727 |

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Bills receivables: | | |
| Within 30 days | **32,842** | 29,535 |
| 31 – 60 days | **24,646** | 30,922 |
| 61 – 90 days | **41,150** | 59,198 |
| 91 – 120 days | **45,065** | 37,287 |
| 121 – 180 days | **122,540** | 81,043 |
| 181 – 365 days | **11,448** | 7,546 |
| | **277,691** | 245,531 |

## 10. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

As at 30 June 2018, included in the Group's bills receivables are amounts of RMB270,469,000 (31 December 2017: RMB219,350,000), being the discounted bills receivables transferred to certain banks with full recourse. If the issuing banks of bills receivables default payment on maturity, the banks have the right of recourse to request the Group to pay the unsettled balance. As the Group has not transferred substantially all the risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as bank borrowings from factoring of trade receivables with full recourse (note 14). The financial asset is carried at amortised cost in the condensed consolidated statement of financial position.

| | **30.6.2018**<br>***RMB'000***<br>**(Unaudited)** | 31.12.2017<br>*RMB'000*<br>(Audited) |
|---|---|---|
| Carrying amount of transferred asset | **270,469** | 219,350 |
| Carrying amount of associated liability | **(270,469)** | (219,350) |
| | **–** | – |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2018, derivative financial instruments at fair value through profit or loss represent the outstanding hot rolled coils future contracts with total notional amount of approximately RMB18,114,000 (31 December 2017: RMB11,490,000) with maturity date of October 2018 (31 December 2017: May 2018) which are publicly traded in a futures exchange. Net fair value change and net realised gain or loss on the derivative financial instruments were recognised under "investment (loss) gain" in the condensed consolidated statement of profit or loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

| | **30.6.2018**<br>***RMB'000***<br>**(Unaudited)** | 31.12.2017<br>*RMB'000*<br>(Audited) |
|---|---|---|
| Trade payables | **38,917** | 32,979 |
| Bills payables | **81,683** | 94,592 |
| Receipts in advance from customers | **–** | 57,792 |
| Accrued staff costs | **6,821** | 6,251 |
| Construction payables | **24,528** | 14,261 |
| Transportation fee payables | **3,307** | 7,020 |
| Other tax payables | **2,621** | 1,144 |
| Other payables and accrued expenses | **12,218** | 14,832 |
| | **170,095** | 228,871 |

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

| | **30.6.2018**<br>***RMB'000***<br>**(Unaudited)** | 31.12.2017<br>*RMB'000*<br>(Audited) |
|---|---|---|
| Trade payables: | | |
| Within 30 days | **26,413** | 18,875 |
| 31 – 60 days | **1,455** | 5,198 |
| 61 – 90 days | **4,774** | 1,802 |
| 91 – 120 days | **1,182** | 985 |
| 121 – 180 days | **1,127** | 2,025 |
| 181 – 365 days | **1,943** | 1,809 |
| Over 1 year | **2,023** | 2,285 |
| | **38,917** | 32,979 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES *(Continued)*

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Bills payables: | | |
| Within 30 days | **23,462** | 22,552 |
| 31 – 60 days | **15,612** | 47,872 |
| 61 – 90 days | **40,000** | – |
| 91 – 120 days | **445** | – |
| 121 – 180 days | **2,164** | 24,168 |
| | **81,683** | 94,592 |

## 13. AMOUNTS DUE TO RELATED PARTIES

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Mr. Xu *(note i)* | **98,297** | 50,155 |
| Hua Jin Holdings Pte. Ltd. *(note ii)* | **80** | – |
| 江門市華志金屬制品有限公司 *(note ii)* Jiangmen Huazhi Metal Product Company Limited | **742** | 574 |
| 江門市鴻盛建築工程有限公司 *(note iii)* Jiangmen Hong Sheng Construction Engineering Limited | **–** | 1,742 |
| | **99,119** | 52,471 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 13. AMOUNTS DUE TO RELATED PARTIES *(Continued)*

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| The carrying amounts of the above balance are repayable as: | | |
| — within one year | **45,526** | 52,471 |
| — more than two years, but not more than five years | **53,593** | – |
| | **99,119** | 52,471 |
| Less: amounts due within one year shown under current liabilities | **(45,526)** | (52,471) |
| Amounts shown under non-current liabilities | **53,593** | – |

*Notes:*

(i) During the current interim period, the Group entered into two loan agreements with Mr. Xu, whereby Mr. Xu agreed to provide unsecured loans in the amounts of HK$40,000,000 and US$3,000,000 respectively, totaling to RMB53,360,000, to the Group for a term of three years at the interest rate of 1.00% per annum. As at 30 June 2018, interest payable by the Group on the loans above amounted to RMB233,000. The remaining balance of RMB44,704,000 as at 30 June 2018 and the entire balance as at 31 December 2017 is non-trade in nature, interest free, unsecured and repayment on demand.

(ii) This is an entity controlled by Mr. Xu and Mr. Chen Chunniu ("Mr. Chen"). The amount is trade in nature, interest free, unsecured and repayment on demand.

(iii) This was an entity owned as to 70% by Mr. Chen. The entire balance as at 31 December 2017 is non-trade in nature, interest free, unsecured and repayment on demand.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 14. BORROWINGS

| | **30.6.2018**<br>***RMB'000***<br>**(Unaudited)** | 31.12.2017<br>*RMB'000*<br>(Audited) |
|---|---|---|
| Fixed-rate bank borrowings: | | |
| Secured bank borrowings | **463,893** | 464,700 |
| Bank borrowings from factoring of bills receivables with full recourse *(note 10)* | **270,469** | 219,350 |
| Fixed-rate other borrowings: | | |
| Secured borrowings from a financial institution independent with the Group | **40,478** | 36,483 |
| | **774,840** | 720,533 |
| Variable-rate bank borrowings: | | |
| Secured bank borrowings | **385,623** | 237,459 |
| | **1,160,643** | 957,992 |
| The carrying amounts of the above borrowings are repayable, based on scheduled repayment dates set out in the loan agreements, as: | | |
| — within one year | **1,095,237** | 895,242 |
| — more than one year, but not more than two years | **51,248** | 46,000 |
| — more than two years, but not more than five years | **13,978** | 16,750 |
| | **1,160,463** | 957,992 |
| Less: amounts due within one year shown under current liabilities | **(1,095,237)** | (895,242) |
| Amounts shown under non-current liabilities | **65,226** | 62,750 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 15. SHARE CAPITAL

| | **Number of shares** | **Share capital** *HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| **Authorised:** | | |
| At 1 January 2017, 31 December 2017 and 30 June 2018 | 8,000,000,000 | 80,000 |
| **Issued:** | | |
| At 1 January 2017 (audited), 31 December 2017 (audited) and 30 June 2018 (unaudited) | 600,000,000 | 6,000 |

| | **30.6.2018** ***RMB'000*** **(Unaudited)** | 31.12.2017 *RMB'000* (Audited) |
|---|---|---|
| Shown in the condensed consolidated statement of financial position | **4,999** | 4,999 |

## 16. CAPITAL COMMITMENTS

| | **30.6.2018** ***RMB'000*** **(Unaudited)** | 31.12.2017 *RMB'000* (Audited) |
|---|---|---|
| Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment and land use rights | **299,440** | 246,935 |

## 17. PLEDGE OF ASSETS

Certain of the Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of each reporting period are stated below:

| | **30.6.2018** | 31.12.2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Property, plant and equipment | **328,173** | 334,000 |
| Prepaid lease payments | **124,052** | 63,227 |
| Trade receivables | **32,588** | 12,122 |
| Restricted bank deposits | **111,533** | 98,365 |
| | **596,346** | 507,714 |

## 18. RELATED PARTY DISCLOSURES

### (a) Related party balances

Details of the outstanding balances with related parties are set out in the condensed consolidated statement of financial position and note 13.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 18. RELATED PARTY DISCLOSURES *(Continued)*

### (b) Related party transactions

The Group had the following transaction with related parties, being Mr. Xu or entities controlled by him, during the reporting period:

| Related party | Nature of transactions | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Mr. Xu | Interest expense | **224** | – |
| 江門市華志金屬制品有限公司 (Jiangmen Huazhi Metal Product Company Limited) | Rental expenditure | **168** | – |
| Hua Jin Holdings Pte. Ltd. | Rental expenditure | **146** | 150 |

In addition, as set out in the condensed consolidated statement of changes in equity, additional taxes and surcharges charged to Jiangmen Huamu in the amount of RMB5,642,000 was borne and indemnified by Mr. Xu in May 2018. Such amount has been accounted for as deemed contribution from a shareholder.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 18. RELATED PARTY DISCLOSURES *(Continued)*

### (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the reporting period were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Directors' fees | **274** | 265 |
| Salaries, allowances and other benefits | **1,407** | 1,250 |
| Retirement benefit scheme contributions | **34** | 31 |
| | **1,715** | 1,546 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1, 2 or 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

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

| Financial asset | Fair value as at 30.6.2018 RMB'000 (Unaudited) | 31.12.2017 RMB'000 (Audited) | Fair value hierarchy | Valuation techniques and key inputs |
|---|---|---|---|---|
| Derivative financial instruments at fair value through profit or loss: | | | | |
| — Future contracts of hot rolled coils | **18,114** | 11,490 | Level 1 | Quoted bid prices in an active market |

Except for the above financial assets that are measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate to their fair values at the end of the reporting period.