DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1090

2018 Annual Report

大明 1988-2018th

专心·专注·专业

Contents

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Keming *(Chairman)*
Mr. Jiang Changhong *(Chief Executive Officer)*
Ms. Xu Xia
Mr. Zou Xiaoping
Mr. Lu Ping
Dr. Fukui Tsutomu *(formerly known as Zhang Qinzhong)*
Mr. Zhang Feng
Mr. Wang Jian

Independent Non-executive Directors

Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa

COMPANY SECRETARY

Mr. Leung Man Fai

AUTHORISED REPRESENTATIVES

Mr. Zou Xiaoping
Mr. Leung Man Fai

AUDIT COMMITTEE

Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa

REMUNERATION COMMITTEE

Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa
Mr. Zou Xiaoping

NOMINATION COMMITTEE

Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa
Mr. Zou Xiaoping

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 1518, Tong Jiang Road
Wuxi, Jiangsu
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1007, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong Law

Deacons
5/F, Alexandra House
18 Chater Road, Central
Hong Kong

As to Cayman Islands Law

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building, Central
Hong Kong

PRINCIPAL BANKERS

In Hong Kong

Bank of China (Hong Kong) Limited

In China

China Construction Bank, Wuxi Xishan Sub-branch
Agricultural Bank of China, Xishan Sub-branch
China CITIC Bank, Wuxi Guangrui Road Sub-branch
Bank of China, Xishan District Dongbei Tang Sub-branch
China Everbright Bank, Wuxi Branch

STOCK CODE

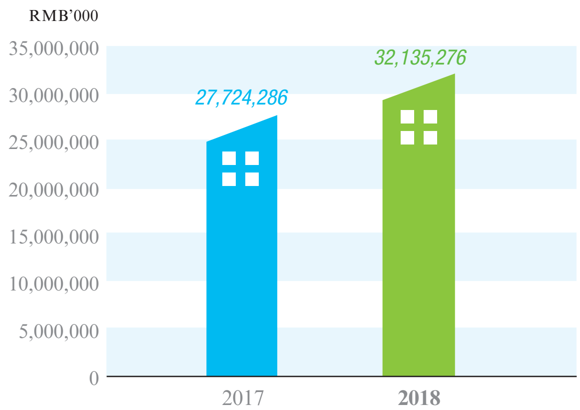
SEHK: 1090

WEBSITE

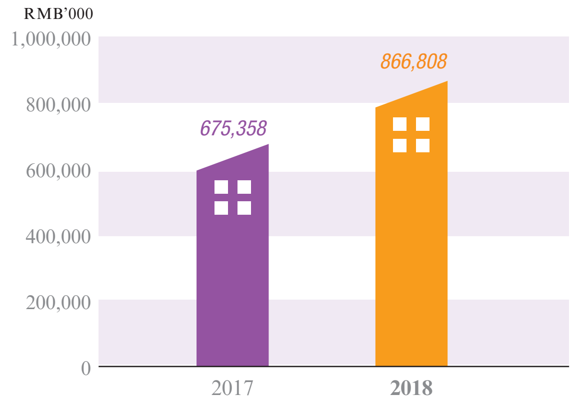
http://www.dmssc.net

	Year ended 31 December		
	2018	2017	
	RMB'000	*RMB'000*	*% change*
FINANCIAL HIGHLIGHTS			
Revenue	**32,135,276**	27,724,286	+15.9%
Gross profit	**866,808**	675,358	+28.3%
Total comprehensive income for the year	**132,664**	83,342	+59.2%

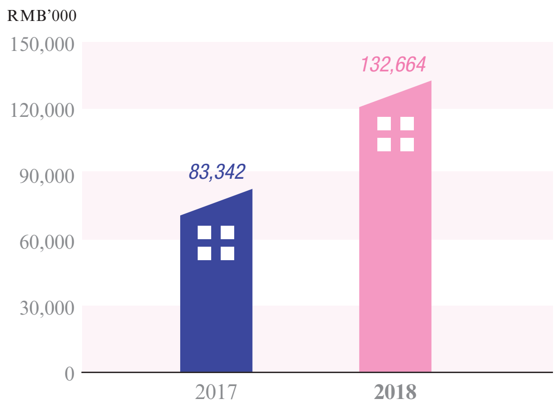
Revenue



Gross Profit



Total comprehensive income for the year

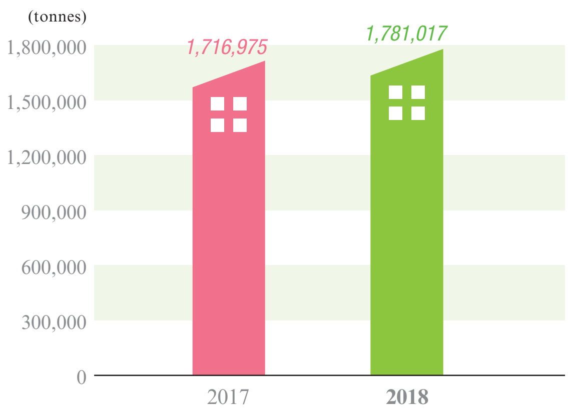


FINANCIAL AND OPERATING HIGHLIGHTS

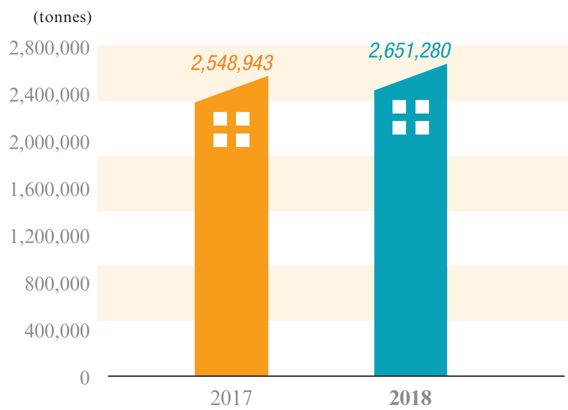
	Year ended 31 December **2018**	2017	% change
OPERATING HIGHLIGHTS			
Stainless steel			
Sales volume (tonnes)	**1,781,017**	1,716,975	+3.7%
Processing volume (tonnes)	**2,651,280**	2,548,943	+4.0%
Processing multiple (note)	**1.49**	1.48	
Carbon steel			
Sales volume (tonnes)	**2,040,593**	1,583,997	+28.8%
Processing volume (tonnes)	**2,098,505**	1,512,503	+38.7%
Processing multiple (note)	**1.03**	0.95	

Note: *Processing multiple = Processing volume/Sales volume*

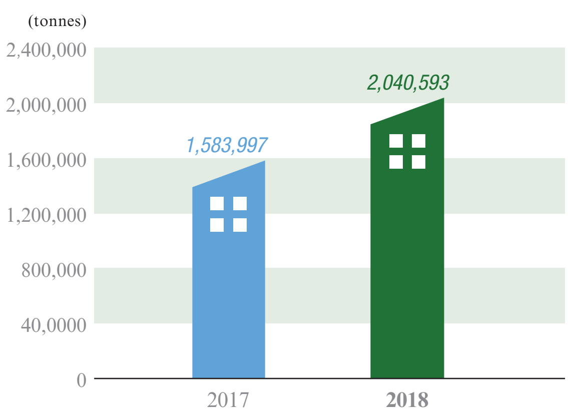
Sales volume of stainless steel



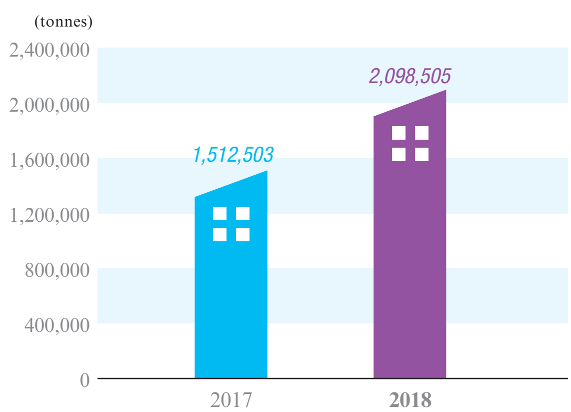
Processing volume of stainless steel



Sales volume of carbon steel



Processing volume of carbon steel



The sales volume and processing volume of our processing centres for the year ended 31 December 2018 and the corresponding period in 2017 are as follows:

Stainless steel	Year ended 31 December 2018 *tonnes*	2017 *tonnes*	*% change*
Sales volume			
Wuxi	**618,934**	622,944	-0.6%
Wuhan	**95,904**	91,762	+4.5%
Hangzhou	**291,149**	281,234	+3.5%
Tianjin	**240,306**	241,382	-0.4%
Taiyuan	**134,754**	127,590	+5.6%
Jingjiang	**246,300**	163,402	+50.7%
Shandong	**109,073**	97,840	+11.5%
Qianzhou	**44,597**	51,033	-12.6%
Others	**–**	39,788	-100.0%
Total	**1,781,017**	1,716,975	+3.7%
Processing volume			
Wuxi	**1,165,628**	1,257,527	-7.3%
Wuhan	**119,133**	123,095	-3.2%
Hangzhou	**376,111**	357,956	+5.1%
Tianjin	**284,787**	291,181	-2.2%
Taiyuan	**277,443**	226,545	+22.5%
Jingjiang	**322,506**	200,054	+61.2%
Shandong	**105,672**	92,585	+14.1%
Total	**2,651,280**	2,548,943	+4.0%

Carbon steel	Year ended 31 December 2018 *tonnes*	2017 *tonnes*	*% change*
Sales volume			
Wuxi	**11,440**	9,030	+26.7%
Wuhan	**396,712**	292,003	+35.9%
Hangzhou	**199,811**	231,824	-13.8%
Tianjin	**167,134**	95,941	+74.2%
Taiyuan	**251,916**	224,904	+12.0%
Jingjiang	**488,308**	444,189	+9.9%
Qianzhou	**423,825**	283,377	+49.6%
Shandong	**101,447**	1,980	+5,023.6%
Others	**–**	749	-100.0%
	2,040,593	1,583,997	+28.8%
Processing volume			
Wuxi	**38,338**	100,165	-61.7%
Wuhan	**431,801**	280,315	+54.0%
Hangzhou	**204,993**	235,657	-13.0%
Tianjin	**221,393**	109,131	+102.9%
Taiyuan	**347,041**	274,752	+26.3%
Jingjiang	**530,940**	512,483	+3.6%
Qianzhou	**224,161**	–	n/a
Shandong	**99,838**	–	n/a
	2,098,505	1,512,503	+38.7%

DEAR SHAREHOLDERS:

On behalf of the board of directors of Da Ming International Holdings Limited (the "Company", together with its subsidiaries as the "Group"), I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2018.

BUSINESS REVIEW

Processing centres

We are a leading metals processing service provider providing comprehensive processing service to modern manufacturers in China with more than 20,000 active customers. Our processing services cover the whole manufacturing process including cutting, slitting, polishing, forming, welding, heat treating, machinery, painting and assembling. The Group has established nine processing centres strategically located in various regions in China, namely, Wuxi, Hangzhou, Tianjin, Wuhan, Taiyuan, Zibo, Jingjiang, Taian and Qianzhou while the tenth processing centre are being built in Jiaxing, Zhejiang province.

The construction work of the Group's tenth processing centre in Jiaxing, Zhejiang province commenced on 23 May 2018 pursuant to a joint venture agreement with Hanwa Co., Ltd. dated 19 March 2018 in respect of the formation of a joint venture in the PRC. The joint venture will be primarily engaged in the processing and sales of stainless steel, carbon steel and steel alloy, research and development, manufacturing, processing and sales of mechanical and metal parts, as well as import and export of various commodities and technology.

Hanwa Co., Ltd. shall, through the joint venture, assist the Group to promote its products to Japanese invested home electronic appliance, escalator, automobile manufacturers and expand the Group's market share in this regard.

Deep processing services

1. *Manufacturing components for China's first SC200 superconducting proton therapy system*

   Daming Heavy Industry has completed the processing and delivery of the components of China's first SC200 superconducting proton therapy system. The client takes the international advanced tumour radiotherapy technology – proton heavy ion radiotherapy technology as its principal research direction, specialising in the research and development, production, sales, equipment operation, maintenance and management of medical equipment. This China's first SC200 superconducting proton therapy system processed is a highly sophisticated software and hardware integrated system, which consists of superconducting cyclotron, beam transmission system, therapeutic rotating frame, therapeutic supporting frame and structural parts and therapeutic table, positioning and collimation system. Daming Heavy Industry was responsible for the manufacturing of the therapeutic rotating frame.

2. *Manufacturing components for "China's number one excavator" of Xuzhou Construction Machinery Group ("XCMG")*

   The 700-ton electric hydraulic excavator, known as "China's number one excavator", has been manufactured successfully by XCMG, while Daming Heavy Industry was responsible for the manufacturing of components of rotating platform main body.

The upper car body of the excavator is comprised of three components, namely the left platform, right platform and rotating platform main body. Having considered that the upper car body, which was machinery processed by Daming Heavy Industry, is a key component of the excavator, and the processing involved numerous procedures and required high level of precision, and its quality would directly affect the performance of the excavator, Daming Heavy Industry has established a Inter-departmental unit to jointly tackle the problems.

3. *Daming Heavy Industry completed its first largest thickener auxiliary equipment to be exported to Chile*

For the first time, Daming Heavy Industry had completed the processing of a thickener equipment with a diameter of 99 metres, which will be exported to Chile. Currently, this thickener auxiliary equipment is the largest of its kind in China.

The thickener auxiliary equipment has a diameter of 99 metres and weighs approximately 330 tons. It is made from Q345B material and designed by Outotec, a world-renowned leading corporation in mineral processing and metal manufacture technology. Due to the numerous material requirements of the equipment, Daming Heavy Industry made full use of the Group's resources to place more orders to fulfill the production needs. The procedures involved in the processing included unloading, assembling, welding, press forming, machinery processing, final assembly, and sandblasting and paint application. During the production, the technology department and production department of Daming Heavy Industry proposed initiatives for the further improvement of the production quality and had set up requirements such as adhering to the welding standards in the U.S., improving the processing efficiency to meet the delivery schedule and product packaging specifically for exports. These efforts had been highly praised by our customer. Due to the relatively large number of main structural materials used in the product, it was extremely difficult to proceed the sandblasting and paint application procedure. The customer had arranged quality engineers and third-party supervisors to station in the plant to inspect every procedure and to scrutinise the size of packages according to the logistic agent's standards in order to ensure safe and convenient shipping and unloading of delivered goods.

Subsequent to the seamless cooperation, the customer has indicated its intention for further cooperation for more products, and has placed additional orders for other products on the agenda.

4. *The Zhoushan Base of Zhejiang Petrochemical*

A total of RMB173.08 billion had been invested in the Zhejiang Petrochemical integrated refining and chemical project, of which the designed annual refining capacity is 40 million tons. The project will be constructed in two phases. The first phase is currently under construction and it is planned to clear the whole pipeline and commence production at the end of 2018. In the Zhejiang Petrochemical project, Daming Heavy Industry undertook the processing of 31 carbon steel towers, with an aggregate weight of nearly ten thousand tons, for five devices which are used for butadiene, propane dehydrogenation, styrene, gas fractionation and aromatic hydrocarbon under the project; 33 stainless steel and composite panel equipment, with an aggregate weight of 1,680 tons; 5 heat-exchangers, with an aggregate weight of 70 tons.

5. *Large scale turbine hub of the first 12MW wind power equipment in the world*

In early October 2018, Daming Heavy Industry processed the large scale turbine hub of the first 12MW wind power equipment in the world.

Due to the special shape, complex structure and large volume of wind turbine hub, coupled with the need for chain-linked blades and wind turbine rotor shafts for the hub, the processing was exposed to high quality risks.

The gross weight of the 12MW wind turbine hub being processed alone amounted to 60 tons, with a measurement of 7,100 mm x 6,500 mm x 6,800 mm. Both the processing and positioning involved immense difficulties. Given that the hub was a hollow structure, in order to detect the amount of deformation of the hub after processing, before refining the spindle surface and the blade surface, it is necessary to detect the amount of deformation with a laser tracker after the preliminary processing of the spindle surface and the blade surface. Moreover, it is necessary to design a specific spreader for the hoisting and turning beneath the 60-ton wind turbine hub and behind the machine tool, so as to avoid hitting the processed surface and precisely control the deformation of the finished workpiece. Daming Heavy Industry used the German Schiess double gantry boring and milling machining centre and 280 floor typing boring machine imported from Italy for processing. The first set of processing was delivered in early November, and three more blank hubs will be processed subsequently.

6. *Thickener auxiliary equipment exported to Russia*

Two sets of large thickener auxiliary equipment processed by Daming Heavy Industry for the first time were exported to Russia in December.

Using Q345E material, the thickener auxiliary equipment is 88 metres in diameter with two sets in total, which is designed by Outotec, a world-renowned leading corporation in mineral processing and metal production technology. Due to the numerous material requirements of the equipment, Daming Heavy Industry made full use the Group's resources to place more orders to meet production needs. It has also proposed improvement initiatives to customers for the further improvement of the production quality, which has been highly praised by the customer. The customer has indicated its intention for further cooperation for more products, and has placed additional orders for other products on the agenda.

7. *Large duplex stainless steel chemical tanker project*

Wuhu Shipyard, for the first time, manufactured a large duplex stainless steel chemical tanker, and it has placed strict requirements on material quality, processing control and delivery schedule. The stainless steel chemical tanker with 28,000 DWT (deadweight tonnage) is the first large stainless steel chemical tanker independently inspected by China Classification Society ("CCS"), the only professional institution engaged in vessel classification inspection business in China and an official member of International Association of Classification Societies. Daming Heavy Industry undertook the processing business of the duplex stainless steel inner bulkhead of the tanker, which mainly involved the provision of services such as production drawing design, cutting, edge planing, welding, bending and flaw detection. As the first cooperation among Wuhu Shipyard, CCS and Daming Heavy Industry in the processing of large duplex stainless steel chemical tanker, the project carried significant meaning.

8. *Da Ming served at the Sinamalé Bridge project under One Belt and One Road*

The Sinamalé Bridge project in the Maldives, undertaken by China Communications Construction Company, Ltd., is one of the major projects under One Belt and One Road. The steel box girder between bridge piers number 20 and 21 of the main bridge has been successfully completed deck closure, by which the whole bridge was linked up, and brought a step forward towards completion. In this significant construction project, Jiangsu Daming has contributed to the construction of the bridge by processing stainless steel plate embedded parts of 460 tons.

The Sinamalé Bridge, constructed by the Maldives with the help of China, is 2,000 metres long, 1,390 metres of which is a cross-sea bridge. The 760- metre long main bridge is a six-span steel tube-reinforced hybrid girder V-shaped rigid frame bridge. The whole bridge contains six deck closure sections, including three concrete girder deck closure sections and three steel box girder closure sections. It is understood that the project required a total of 460 tons of 316L stainless steel plate embedded parts, and Jiangsu Daming has four sets of equipment working simultaneously, with quality control personnel monitoring throughout the process. All of the stainless steel plate embedded parts have been supplied and have won high praise from customers.

Meanwhile, Daming Hubei Processing Centre provided quality carbon steel products for the steel mold enterprises of the bridge project, which was fully affirmed by customers and the Maldives.

Operating results

The Group recorded a net profit of approximately RMB132.7 million for the year ended 31 December 2018 representing an increase of approximately 59.2% as compared with the net profit of approximately RMB83.3 million for the year ended 31 December 2017.

The annual sales volume of our stainless steel processing business increased from approximately 1,717,000 tonnes for the year ended 31 December 2017 to approximately 1,781,000 tonnes for the year ended 31 December 2018 representing an increase of approximately 3.7% while the processing volume increased from approximately 2,549,000 tonnes for the year ended 31 December 2017 to approximately 2,651,000 tonnes for the year ended 31 December 2018 representing an increase of approximately 4.0%.

The annual sales volume of our carbon steel processing business increased from approximately 1,584,000 tonnes for the year ended 31 December 2017 to approximately 2,041,000 tonnes for the year ended 31 December 2018 representing an increase of approximately 28.8% while the annual processing volume increased from approximately 1,513,000 tonnes for the year ended 31 December 2017 to approximately 2,099,000 tonnes for the year ended 31 December 2018 representing an increase of approximately 38.7%.

FUTURE DEVELOPMENT

The Group will continue to complete the development of its processing centre in Jiaxing, Zhejiang province in 2019 to enhance its processing capacity to serve the needs of its customers.

APPRECIATION

On behalf of the Board, I would like to thank the management and staff for their dedication, effort and contribution towards the Company. I would also like to thank the shareholders for their support to the Company.

FINANCIAL REVIEW AND ANALYSIS

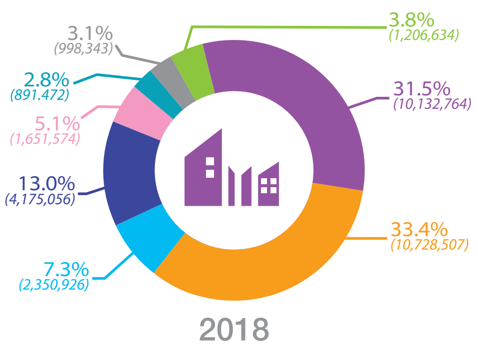
During the year under review, we recorded a revenue of approximately RMB32,135 million, gross profit of approximately RMB867 million and the profit attributable to equity holders of the Company of approximately RMB110 million. Total assets of the Group as at 31 December 2018 amounted to approximately RMB10,162 million while equity attributable to equity holders of the Company amounted to approximately RMB2,494 million.

Analysis of revenue by key industry segments

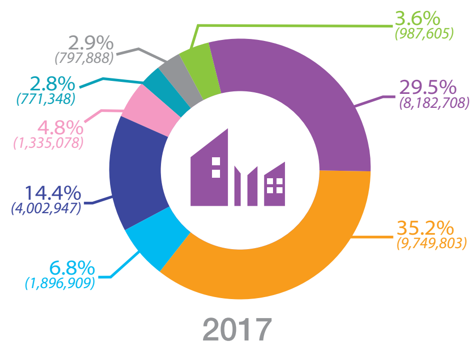
During the years ended 31 December 2018 and 2017, our revenue by key industry segments are shown below:

	Revenue For the year ended 31 December			
	2018		2017	
Industry	***RMB'000***	*%*	*RMB'000*	*%*
Machineries	**10,132,764**	**31.5**	8,182,708	29.5
Distributors	**10,728,507**	**33.4**	9,749,803	35.2
Petrochemical	**2,350,926**	**7.3**	1,896,909	6.8
Home Hardware and Appliances	**4,175,056**	**13.0**	4,002,947	14.4
Automobile and Transport	**1,651,574**	**5.1**	1,335,078	4.8
Construction	**891,472**	**2.8**	771,348	2.8
Renewable Energy	**998,343**	**3.1**	797,888	2.9
Others	**1,206,634**	**3.8**	987,605	3.6
Total	**32,135,276**	**100.0**	27,724,286	100.0

RMB'000



RMB'000

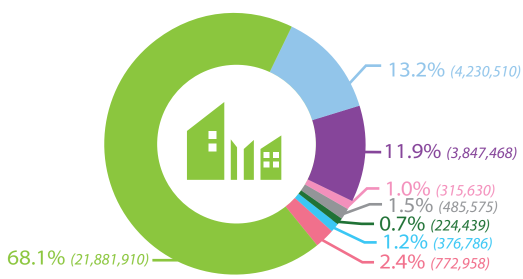


Machineries
Distributors
Petrochemical
Home Hardware and Appliances
Automobile and Transport
Construction
Renewable Energy
Others

Analysis of revenue by geographic regions

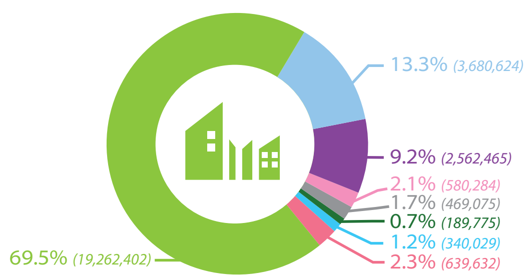
	Revenue For the year ended 31 December			
	2018		2017	
Region	***RMB'000***	***%***	*RMB'000*	*%*
Eastern region, China	**21,881,910**	**68.1**	19,262,402	69.5
Northern region, China	**4,230,510**	**13.2**	3,680,624	13.3
Central region, China	**3,847,468**	**11.9**	2,562,465	9.2
Southwestern region, China	**315,630**	**1.0**	580,284	2.1
Northeastern region, China	**485,575**	**1.5**	469,075	1.7
Northwestern region, China	**224,439**	**0.7**	189,775	0.7
Southern region, China	**376,786**	**1.2**	340,029	1.2
Overseas	**772,958**	**2.4**	639,632	2.3
	32,135,276	**100.0**	27,724,286	100.0

RMB'000



2018

RMB'000



2017

- Eastern region, China
- Northern region, China
- Central region, China
- Southwestern region, China
- Northeastern region, China
- Northwestern region, China
- Southern region, China
- Overseas

Revenue

Our revenue for the year ended 31 December 2018 amounted to approximately RMB32,135 million comprising approximately RMB24,349 million from our stainless steel processing business and approximately RMB7,786 million from our carbon steel processing business. As compared with the revenue for the year ended 31 December 2017 of approximately RMB27,724 million, it represented an increase of approximately 15.9%. Such increase was mainly due to the increase in the sales volume of stainless steel and carbon steel processing services.

Gross profit

Gross profit increased from approximately RMB675.4 million in 2017 to approximately RMB866.8 million in 2018 mainly due to the increase in revenue and the increase in profit margin.

Other income

Other income increased from approximately RMB47.6 million for the year ended 31 December 2017 to approximately RMB82.7 million for the year ended 31 December 2018 mainly due to the increase in sales of scraps and packaging materials and the increase in subsidy income.

Other gain/(loss) – net

The Group recorded a net other gain of approximately RMB6.5 million for the year ended 31 December 2018 as compared with a net other loss of approximately RMB13.7 million for the year ended 31 December 2017 mainly due to the significant increase in foreign exchange gain.

Distribution costs

Distribution costs increased from approximately RMB221.6 million for the year ended 31 December 2017 to approximately RMB277.7 million for the year ended 31 December 2018. Such increase was mainly due to the increase in staff salaries and transportation costs as a result of the increase in sales volume.

Administrative expenses

Administrative expenses increased from approximately RMB247.1 million for the year ended 31 December 2017 to approximately RMB273.3 million for the year ended 31 December 2018. Such increase was mainly due to the increase in staff costs.

Finance costs – net

Net finance costs increased from approximately RMB104.1 million for the year ended 31 December 2017 to approximately RMB184.6 million for the year ended 31 December 2018. The increase in finance costs was mainly due to the increase in interest expenses on borrowings and the increase in foreign exchange losses in 2018.

Income tax expense

Income tax expense increased from approximately RMB52.0 million for the year ended 31 December 2017 to approximately RMB86.8 million for the year ended 31 December 2018. Such increase was due to the increase in net profit in 2018.

Profit for the year

The Group recorded a profit of approximately RMB132.7 million for the year ended 31 December 2018 as compared with a profit of approximately RMB83.3 million for the year ended 31 December 2017 representing an increase of approximately 59.2%.

Capital Expenditure

In 2018, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB737.7 million (2017: RMB774.8 million).

Foreign Exchange Risk Management

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade receivables, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar, Euro, Hong Kong Dollar and Japanese Yen, which are exposed to foreign currency translation risk.

Our management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the borrowings of the Group amounted to approximately RMB4,093.7 million of which approximately RMB3,243.5 million were repayable within one year, notes payables amounted to approximately RMB1,388.8 million while the bank balances were approximately RMB1,216.1 million of which approximately RMB1,076.1 million were restricted mainly for the issuance of notes payable and letter of credit.

As at 31 December 2018, the Group recorded a net current liabilities of approximately RMB967.9 million mainly due to the use of short term borrowings to finance the Group's capital expenditure in the current year. According to our experience, the Group will be able to extend the short term borrowings when due and will not cause any going concern issue. The Group will also review and monitor its financing structure in the coming year.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The gearing ratio as at 31 December 2018 and 2017 calculated on this basis were 58.09% and 54.12% respectively.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance in enhancing shareholders' value and safeguarding interests of shareholders and other stakeholders.

The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2018 except for the deviation from code provisions A.2.1 (up to 17 April 2018) and A.6.7. The Company adopted the CG Code as its own code of corporate governance.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. Up to 17 April 2018, the positions of the chairman and the chief executive officer were held by Mr. Zhou Keming. In order to enhance the corporate governance practices of the Company, on 18 April 2018, Mr. Zhou Keming has resigned as the chief executive officer of the Company and Mr. Jiang Changhong has been appointed as the chief executive officer of the Company. Mr. Zhou remains as the chairman of the Board and an executive director of the Company. For detailed information, please refer to the announcement of the Company dated 18 April 2018.

Under code provision A.6.7 of the CG Code, the independent non-executive directors and non-executive directors should attend general meeting of the Company. Mr. Chen Xuedong and Mr. Liu Fuxing, both are independent non-executive directors of the Company, were absent from the annual general meeting of the Company held on 30 May 2018 due to their other business commitments.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

Composition

The Board of Directors (the "Board") comprises 8 executive directors and 6 independent non-executive directors. As of 31 December 2018, the Directors are as follows:

Executive directors:
Mr. Zhou Keming *(Chairman)*
Mr. Jiang Changhong *(Chief Executive Officer)*
Ms. Xu Xia
Mr. Zou Xiaoping
Mr. Lu Ping
Dr. Fukui Tsutomu
(formerly known as Zhang Qinzhong)
Mr. Zhang Feng
Mr. Wang Jian

Independent non-executive directors:
Mr. Cheuk Wa Pang
Prof. Hua Min
Mr. Chen Xuedong
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa

The biographical details of the Directors are set out on pages 35 to 38 of this Annual Report. Save as Mr. Zhou Keming is the spouse of Ms. Xu Xia and Mr. Zhang Feng is a cousin of Mr. Zhou Keming, none of the members of the Board is related to one another.

BOARD MEETING

The Board meets regularly and board meetings are held at least four times a year at approximately quarterly intervals. All the Directors are given opportunities to include matter in the agenda for regular board meetings. Notices of regular board meetings are given to all Directors at least 14 days before the meeting. For all other board meetings, reasonable notice will be given. The company secretary of the Company is responsible to take and keep minutes of all board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is sent to all Directors for their records and is opened for Directors' inspection.

Seven board meetings had been held in the financial year ended 31 December 2018. The individual attendance record of each director at the meetings of the Board is set out below:

	No. of meeting attended/ No. of meeting held	Attendance rate
Executive Directors		
Mr. Zhou Keming *(Chairman)*	6/7	86%
Mr. Jiang Changhong	7/7	100%
Ms. Xu Xia	6/7	86%
Mr. Zou Xiaoping	7/7	100%
Mr. Lu Ping	4/5[(a)]	80%
Dr. Fukui Tsutomu	6/7	86%
Mr. Zhang Feng	5/7	71%
Mr. Wang Jian	6/7	86%
Independent non-executive Directors		
Mr. Cheuk Wa Pang	7/7	100%
Prof. Hua Min	5/7	71%
Mr. Chen Xuedong	5/7	71%
Mr. Lu Daming	7/7	100%
Mr. Liu Fuxing	5/7	71%
Mr. Hu Xuefa	5/5[(b)]	100%

(a) Mr. Lu Ping was appointed as a director of the Company with effect from 18 April 2018. Five board meetings were held after his appointment.

(b) Mr. Hu Xuefa was appointed as a director of the Company with effect from 30 May 2018. Five board meetings were held after his appointment.

During the year, a meeting of the chairman of the Board and the independent non-executive directors without the presence of other directors and the management was held to discuss and review the performance of the executive directors and the management.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

To ensure all Directors' contributions to the Board remain informed and relevant, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills.

During the year, the Company had organised a training seminar relating to the latest information on compliance matters for listed companies on 30 May 2018. Attendance records of the directors are set out below:

Name of Directors	**Attended the training seminar held on 30 May 2018**
Executive directors	
Mr. Zhou Keming	✓
Mr. Jiang Changhong	✓
Ms. Xu Xia	✓
Mr. Zou Xiaoping	✓
Mr. Lu Ping	✓
Dr. Fukui Tsutomu	✓
Mr. Zhang Feng	✓
Mr. Wang Jian	✓
Independent non-executive directors	
Mr. Cheuk Wa Pang	✓
Prof. Hua Min[c]	
Mr. Chen Xuedong[c]	
Mr. Lu Daming	✓
Mr. Liu Fuxing[c]	
Mr. Hu Xuefa	✓

(c) Prof. Hua Min, Mr. Chen Xuedong and Mr. Liu Fuxing attended outside talks or seminars to update knowledge in regulatory updates or their focused professional area.

All Directors had provided their training records for the year 2018 to the Company. Furthermore, each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of his responsibilities under the relevant laws, rules, codes and regulations.

MONTHLY MANAGEMENT REPORTS

Management provided all members of the Board with monthly management reports including monthly financial and operating updates, proposed projects and latest development of the Group. Directors are able to review and assess the performance of the Group and be informed of the Group's latest development through the monthly management reports.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the Directors.

BOARD OPERATIONS

The Board is accountable to the shareholders and has responsibility for strategic leadership, directing and overseeing all major matters of the Group. Day-to-day management, administration and operation of the Group are delegated to senior management or the officer in charge of each division and they are required to report to the Board. Some key decisions, however, were taken by the Board, including but not limited to:

- The Group's strategy and management
- Corporate structure and capital
- Financial reporting and controls
- Internal controls
- Agreements/business transactions/financial commitment
- Shareholders communication
- Board membership and senior management appointments
- Remuneration
- Corporate governance matters
- Board policies

Directors and senior management hold regular meetings to ensure the strategies and policies set out by the Directors are implemented effectively. The Board has also delegated some of its functions to the board committees, details of which are set out in sub-sections headed "Remuneration Committee", "Nomination Committee" and "Audit Committee".

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions of the Company. A summary of the work performed by the Board relating to corporate governance functions is listed below:

– reviewed the Company's corporate governance policy and practices on corporate governance;
– reviewed, monitored and arranged training and continuous professional development of Directors and senior management;
– reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
– reviewed the code of conduct applicable to the Directors; and
– reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors ("INEDs") bring independent views on the Group's business strategy, results and management so that interests of shareholders, employees and stakeholders can be taken into account, and the interests of the Company and its shareholders can be protected.

The Board met the requirements of the Listing Rules in relation to the appointment of at least three INEDs with at least one independent non-executive director possessing appropriate professional accounting qualifications, or accounting, or related financial management expertise.

Also, the Board comprises six INEDs representing over one-third of the Board.

The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent in accordance with the guidelines set out in the Listing Rules.

BOARD COMMITTEES

The Board has set up three Board Committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Remuneration Committee are available on the websites of the Company (www.dmssc.net) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up formal and transparent procedures for determination of such remuneration policies. The Remuneration Committee comprises the six INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa, and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the Remuneration Committee.

The Remuneration Committee refers to the below policies when determining the remuneration of Directors:

1. No director or any of his/her associates is involved in deciding his/her own remuneration;

2. Remuneration levels should be sufficient to attract and retain directors to run the Company successfully but without paying more than necessary; and

3. Remuneration should reflect performance, complexity and responsibility.

The Remuneration Committee held two meetings during the financial year ended 31 December 2018.

The following is an attendance record of the meetings held by the Remuneration Committee for the financial year:

Name of Remuneration Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	2/2	100%
Prof. Hua Min	2/2	100%
Mr. Chen Xuedong	1/2	50%
Mr. Lu Daming	2/2	100%
Mr. Liu Fuxing	1/2	50%
Mr. Hu Xuefa	2/2	100%
Mr. Zou Xiaoping	2/2	100%

A summary of the work performed by the Remuneration Committee during the financial year is listed below:

(1) Reviewed the remuneration policy of the Company and determined the remuneration packages for the Board and senior management;

(2) Reviewed the Company's share option scheme and share award scheme;

(3) Reviewed the list of selected employees for granting award shares on 11 September 2018;

(4) Approved the acquisition of shares from market for the share award scheme as suggested by Mr. Zhou Keming, Chairman of the Board;

(5) Reviewed the level of remuneration for INEDs. Ensured the remunerations are linked to their level of responsibilities, undertaking and contribution in terms of time commitment to the effective functioning of the Board; and

(6) Reviewed the performance of the executive directors, chief executive officer and key senior management officers and recommended to the Board specific adjustments in remuneration.

The 2018 annual salary review had been noted and reviewed by the members of the Remuneration Committee.

NOMINATION COMMITTEE

The Nomination Committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Nomination Committee are available on the websites of the Company (www.dmssc.net) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of directors and senior management. The Nomination Committee comprises the six INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the Nomination Committee.

The Company adopts a formal procedure in the selection of new Directors and nomination of retiring Directors for re-election by the Shareholders at general meetings. The prospective director will first be assessed by the Nomination Committee, taking into account the balance of skills, knowledge, experience and diversity on the Board. Upon receiving the recommendation from the Nomination Committee, the proposed appointment will be considered and approved by the Board after due deliberation. All new Directors are subject to re-election by the Shareholders at the Company's next Annual General Meeting ("AGM"). All Directors are subject to retirement by rotation at the AGM at least once every three years in accordance with the Articles of Association. The retiring Directors shall be eligible for re-election.

The Nomination Committee held three meetings during the financial year ended 31 December 2018. The following is an attendance record of the meetings held by the Nomination Committee for the financial year:

Name of Nomination Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	3/3	100%
Prof. Hua Min	1/3	33%
Mr. Chen Xuedong	1/3	33%
Mr. Lu Daming	3/3	100%
Mr. Liu Fuxing	2/3	67%
Mr. Hu Xuefa	N/A[(d)]	
Mr. Zou Xiaoping	3/3	100%

(d) Mr. Hu Xuefa was appointed as a member of the Nomination Committee with effect from 30 May 2018. No Nomination Committee meeting was held in 2018 after his appointment.

A summary of the work performed by the Nomination Committee during the financial year is listed below:

(1) Reviewed the structure, size, composition and diversity of the Board, as well as the skills, knowledge, qualifications and time engagement of the Directors;

(2) Considered the separation of the roles of chairman and chief executive officer to two individuals;

(3) Considered the appointment of Mr. Jiang Changhong as the chief executive officer of the Company replacing Mr. Zhou Keming;

(4) Considered the appointments of Ms. Xu Xia and Mr. Zou Xiaoping as vice-chairman of the Board;

(5) Considered the appointment of Mr. Lu Ping as an executive director and Mr. Hu Xuefa as an independent non-executive director and the resignation of Mr. Tang Zhonghai as an executive director of the Company.

(6) Reviewed the independence of all INEDs; and

(7) Recommended to the Board for endorsement on the re-election of the retiring Directors.

AUDIT COMMITTEE

The Audit Committee was established by the Board on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Audit Committee are available on the websites of the Company (www.dmssc.net) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The Audit Committee comprises the six INEDs, namely Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa. Mr. Cheuk Wa Pang is the chairman of the Audit Committee.

The Audit Committee is responsible for reviewing and supervising the financial reporting process, the system of internal controls, financial controls and risk management. It is also responsible for reviewing the terms of engagement of the Company's auditor as well as their independence.

The Audit Committee held three meetings during the financial year ended 31 December 2018. The following is an attendance record of the meetings held by the Audit Committee for the financial year:

Name of Audit Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	3/3	100%
Prof. Hua Min	1/3	33%
Mr. Chen Xuedong	1/3	33%
Mr. Lu Daming	3/3	100%
Mr. Liu Fuxing	1/3	33%
Mr. Hu Xuefa	2/2[(e)]	100%

(e) Mr. Hu Xuefa was appointed as a member of the Audit Committee with effect from 30 May 2018. Two Nomination Committee meetings were held in 2018 after his appointment.

A summary of the work performed by the Audit Committee during the financial year is listed below:

(1) Reviewed the Group's 2018 interim financial results;

(2) Considered and provided comments to the Board on the payment of 2018 interim dividends;

(3) Reviewed the Group's 2018 final results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's auditor (the "Auditor") for the financial year ending 31 December 2019 at the forthcoming AGM of the Company;

(4) Reviewed the results of the audit on the continuing connected transactions;

(5) Granted authorisation of non-audit services for which the Auditor provided;

(6) Reviewed the Terms of Reference of the Audit Committee;

(7) Reviewed the Group's internal controls and risk management functions; and

(8) Reviewed the Group's financial and accounting policies and practices with the Auditor.

BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board adopted a Board Diversity Policy (the "Policy") in 2013. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. Selection of candidates will be based on a range of diversity perspectives, but the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee is responsible for monitoring the achievement of the measurable objectives and effectiveness of the Policy. Full contents of the Policy is available on the Company's website.

DIVIDEND POLICY

The board shall consider the following factors when determining whether to recommend and declare any dividend.

- the Group's actual and expected financial results;
- the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and financial position of the Company;
- the Company's business strategy, including expected working capital requirements, capital expenditure requirements and future expansion plans;
- the Company's liquidity position;
- retained earnings and distributable reserves of the Company;
- the contractual restrictions on the payment of dividends imposed by the Company's lenders and other institutions; and
- any other factors that the Board considers to be applicable from time to time.

The Company does not have any pre-determined dividend distribution proportion or distribution ratio. The declaration, payment and amount of dividends will be subject to the Board's discretion. The Board will review the Dividend Policy on a regular basis.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration paid or payable by the Company and its subsidiaries to the Auditor, PricewaterhouseCoopers in respect of their audit and non-audit services were as follows:

Type of services	Fees paid/payable
Audit services	RMB3,050,000
Tax-related services	HK$342,000

The Audit Committee considered that the non-audit services in 2018 did not impair the independence of the Auditor.

COMPANY SECRETARY

Mr. Leung Man Fai has been appointed as company secretary of the Company since 2007. He has complied with Rule 3.29 of the Listing Rules in relation to professional training for the year ended 31 December 2018.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements that give a true and fair view of the Group for the year ended 31 December 2018.

The reporting responsibilities of the Auditor on the consolidated financial statements of the Group are set out in the "Independent Auditor's Report" in this annual report.

SHAREHOLDERS RIGHTS

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law. However, pursuant to the Company's Articles of Association, an Extraordinary General Meeting (the "EGM") can be convened by any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company at our principal place of business in Hong Kong at Unit 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Shareholders who wish to put forward proposals at shareholders' meetings may follow the procedures set out in the preceding paragraph. Shareholders may put their enquiries to the Board by contacting the Company Secretary by the following method:

The Company Secretary
Da Ming International Holdings Limited

Address:	:	Unit 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Telephone	:	(852) 2511 0744
Facsimile	:	(852) 2511 4700
Email	:	info@jsdmss.com

Shareholders may also direct their enquiries at the general meeting of the Company. Detailed procedures for shareholders to propose a person for election as a director are available on the Company's website www.dmssc.net or on request to the Company Secretary.

INVESTORS RELATIONS

The Board understands the importance of maintaining an on-going dialogue with shareholders and in particular, uses AGM or other general meetings to communicate with shareholders and encourage their participation. Notice of AGM will be sent to shareholders at least 20 clear business days before the meeting and for other general meetings, notice of the meeting will be sent at least 10 clear business days before the meeting.

The 2018 AGM was held on 30 May 2018 at Regal Hongkong Hotel. The related notice and circular have been sent to shareholders in accordance with the applicable rules and regulations. Chairman of the Board, Chairman of the Audit, Remuneration and Nomination Committees and Directors (except Mr. Chen Xuedong and Mr. Liu Fuxing) attended the 2018 AGM. In order to ensure shareholders are familiar with the detailed procedures for conducting a poll, an explanation has been given by the Chairman at the commencement of the meeting. The results of the poll have been published on the websites of the Company and The Stock Exchange of Hong Kong Limited. In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the Chairman of that meeting.

There is no change in the Company's constitutional documents during the year ended 31 December 2018. A consolidation version of the Company's Memorandum and Articles of Association, Shareholder Communication Policy and Procedures for Shareholders to Propose a Person for Election as a Director are available on the Company's website.

The Company's announcements, circulars and other information are also available on the Company's website www.dmssc.net.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's risk governance structure and the main responsibilities of each level of the structure are summarized below:

Board

- Determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- Oversees the Group's risk management and internal control systems on an ongoing basis;
- Reviews the effectiveness of the Group's risk management and internal control systems at least annually and such reviews cover all material controls including financial, operational and compliance controls;
- Considers major findings on risk management and internal control matters and then reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;
- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit department; and
- Provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Department

- Reviews the adequacy and effectiveness of the Group's risk management and internal control systems; and

- Reports to the Audit Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weakness identified.

The process used to identify, evaluate and manage significant risks are summarized as follows:

- Identify risks in the Group's operations through continuing collections and analysis of operational data

- Evaluate the risks identified and access their impacts on the Group's business

- Categorize the risks by comparing the results of the risk evaluation

- Develop necessary measures to manage those risks identified

- Performs ongoing and periodic monitoring of the risk and review the effectiveness of the risk management strategies and internal control procedures

Internal Audit Function

The Group's internal audit function is performed by an internal audit department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The internal audit department perform regular and specific internal audit projects and reports to the Audit Committee regularly.

Handling and dissemination of inside information

The Group has taken various procedures and measures including arousing the awareness to preserve confidentiality of inside information within the Group, disseminating information to designated persons on strictly confidential basis, sending out securities dealing restrictions notifications to directors and senior management.

EXECUTIVE DIRECTORS

Mr. Zhou Keming, aged 49, was appointed as an executive director on 14 February 2007. He is also the chairman of the Board of the Company. Mr. Zhou is one of the founders of the Group and is responsible for the Group's overall business strategy. He has extensive experience in the steel industry. Mr. Zhou was qualified as a senior economist in 2007 by the Appraisal Committee for Senior Economic Technical Qualification of Jiangsu. He currently serves as a director or legal representative of certain subsidiaries of the Company.

Mr. Zhou is the husband of Ms. Xu Xia and a cousin of Mr. Zhang Feng, both are executive directors of the Company.

Mr. Jiang Changhong, aged 55, was appointed as a non-executive director of the Company on 26 July 2010, and re-designated as an executive director of the Company and appointed as the vice president of the Company on 26 September 2016. He was then appointed as the Chief Executive Officer of the Company on 18 April 2018. Mr. Jiang has extensive experience in the steel industry. From October 2011 to July 2016, he was the minister of planning and development department and the minister of new materials business management department of Taiyuan Iron & Steel (Group) Co., Ltd. He has also served as the manager of the sales department of Shanxi Taigang Stainless Steel Co., Ltd., one of the Group's key suppliers from February 2009 to October 2011.

Mr. Jiang graduated from Beijing Steel and Iron Institute (currently known as University of Science and Technology Beijing) with a Bachelor of Science degree in Computer Science in 1986. He further obtained a Master of Science degree in Computer Application in 1992. Mr. Jiang was accredited by the department of Human Resources, Shanxi Province as a senior engineer and a professor level senior engineer in 1997 and 2013 respectively.

Ms. Xu Xia, aged 44, was re-appointed as an executive director on 24 March 2016 and was appointed as a vice-chairman of the Board of the Company on 18 April 2018. Ms. Xu currently serves as a director of certain subsidiaries of the Company. Ms. Xu was an executive director of the Company from February 2007 to December 2015. She is one of the founders of the Group and is responsible for the Group's business operation and administration. Ms. Xu has extensive sales and business development experience in the steel industry. Ms. Xu graduated from China Textile University (currently known as Donghua University) in 1995 with a diploma in Trading Operation. She also completed Advanced Studies for Senior Executives at College of Continuing Education of Fudan University in 2005 on a part-time basis.

Ms. Xu is the wife of Mr. Zhou Keming ("Mr. Zhou"), the chairman of the Board, a director and a substantial shareholder of the Company. Mr. Zhang Feng, a consin of Mr. Zhou, is a director of the Company.

Mr. Zou Xiaoping, aged 54, was appointed as an executive director on 9 March 2007 and appointed as a vice-chairman of the Board of the Company on 18 April 2018. Mr. Zou is a member of the Nomination Committee and the Remuneration Committee of the Company and the supervisor of Taiyuan Taigang Daming Metal Products Co., Ltd., being a non-wholly owned subsidiary of the Company. He joined the Group in 2002 and is responsible for the Group's overall management, administration and operation. Prior to joining the Group, Mr. Zou worked at Local Tax Bureau, Qianzhou Town, Xishan District from 1986 to 2002 on taxation matters and was granted a certificate for having undergone the in-service taxation training offered to the civil servants in 2000, when serving as the assistant to the head of the Bureau. Mr. Zou has extensive experience in taxation and corporate management. He graduated from Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party with a Bachelor of Laws degree in 2004 and obtained a Master of Business Administration degree from Asia International Open University (Macau) (currently known as City University of Macau) in 2005.

Mr. Lu Ping, aged 47, was appointed as an executive director on 18 April 2018. Mr. Lu joined the Company as vice president in October 2017. Mr. Lu has extensive experience in the steel industry. From May 2009 to October 2017, he was the assistant to the general manager of Baosteel Stainless Steel Co. Ltd.. He also served as the deputy general manager of Ningbo Baoxin Stainless Steel Co., Ltd. from May 2013 to June 2016 and the head of the sales department of Baosteel Stainless Steel Co. Ltd. from May 2009 to April 2013. From April 2002 to April 2009, Mr. Lu was the head of the steel and iron department of Baosteel Singapore Pte Ltd. From July 2000 to March 2002 and from November 1995 to June 1998, respectively, he was the head and the business manager of the steel rod team of the steel and iron department of Baosteel International Economics Trading Company (now known as Shanghai Baosteel International Economics Trading Limited). From July 1998 to June 2000, Mr. Lu served as the business manager of Baosteel Trading (UAE) LLC.

Mr. Lu graduated from Peking University with a Bachelor of Science degree in Probability Statistics in 1992 and with a Bachelor of Arts degree in Oriental Studies in 1994.

Dr. Fukui Tsutomu (formerly known as Zhang Qinzhong), aged 58, was appointed as an executive director on 15 October 2014. Dr. Fukui currently serves as a director of certain subsidiaries of the Company. Prior to joining the Group, Dr. Fukui was the managing director of Nippon Yakin Shanghai Co., Ltd. He has extensive experience in the steel industry. Dr. Fukui graduated from Nanjing University with a bachelor degree in Catalytic Chemistry in 1982 and obtained a Doctoral degree in Engineering from Tokyo Institute of Technology in 1991, majoring in Materials Science and Engineering.

Mr. Zhang Feng, aged 42, was appointed as an executive director on 15 October 2014. Mr. Zhang is currently the general manager of Jiangsu Daming Metal Products Company Limited, a wholly-owned subsidiaries of the Company. He also serves as a director and legal representative of certain subsidiaries of the Company.

Mr. Zhang is a cousin of Mr. Zhou Keming, the chairman of the Board, a director and a substantial shareholder of the Company. Mr. Zhang is also related to Ms. Xu Xia, a director of the Company, as Ms. Xu Xia is the wife of Mr. Zhou Keming.

Mr. Wang Jian, aged 55, was appointed as an executive director on 25 May 2017. He is currently the general manager of Daming Heavy Industry Co., Ltd., a wholly-owned subsidiary of the Company. Mr. Wang graduated from Tianjin University in 1985 with a bachelor's degree in Welding in the School of Mechanical Engineering. Mr. Wang has extensive experience in the steel industry. He was certified as a senior engineer by Jiangsu Wuxi Mechanical Engineering Senior Professional and Technical Qualification Evaluation Committee in 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Hua Min, aged 68, was appointed as an independent non-executive director since 20 March 2007. He is a professor and doctoral candidates adviser and has taught and conducted research in world economics, China economics and international economics at Fudan University and the chief of the Academic Committee of School of Economics of Fudan University since 1990. He has extensive experience in economics. Professor Hua graduated from Fudan University with a Bachelor degree in Political Economics in 1982 and obtained a Doctoral degree in Economics from Fudan University in 1993. From March 2008 to February 2010, he was the Specially Appointed Policy-Making Advisory Expert of the People's Government of Shanghai City. Since 2004, Professor Hua has also been an independent non-executive director and a member of the audit committee of Shanghai International Shanghai Growth Investment Limited (stock code: 770), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Chen Xuedong, aged 54, was appointed as an independent non-executive director on 3 July 2010. He is currently the head of research department and the head of research institute of Hefei General Machinery Research Institute and has been serving as the party secretary of the same institute since 2009. Mr. Chen has attained the qualification of professor level senior engineer in 1999 and was qualified as a researcher in 2002. Since 2003, Mr. Chen has served as head of National Safety Engineering Technology Research Centre for Pressure Vessels and Pipelines. Mr. Chen graduated from Zhejiang University with a Bachelor degree in Chemical Equipment and Machinery in 1986. He then obtained a Master degree and Doctoral degree in Chemical Process Equipment at Zhejiang University in 1995 and 2004, respectively. Mr. Chen has extensive experience in engineering.

Mr. Cheuk Wa Pang, aged 54, was appointed as an independent non-executive director since 20 March 2007. Mr. Cheuk is currently the chief financial officer, the qualified accountants and the company secretary of Lee Kee Holdings Limited (stock code: 637), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Cheuk has extensive experience in accounting and auditing. Mr. Cheuk holds a Bachelor of Science degree in Engineering from the University of Hong Kong, a Master degree in Applied Finance and a Master degree in Business Administration from Macquarie University in Australia. Mr. Cheuk is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants of England and Wales.

Mr. Lu Daming, aged 65, was appointed as an independent non-executive director on 21 August 2014. He was the dean of Hoisting and Conveying Machinery Design Institute Beijing. Mr. Lu obtained his qualification as a research level senior engineer from the People's Republic of China Machinery Industry Department in 1996. He is also a state registered facility supervising engineer and a state registered consulting engineer (investment) of the People's Republic of China. Mr. Lu has also been an independent director of Zhuzhou Tianqiao Crane Co., Ltd. (stock code: 002523, the shares of which are listed on The Shenzhen Stock Exchange), Huadian Heavy Industries Co., Ltd. (stock code: 601226, the shares of which are listed on The Shanghai Stock Exchange), and Noblelift Intelligent Equipment Co., Ltd. (stock code: 603611, the shares of which are listed on The Shanghai Stock Exchange).

Mr. Liu Fuxing, aged 62, was appointed as an independent non-executive director on 25 May 2017. He has been the vice president of Stainless Steel Council of the China Special Steel Enterprises Association since 2015. Mr. Liu obtained a master's degree in applied mathematics from Xi'an Jiaotong University in 2003 and received a senior professional manager qualification certificate from China Association of Construction Enterprise Management in 2005. Mr. Liu has extensive experience in the steel industry. From December 1995 to February 2002, he was the deputy general manager of Taiyuan Iron & Steel (Group) Co., Ltd. and from March 2002 to February 2015, he was a director of Taigang (Group) Limited. During May 2008 to April 2013, Mr. Liu was also the general manager of Shanxi Taigang Stainless Steel Co., Ltd., a company whose shares are listed on The Shenzhen Stock Exchange.

Mr. Hu Xuefa, aged 56, was appointed as an independent non-executive director since 30 May 2018. He has been a qualified senior engineer (professor level) in Shanghai, the People's Republic of China ("PRC") since February 2013. He obtained a master's degree in Executive Master of Business Administration from China Europe International Business School in 2011. In 2008 and 2003, Mr. Hu obtained a doctorate degree in Engineering and a master's degree in Mechanical Engineering, respectively, from Northeastern University, the PRC.

Mr. Hu has extensive experience in the steel industry. From April to November 2017, he was the general manager of Rizhao Steel Holdings Group Company Ltd. From April 2014 to March 2017, he was an executive director and the general manager of Baosteel Stainless Steel Co., Ltd. From March 2011 to April 2014, Mr. Hu was the assistant general manager and general manager of Planning and Development Department of Baosteel Group Limited. Mr. Hu worked as an assistant general manager of Baosteel Company Limited between April 2010 and March 2011 and the general manager of Baosteel Plate Company between April 2008 and April 2010. From August 1999 to April 2008, Mr. Hu was the deputy general manager of Baosteel Group Pu Steel Company.

SENIOR MANAGEMENT

Mr. Leung Man Fai, aged 54, joined the Group in 2007 as the chief financial officer and company secretary of the Group. Mr. Leung has extensive experience in accounting and finance. Before joining the Group, Mr. Leung served as a financial controller and company secretary of a private company during 2003 to 2006. From 1996 to 2003, he served various roles including financial controller, company secretary and finance manager in several listed companies within the ITC Corporation (stock code: 372), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. He also worked as a senior accountant during 1992 to 1996 in Hopewell Holdings Limited (stock code: 54), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. Mr. Leung received a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

The Directors are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Group is engaged in processing, distribution and sale of stainless steel and carbon steel products.

An analysis of the Group's performance for the year by operating segment is set out in Note 24 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated comprehensive income statement on page 58.

DIVIDENDS

The Directors have declared and paid an interim dividend of HK$0.05 (2017: nil) per share totaling HK$62,259,500 (2017: nil) during the year.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 18 and Note 37 to the consolidated financial statements respectively.

As of 31 December 2018, our reserves available for distribution amounted to RMB1,861.4 million (2017: RMB1,848.3 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2018.

SHARE CAPITAL

Details of the movements in share capital of the Group and the Company are set out in Note 17 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in Note 7 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The five largest suppliers accounted for approximately 74% of the Group's total purchases for the year and the largest supplier accounted for approximately 23% of the Group's total purchases.

Except Baosteel Group Corporation and Shanxi Taigang Stainless Steel Co., Ltd., both are suppliers of the Group, which individually owned approximately 8.33% of the issued share capital of the Company indirectly, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major customers or suppliers.

BORROWINGS

Particulars of borrowings of the Group are set out in Note 22 to the consolidated financial statements.

FIVE-YEAR SUMMARY

A summary of the Group's results, assets, liabilities for the last five years is set out in the section headed "Financial summary" on page 140.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 9 November 2010. The major terms of the share option scheme are as follows:

The purpose of the share option scheme is to attract, retain and motivate talented Participants (as defined below) and to strive for future developments and expansion of our Group. The share option scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of our Group and allow the Participants to enjoy the results of our Company attained through their efforts and contributions.

Eligible Participants of the share option scheme include: (i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of our Group; (ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of our Group; (iii) any consultant (in the area of legal, technical, financial or corporate management) and other adviser to any member of our Group; (iv) any provider of goods and/or services to our Group; and (v) any other person who the Board considers, in its sole discretion, have contributed to our Group.

The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme shall not in aggregate exceed 100,000,000 shares of the Company, being 10% of the shares in issue as at the date of listing of the shares, unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each Participant under the share option scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue.

The exercise price for the shares under the share option scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares. The share option scheme will remain valid and effective for a period of 10 years from 9 November 2010 and the share options granted have a 10-year exercise period.

As at 31 December 2018, there were a total of 20,370,000 outstanding share options granted to directors and certain employees of the Group. Details of which are as follows:

Name or category of participant	Date of grant	Exercise price (HK$)	Number of share options: As at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2018	Exercise period
Director								
Dr. Fukui Tsutomu	23 December 2014	2.364	500,000[(2)]	–	–	–	500,000	23 December 2017 to 22 December 2024
Mr. Zhang Feng	21 December 2010	2.452	300,000[(1)]	–	–	–	300,000	21 December 2013 to 20 December 2020
	23 December 2014	2.364	100,000[(2)]	–	–	–	100,000	23 December 2017 to 22 December 2024
Mr. Wang Jian	23 December 2014	2.364	400,000[(2)]	–	–	–	400,000	23 December 2017 to 22 December 2024
Mr. Tang Zhonghai (resigned on 18 April 2018)	21 December 2010	2.452	600,000[(1)]	–	–	–	600,000	21 December 2013 to 20 December 2020
Other employees in aggregate	21 December 2010	2.452	4,220,000[(1)]	–	–	(100,000)	4,120,000	21 December 2013 to 20 December 2020
	23 December 2014	2.364	15,200,000[(2)]	–	–	(850,000)	14,350,000	23 December 2017 to 22 December 2024
Total			21,320,000	–	–	(950,000)	20,370,000	

(1) 30% of share options are exercisable from the third anniversary date of the date of grant; 60% of share options are exercisable from the fourth anniversary date of the date of grant; and all share options are exercisable from the fifth anniversary date of the date of grant.

(2) 40% of share options are exercisable from the third anniversary date of the date of grant; 70% of share options are exercisable from the fourth anniversary date of the date of grant; and all share options are exercisable from the fifth anniversary date of the date of grant.

Details of the valuation of share options during the year are set out in Note 19 to the consolidated financial statements.

SHARE AWARD SCHEME

The Company adopted a share award scheme on 25 August 2011. The major terms of the share award scheme are as follows:

The purpose of the share award scheme is to encourage and retain Selected Employees (including any directors, as defined below) to work with our Group and to provide incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of our Group and aligning the interests of the Selected Employees directly to the shareholders of the Company through ownership of shares.

Selected Employees include employees selected by the Remuneration Committee (after taking into consideration recommendations and suggestions made by the Chairman) and approved by the Board pursuant to the share award scheme rules and employees selected by the trustee after having taken into consideration recommendations made by the Chairman, considered and consented to by the Remuneration Committee and approved by the Board pursuant to the share award scheme rules for participation in the share award scheme.

Subject to any early termination in accordance with the share award scheme rules, the share award scheme shall be valid and effective for a period commencing on 25 August 2011 and ending on a date to be determined by the Board (both dates inclusive), after which no further award will be made but the provisions of the share award scheme shall remain in full force and effect to the extent necessary to give effect to any awards granted prior thereto.

Shares will be acquired by an independent trustee at the cost of the Company and be held in trust for the awarded persons until the end of each vesting period. Where any award is proposed to be made to any Selected Employee who is a director, supervisor or senior management of any member of the Group, or where the Board proposes to waive any conditions imposed on any award made to such Selected Employee, such award or waiver (as the case may be) must first be considered and approved by the Remuneration Committee and by the Board. Where a Selected Employee or his associate (within the meaning of the Listing Rule) is a director, such person shall abstain from voting on any approval by the Remuneration Committee and the Board of an award to such Selected Employee.

During the year, an aggregate of 952,000 shares of the Company's existing ordinary shares have been purchased for the share award scheme, a total of 3,584,000 awarded shares were granted and vested to directors and Selected Employees. Details of the movements in the Share Award Schemes during the year are set out in Note 19 to the consolidated financial statements. As at 31 December 2018, the independent trustee holds 21,480,000 shares of the Company for the share award scheme.

Details of the awarded shares movement for the year ended 31 December 2018 are as follows:

Name of awardees	Date of grant	Number of Awarded Shares As at 1 January 2018	Granted during the year	Vested during the year	As at 31 December 2018	Vesting date/period
Mr. Zhou Keming	11 September 2018	–	34,000	(34,000)	–	3 October 2018
Ms. Xu Xia	11 September 2018	–	32,000	(32,000)	–	3 October 2018
Mr. Zou Xiaoping	11 September 2018	–	34,000	(34,000)	–	3 October 2018
Mr. Jiang Changhong	11 September 2018	–	34,000	(34,000)	–	3 October 2018
Mr. Lu Ping	11 September 2018	–	34,000	(34,000)	–	3 October 2018
Dr. Fukui Tsutomu	11 September 2018	–	134,000	(134,000)	–	3 October 2018
Mr. Zhang Feng	11 September 2018	–	30,000	(30,000)	–	3 October 2018
Mr. Wang Jian	11 September 2018	–	130,000	(130,000)	–	3 October 2018
Other employees in aggregate	11 September 2018	–	3,122,000	(3,122,000)	–	3 October 2018
Total		–	3,584,000	(3,584,000)	–	

CONTINUING CONNECTED TRANSACTIONS

Jiangsu Daming Metal Products Company Limited ("Jiangsu Daming") and its subsidiaries ("Jiangsu Daming Group") as purchaser, and Shanxi Taigang Stainless Steel Co., Ltd. ("STSS") as supplier

Pursuant to the framework agreement entered into between Jiangsu Daming and STSS on 22 December 2017, Jiangsu Daming Group agrees to purchase, and STSS agrees to supply stainless steel and carbon steel to Jiangsu Daming Group.

For the year ended 31 December 2018, approximately RMB8,113.39 million of stainless steal and carbon steel were purchased by the Jiangsu Daming Group from STSS, not exceeding the proposed cap of RMB15,000 million. Details of the above transactions and the connected relationship between Jiangsu Daming and STSS were disclosed in the announcement of the Company dated 22 December 2017.

Jiangsu Daming Group as supplier, and STSS and its subsidiaries ("STSS Group") as purchaser

Pursuant to the framework agreement entered into between Jiangsu Daming and STSS on 30 September 2018, (i) STSS Group agrees to purchase, and Jiangsu Daming Group agrees to supply stainless and carbon steel (including processed finished goods or processed semi-finished goods) to STSS Group; and (ii) STSS Group agrees to purchase, and Jiangsu Daming Group agrees to provide stainless steel and carbon steel processing service to STSS Group.

For the year ended 31 December 2018, (i) supply of stainless steel and carbon steel (including processed finished goods or processed semi-finished goods); and (ii) provision of processing service from the Jiangsu Daming Group to STSS Group amounting to approximately RMB109.89 million, not exceeding the proposed cap of RMB448.2 million. Details of the above transactions and the connected relationship between Jiangsu Daming and STSS were disclosed in the announcement of the Company dated 3 October 2018.

The above continuing connected transactions have been reviewed by the INEDs of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Auditor has issued an unqualified letter containing the findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

DIRECTORS

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

Executive Directors
Zhou Keming *(Chairman)*
Jiang Changhong (appointed as the Chief Executive Officer with effect from 18 April 2018)
Xu Xia (appointed as a vice-chairman of the Board with effect from 18 April 2018)
Zou Xiaoping (appointed as a vice-chairman of the Board with effect from 18 April 2018)
Fukui Tsutomu (formerly known as Zhang Qinzhong)
Zhang Feng
Wang Jian
Lu Ping (appointed on 18 April 2018)
Tang Zhonghai (resigned on 18 April 2018)

Independent Non-Executive Directors
Cheuk Wa Pang
Hua Min
Chen Xuedong
Lu Daming
Liu Fuxing
Hu Xuefa (appointed on 30 May 2018)

In accordance with Article 84 of the Articles of Association of the Company, Ms. Xu Xia, Mr. Jiang Changhong, Mr. Cheuk Wa Pang, Mr. Hua Min, Mr. Chen Xuedong retire from office by rotation at the Company's 2019 Annual General Meeting. All the retiring directors, being eligible, offer themselves for re-election.

In accordance with Article 83.(3) of the Company's Articles of Association, Mr. Lu Ping and Mr. Hu Xuefa, were appointed as additional directors of the Company by the Board on 18 April 2018 and 30 May 2018 respectively, shall hold office until the date of the next following annual general meeting of the Company and shall then be eligible for e-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

The biographical details of Directors are set out on pages 35 to 38 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2018 Interim Report of the Company are set out below:

Mr. Zhang Feng resigned as a director and legal representative of Zibo Daming Fortune Metals Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, with effect from 26 July 2018.

Mr. Zhang Feng resigned as a director and legal representative of Hangzhou Wanzhou Metal Products Co. Ltd., an indirect subsidiary of the Company, with effect from 20 December 2018.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long and short position in the shares and underlying shares of the Company

Name of Director	Nature of interests	Number of shares/underlying shares held	% of issued share capital
Mr. Zhou Keming	Personal, family and corporate	793,551,000(3)	63.73%
Mr. Jiang Changhong *(also Chief Executive Officer)*	Personal	384,000	0.03%
Ms. Xu Xia	Personal, family and corporate	793,551,000(3)	63.73%
Mr. Zou Xiaoping	Personal and family	5,060,000(4)	0.41%
Mr. Lu Ping	Personal	34,000	0.00%
Dr. Fukui Tsutomu	Personal and family	1,776,000(5)	0.14%
Mr. Zhang Feng	Personal	1,824,000(6)	0.15%
Mr. Wang Jian	Personal and family	1,524,000(7)	0.12%

(3) 793,435,000 shares are held by Ally Good Group Limited, which is owned as to 77.2% by Mr. Zhou Keming, and 22.8% by Ms. Xu Xia. 60,000 shares are held by Mr. Zhou Keming and 56,000 shares are held by Ms. Xu Xia personally.

(4) 60,000 shares are held by Mr. Zou Xiaoping and 5,000,000 shares are held by Mr. Zou Xiaoping's spouse, Ms. Li Jun.

(5) The interest comprises 410,000 shares held by Dr. Fukui Tsutomu, 866,000 shares held by Dr. Fukui's spouse, Ms. Mizuho Fukui and 500,000 underlying shares in respect of the share options granted to Dr. Fukui pursuant to the share option scheme as disclosed under section headed share option scheme.

(6) The interest comprises 1,424,000 shares, 400,000 underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed share option scheme.

(7) The interest comprises 276,000 shares held by Mr. Wang Jian, 848,000 shares held by Mr. Wang's spouse, Ms. Zhang Minxian and 400,000 underlying shares in respect of the share options granted to Mr. Wang pursuant to the share option scheme as disclosed under section headed share option scheme.

(b) Long position in the shares in associated corporation(s)

Name of Director	Name of associated corporation [8]	Nature of interests	Number of shares held	% of issued share capital of associated corporation
Mr. Zhou Keming	Ally Good Group Limited	Personal [9]	1,000	100%
Ms. Xu Xia	Ally Good Group Limited	Personal [9]	1,000	100%

(8) As at 31 December 2018, Ally Good Group Limited is the holder of 63.72% of the issued share capital of the Company and is an associated corporation under SFO.

(9) 772 shares are held by Mr. Zhou Keming and 228 shares are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

Save as disclosed above, as at 31 December 2018, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debenture of the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Aggregate long position in the shares and underlying shares of the Company

Name of Shareholder	**Number of ordinary shares held**	**Approximate percentage of the Company's issued share capital**
Long position		
Ally Good Group Limited	793,435,000[10]	63.72%
China Baowu Steel Group Corporation Limited	103,750,000	8.33%
Tisco Stainless Steel (H.K.) Limited	103,750,000	8.33%

(10) As Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, they have interest in these shares as disclosed under the previous section.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2018.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 38 to the consolidated financial statements.

The Group employed a total of 4,652 staffs as at 31 December 2018 (2017: 4,617). There was an approximately 0.8% growth in our workforce in 2018 as compared with 2017. The increase in headcounts was due to the business expansion of our Group. The remuneration of employees was based on their performance, skills, knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis. In addition to basic salaries, employees may be offered with discretionary bonus on individual performance. The Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares as at 27 March 2019.

CORPORATE GOVERNANCE

Details of the compliance by the Company with the Corporate Governance Code are set out on pages 18 to 34 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and considered that the Group has complied with all applicable accounting standards and requirements.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 19 March 2019, Mr. Zhang Feng was appointed as a director of Jiangsu Daming Specialty Steel Co., Ltd., an indirect wholly-owned subsidiary of the Company newly incorporated on 28 January 2019.

By Order of the Board

Zhou Keming
Chairman
Hong Kong, 27 March 2019

pwc 羅兵咸永道

To the Shareholders of
Da Ming International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Da Ming International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 139, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to net realisable value of inventory.

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realisable value of inventories *Refer to Note 2.11, Note 4(a), and Note 12 to the consolidated financial statements.* Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. As at 31 December 2018, inventories amounting to RMB2,689,628,000 was stated after provision. We focused on this area due to the volatility in the market price of steel products and that there are significant estimation and judgment required in the determination of selling price used in the net realizable value assessment.	We understood, evaluated and validated management's controls in respect of the Group's assessment of net realisable value of inventories. We assessed management assumption and estimation by checking against market trend of steel production price, historical and subsequent selling prices, and post year end margin of the Group. We tested whether there were any slow-moving, excess, obsolete or damaged items being omitted from management estimation. We compared management's prior year and current year estimations to assess whether the method for making the accounting estimate had been applied consistently. We also evaluated the variance between subsequent selling price and management's assumption to assess the sensitivity of management assumption. Based on our work performed, we found management's judgement and estimation for the net realisable value of inventories were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in Financial and Operating Highlights and Chairman's Statement thereon (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Cooperate Governance Report and Directors' Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Cooperate Governance Report and Directors' Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**487,286**	341,950
Property, plant and equipment	6	**4,204,500**	3,740,888
Investment properties	7	**4,597**	5,006
Intangible assets	8	**16,453**	15,330
Deferred income tax assets	10	**75,500**	61,062
Trade receivables	13	**27,674**	–
Other non-current assets	11	**5,881**	2,711
		4,821,891	4,166,947
Current assets			
Inventories	12	**2,689,628**	2,689,366
Trade receivables	13	**506,697**	419,959
Prepayments, deposits and other receivables	14	**927,627**	888,085
Restricted bank deposits	15	**1,076,064**	824,868
Cash and cash equivalents	16	**140,004**	166,151
		5,340,020	4,988,429
Total assets		**10,161,911**	9,155,376
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	17	**106,607**	106,607
Reserves	18	**2,387,020**	2,322,971
		2,493,627	2,429,578
Non-controlling interests		**358,975**	267,626
Total equity		**2,852,602**	2,697,204

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*22*	**850,183**	1,295,161
Deferred government grants	*23*	**87,909**	53,535
Deferred income tax liabilities	*10*	**15,636**	11,349
Trade payables	*20*	**8,959**	–
Long-term payables	*21*	**38,750**	–
		1,001,437	1,360,045
Current liabilities			
Trade payables	*20*	**2,153,632**	2,167,165
Accruals, advances from customers and other current liabilities	*21*	**389,720**	819,801
Contract liabilities		**439,470**	–
Current income tax liabilities		**75,032**	54,583
Borrowings	*22*	**3,243,536**	2,053,232
Current portion of deferred government grants	*23*	**4,482**	3,346
Dividends payable		**2,000**	–
		6,307,872	5,098,127
Total liabilities		**7,309,309**	6,458,172
Total equity and liabilities		**10,161,911**	9,155,376

The notes on page 61 to 139 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	24	**32,135,276**	27,724,286
Cost of sales	27	**(31,268,468)**	(27,048,928)
Gross profit		**866,808**	675,358
Other income	25	**82,670**	47,616
Other expenses	27	**(889)**	(1,141)
Other gain/(loss) – net	26	**6,454**	(13,673)
Distribution costs	27	**(277,681)**	(221,614)
Administrative expenses	27	**(273,324)**	(247,052)
Operating profit		**404,038**	239,494
Finance income	29	**26,915**	12,583
Finance costs	29	**(211,489)**	(116,701)
Finance costs – net	29	**(184,574)**	(104,118)
Profit before income tax		**219,464**	135,376
Income tax expense	30	**(86,800)**	(52,034)
Profit and total comprehensive income for the year		**132,664**	83,342
Attributable to:			
Equity holders of the Company		**109,557**	67,466
Non-controlling interests		**23,107**	15,876
		132,664	83,342
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic earnings per share	31	**0.09**	0.06
– Diluted earnings per share	31	**0.09**	0.06

The notes on page 61 to 139 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company			
	Share Capital *(Note 17)* *RMB'000*	**Reserves** *(Note 18)* *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2017	97,400	2,062,317	254,130	2,413,847
Comprehensive income				
Profit for the year	–	67,466	15,876	83,342
Total comprehensive income for the year ended 31 December 2017	–	67,466	15,876	83,342
Transactions with owners				
Employee share options scheme				
– value of employee services *(Note 19(a))*	–	3,868	120	3,988
Share award scheme				
– value of employee services *(Note 19(b))*	–	8,909	–	8,909
Issue of shares *(Note 17)*	9,191	311,805	–	320,996
Exercise of share option *(Note 19(a))*	16	381	–	397
Dividends	–	(131,775)	(2,500)	(134,275)
Total transactions with owners	9,207	193,188	(2,380)	200,015
Balance at 31 December 2017	106,607	2,322,971	267,626	2,697,204
Balance at 1 January 2018	106,607	2,322,971	267,626	2,697,204
Comprehensive income				
Profit for the year	–	109,557	23,107	132,664
Total comprehensive income for the year ended 31 December 2018	–	109,557	23,107	132,664
Transactions with owners				
Employee share options scheme				
– value of employee services *(Note 19(a))*	–	2,100	65	2,165
Share award scheme				
– value of employee services *(Note 19(b))*	–	7,317	–	7,317
Capital injection by a non-controlling shareholder	–	–	72,177	72,177
Dividends	–	(54,925)	(4,000)	(58,925)
Total transactions with owners	–	(45,508)	68,242	22,734
Balance at 31 December 2018	106,607	2,387,020	358,975	2,852,602

The notes on page 61 to 139 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**655,292**	1,259,016
Interest received		**26,915**	8,067
Interest paid		**(204,753)**	(133,240)
Income tax paid		**(76,501)**	(89,759)
Net cash generated from operating activities		**400,953**	1,044,084
Cash flows from investing activities			
Purchase of property, plant and equipment		**(736,825)**	(826,026)
Purchase of land use rights		**(154,484)**	(5,880)
Purchase of intangible assets		**(3,458)**	(16,546)
Cash received in relation to asset-related government grants	23	**27,730**	13,500
Proceeds from sale of property, plant and equipment	33(b)	**747**	1,012
Capital injection by non-controlling shareholders		**72,177**	–
Net cash used in investing activities		**(794,113)**	(833,940)
Cash flows from financing activities			
Proceeds from borrowings	33(c)	**4,566,110**	3,872,440
Repayments of borrowings	33(c)	**(3,677,422)**	(4,153,946)
Proceeds from exercise of share options	18	**–**	397
Dividends paid to Company's shareholders	32	**(54,925)**	(131,775)
Dividends paid to non-controlling interests in subsidiaries		**(2,000)**	(2,500)
Restricted bank deposits pledged for bank borrowings and used for repayment of borrowings		**(467,247)**	–
Proceeds from issue of shares		**–**	320,996
Net cash generated from/(used in) financing activities		**364,516**	(94,388)
Net (decrease)/increase in cash and cash equivalents		**(28,644)**	115,756
Cash and cash equivalents at beginning of year	16	**166,151**	53,085
Exchange gain/(loss) on cash and cash equivalents		**2,497**	(2,690)
Cash and cash equivalents at end of year	16	**140,004**	166,151

The notes on page 61 to 139 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION OF THE GROUP

Da Ming International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in the processing, distribution and sale of stainless steel products and carbon steel products in the People's Republic of China ("PRC").

The Company was incorporated in the Cayman Islands on 14 February 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited since 1 December 2010.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

2.1.1 Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB967,852,000. The Group meets its day-to-day working capital requirements mainly through its bank borrowings and facilities with banks in the PRC and Hong Kong that are refinanced and/or subjected to renewal every twelve months. In preparing this financial statements, the directors of the Company have considered the Group's available sources of funds as follows:

- The net cash inflows from operating activities;
- The available financing including bank borrowings in the PRC and Hong Kong to be renewed during the next twelve months. The directors are confident that these bank financing could be renewed and/or extended for at least another twelve months upon renewal based on the Group's past experience and good credit standing; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern (continued)

- Other available sources of financing from banks and other financial institutions given the Group's credit history and that most of the Group's property, plant and equipment are free of pledge or restriction and would be available to secure further financing when necessary.

Having considered the above, the directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than twelve months from period end date of these financial statements. The directors, therefore, are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2018. Further information on the Group's borrowings is given in Note 22.

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual financial period commencing 1 January 2018:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments (i)	1 January 2018
HKFRS 15	Revenue from contracts with customers (ii)	1 January 2018
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018
HKAS 40 (Amendment)	Transfer of investment property	1 January 2018
Annual Improvements 2014-2016 Cycle		1 January 2018

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. The reclassifications and the adjustments arising from the new impairment rules (if any) are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The other newly adopted standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

(i) HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustments arising from the new impairment rules (if any) are not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any impact on the amounts reported in the opening balance sheet on 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

(i) HKFRS 9 Financial instruments (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has performed the assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustment were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 Carrying amount 31 December 2017	**Reclassification**	**HKFRS 15 Carrying amount 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Accruals, advances from customers and other current liabilities	819,801	(393,042)	426,759
Contract liabilities	–	393,042	393,042

The Group manufactures and sells stainless steel and carbon steel in the market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

(ii) HKFRS 15 Revenue from Contracts with Customers (continued)

As receivable is recognised when the goods are accepted as this is the point in time that the consideration is unconditional. The accounting treatments of revenue recognition on sales of goods are the same before and after adoption the HKFRS 15.

The Group has obligations to provide an unconditional refund for products. Accumulated experience is used to estimate such returns at the time of sale. According to the actual situation, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not have a significant impact to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group

		Effective for annual periods beginning on or after
HKFRS 16	Leases (i)	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 9 (Amendment)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendment)	Long-term interests in associates with joint venture	1 January 2019
HKAS 19 (Amendment)	Plan amendment, curtailment or settlement	1 January 2019
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2015-2017 Cycle		1 January 2019

(i) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group (continued)

(i) HKFRS 16 Leases (continued)

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB114,000 and all of them are related to short-term leases that will be recognized on a straight-line basis as expense in profit or loss. The Group's activities as a lessee or a lessor are not material and hence the Group does not expect any significant impact on the financial statement. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group extends to apply simplified transition approach, and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

2.5 Land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The costs for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method.

The costs of land use rights from capital contribution are measured at fair value.

2.6 Property, plant and equipment

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Property, plant and equipment from capital contribution are recognised initially at fair value, and are subsequently carried at depreciated cost less accumulated impairment losses, if any.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss as of each asset to its residual value over its estimated useful life, as follows:

Buildings and plant	20-40 years
Machinery	10-25 years
Vehicles	4 to 5 years
Office equipment and others	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) – net' in the consolidated statement of comprehensive income.

2.7 Investment properties

The investment property, comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of investment property is calculated using the straight-line method to allocate cost to its residual value over its estimated useful lives of 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income during the financial periods in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

2.8 Intangible assets

Intangible assets mainly comprised computer software purchased, which are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised using straight line method over their estimated useful lives of 10 years.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets – loans and receivables

2.10.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans and receivables (continued)

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans and receivables (continued)

2.10.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See note 13 for further details.

2.10.5 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies all its financial assets under the category of loans and receivables.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans and receivables (continued)

2.10.5 Accounting policies applied until 31 December 2017 (continued)

(a) Loans and receivables (continued)

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods comprises raw materials, labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 13 for further information about the Group's accounting for trade receivables.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods, services and long-term assets that have been acquired in the ordinary course of business from suppliers, or to pay for accrued salary, pension and other social welfare. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset, until such time as the asset is substantially ready for its intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated statement of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the comprehensive income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HKD1,500 per person per month, and any excess contributions are voluntary.

In accordance with the rules and regulations in the Mainland China, the Group has arranged for its employees from Mainland China to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 28(a) of this section. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group and proved by relevant the PRC authorities (the "Annuity Plan"). The Group and its employees are required to make monthly contribution a certain percentage of the employee's earning depending on employee's rank of position. The contribution is charged to profit or loss when it is incurred.

The Group's contributions to the defined contribution retirement benefit plans are expensed in the consolidated statement of comprehensive income as incurred. The Group has no further payment obligations once the contributions have been paid.

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (share options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance conditions; and
- including the impact of any non-vesting conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (continued)

(a) Equity-settled share-based payment transactions (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The Group also has a Share Award Scheme where from time to time, the independent trustee may purchase shares from the market and award shares to grantee. When the independent trustee purchases shares of the Company on the market under the scheme, the consideration paid including any directly attributable incremental costs is presented as shares held for Share Award Scheme in the consolidated statement of changes in equity and deducted from total equity. When the independent trustee transfers the Company's shares to the grantees upon vesting, the related costs of the awarded shares vested are credited to shares held for Share Award Scheme, with a corresponding adjustment to share premium.

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

(a) *Sales of goods*

The Group is engaged in the sales of stainless steel and carbon steel products. Sales are recognised when control of the products has transferred, which usually happens upon pick up of the products from factory or when the products are delivered and the customers have inspected and accepted the products. Acceptance occurs when the products have been picked up or shipped to the specified location. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognised when the goods are accepted as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Other income

(a) Rental income

Rental income from operating leases is recognised on a straight-line basis over the period of the lease.

(b) Interest income

Interest income on financial assets at amortised cost (2017 – loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Leases

(a) As a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(b) As a lessor

Certain leasehold land and buildings is held for long-term operating rental yields, and is not occupied by the Group. Rental income from such investment property is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

2.26 Dividend distribution

Dividend distribution to equity holders of the Company is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by equity holders of the Company.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by various departments within the Group like treasury and sales department, under policies approved by the Board of Directors. Periodic management information is summarised and reported to the directors of the Group who will review the information and take action accordingly. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade receivables, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar (USD), EURO (EUR), Hong Kong Dollar (HKD), and Japanese Yen (JPY), which are exposed to foreign currency translation risk. Details of the Group's trade receivables, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings are disclosed in Notes 13, 15, 16, 20, 21 and 22 respectively.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB6,802,000 (2017: RMB16,837,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, cash and cash equivalents, restricted bank deposit, borrowings, trade payables and other payables.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the EUR with all other variables held constant, profit before income tax for the year would have been approximately RMB4,908,000 (2017: RMB5,130,000) higher/lower, mainly as a result of foreign exchange gains on translation of EUR-denominated restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the year would have been approximately RMB168,000 (2017: RMB354,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash and cash equivalents.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, profit before income tax for the year would have been approximately RMB259,000 lower/higher (2017: RMB120,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of JPY-denominated trade receivables, cash and cash equivalents, trade payables and other payables.

(ii) Cash flow and fair value interest rate risk

Except for restricted bank deposits and cash and cash equivalents, the Group has no interest-bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any financial instrument to hedge its exposure to interest rate risk.

Details of the Group's restricted bank deposits, cash and cash equivalents and borrowings have been disclosed in Notes 15, 16 and 22, respectively.

As at 31 December 2018, if the interest rates on bank borrowings had been 100 basis-points higher/lower with all other variables held constant, profit before income tax for the year would have been RMB13,842,000 (2017: RMB11,974,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Stainless steel and carbon steel raw material price risk

The Group's results of operations may be significantly affected by fluctuation in prices of steel which is a significant cost component of the Group.

Steel raw material, including stainless steel and carbon steel, accounts for 97.86% of the Group's cost of sales (2017: 98.01%). The Group has followed a stainless steel raw material purchase price adjustment practice with the strategic suppliers, Shanxi Taigang Stainless Steel Co., Ltd. and its subsidiaries ("STSS Group"), and some other suppliers. Purchase transaction with STSS Group accounts for 27% of the Group's annual purchase (2017: 28%). Pursuant to such practice, STSS Group shall reimburse the Group if the purchase price of the stainless steel raw materials that the Group paid to STSS Group is higher than the benchmark selling prices decided by STSS Group based on actual selling prices achieved by STSS Group's key customers, including the Group (after adjusting for bulk purchase discounts and processing fee), subject to STSS Group's sole discretion in determining the actual purchase credit amount and the time in which such purchasing credit would be given to the Group.

The Group mainly purchases stainless and carbon steel from other suppliers and also follows such price adjustment practice as mentioned above.

Currently, this price adjustment practice with STSS Group and other raw material vendors are the Group's main method used to mitigate the risks associated with the fluctuation of stainless and carbon steel prices.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, cash and cash equivalents, trade receivables and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group has policies to place its cash and cash equivalents only with highly reputable financial institutions, and limit the amount of credit exposure to any financial institution. As at 31 December 2018, most of the restricted bank deposits and cash and cash equivalents are placed with highly reputable financial institutions in Mainland China and Hong Kong.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group categorised the restricted bank deposits and cash and cash equivalent as follows:

Group 1 – Top 4 banks in the mainland PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)
Group 2 – Other listed banks in the mainland PRC
Group 3 – Other banks in the PRC

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Group 1	**488,613**	398,642
Group 2	**653,455**	509,341
Group 3	**73,725**	82,931
	1,215,793	990,914

Management does not expect any losses from non-performance by these counterparties.

The Group generally requires customers to pay a certain amount of deposits when orders are made and settle full purchase price before delivery of goods. Majority of the sales transactions are settled by telegraphic transfer and bank acceptance notes. Bank acceptance notes are with maturity within a year, and are accepted and settled by bank.

For those key customers with long-term relationship, on some occasions the Group offers credit terms up to 180 days. The granting or extension of any credit period must be appropriately approved. There is no recent history of default in relation to those customers.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and adequate banking facilities.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *RMB'000*	Between 1 year and 2 years *RMB'000*	Between 2 years and 5 years *RMB'000*
At 31 December 2018			
Borrowings	3,243,536	730,183	120,000
Interests payment on borrowings *(a)*	96,522	27,057	5,559
Trade and other payables *(b)*	2,502,020	47,709	–
	5,842,078	804,949	125,559
At 31 December 2017			
Borrowings	2,053,232	1,146,868	148,293
Interests payment on borrowings *(a)*	125,820	55,943	3,037
Trade and other payables *(b)*	2,578,315	–	–
	4,757,367	1,202,811	151,330

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2018 and 2017 respectively, without taking into account any subsequent changes in the amount of borrowings. Floating-rate interest is estimated using current interest rate as at 31 December 2018 and 2017 respectively.

(b) Other payables include accruals and other payables as stated in Note 21.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank deposits, trade and other receivables; and financial liabilities including trade and other payables, and borrowings, approximate their fair values. The carrying values less any estimated credit adjustments for financial assets are a reasonable approximation of their fair values.

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total borrowings *(Note 22)*	**4,093,719**	3,348,393
Less: cash and cash equivalents *(Note 16)*	**(140,004)**	(166,151)
Net debt	**3,953,715**	3,182,242
Total equity	**2,852,602**	2,697,204
Total capital	**6,806,317**	5,879,446
Gearing ratio	**58.09%**	54.12%

The increase in the gearing ratio during 2018 mainly because the increase in net debt is greater than the increase in total capital.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes of stainless steel raw material market price, technical innovations and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and the practice in similar industry. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expenses in the future periods.

(c) Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on higher of value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicated that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

(e) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 19 to the financial statements.

5. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payment for land and its net book value is analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At 1 January	**341,950**	313,950
Additions	**75,047**	35,880
Transfer from construction in progress *(Note 6)*	**79,437**	–
Amortisation charge *(Note 33(a))*	**(9,148)**	(7,880)
At 31 December	**487,286**	341,950

The Group's land use rights are located in Mainland China and the remaining lease periods were between 32 years to 49 years as at 31 December 2018.

For the year ended 31 December 2018, amortisation of the Group's land use rights amounting to RMB9,148,000 (2017: RMB7,880,000) has been charged to administrative expenses in the consolidated statement of comprehensive income.

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plant *RMB'000*	Machinery *RMB'000*	Vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2017						
Cost	877,017	2,251,112	30,466	51,574	589,570	3,799,739
Accumulated depreciation	(100,592)	(516,193)	(18,566)	(27,612)	–	(662,963)
Net book amount	776,425	1,734,919	11,900	23,962	589,570	3,136,776
Year ended 31 December 2017						
Opening net book amount	776,425	1,734,919	11,900	23,962	589,570	3,136,776
Additions	5,411	12,300	6,845	6,230	744,000	774,786
Transfer	84,257	465,590	–	1,960	(551,807)	–
Transfer from investment properties *(Note 7)*	1,601	–	–	–	–	1,601
Transfer to intangible assets *(Note 8)*	–	–	–	–	(13,504)	(13,504)
Disposals *(Note 33(b))*	–	(218)	(115)	(664)	–	(997)
Depreciation *(Note 33(a))*	(26,776)	(118,646)	(4,475)	(7,877)	–	(157,774)
Closing net book amount	840,918	2,093,945	14,155	23,611	768,259	3,740,888
At 31 December 2017						
Cost	969,215	2,728,371	36,200	56,015	768,259	4,558,060
Accumulated depreciation	(128,297)	(634,426)	(22,045)	(32,404)	–	(817,172)
Net book amount	840,918	2,093,945	14,155	23,611	768,259	3,740,888
Year ended 31 December 2018						
Opening net book amount	840,918	2,093,945	14,155	23,611	768,259	3,740,888
Additions	18,276	73,966	3,314	6,138	635,988	737,682
Transfer	181,649	465,885	541	586	(648,661)	–
Transfer to intangible assets *(Note 8)*	–	–	–	–	(2,000)	(2,000)
Transfer to land use rights *(Note 5)*	–	–	–	–	(79,437)	(79,437)
Disposals *(Note 33(b))*	–	(829)	(293)	(177)	–	(1,299)
Depreciation *(Note 33(a))*	(30,354)	(148,726)	(4,665)	(7,589)	–	(191,334)
Closing net book amount	1,010,489	2,484,241	13,052	22,569	674,149	4,204,500
At 31 December 2018						
Cost	1,169,140	3,267,110	38,312	61,862	674,149	5,210,573
Accumulated depreciation	(158,651)	(782,869)	(25,260)	(39,293)	–	(1,006,073)
Net book amount	1,010,489	2,484,241	13,052	22,569	674,149	4,204,500

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain subsidiaries of the Group entered into sales and lease back agreements with finance leasing companies, whereby machineries were sold and leased back over one to three years lease term. The Group has the option to reacquire the machineries on completion of the lease at nominated value. During such lease term and before the exercise of the completion repurchase option, such machineries are restricted under the Agreements where leaser's consent must be obtained for the pledge and/or disposal of these assets. As at 31 December 2018, assets under this restriction amounting to RMB349,015,000 (2017: RMB371,308,000).

Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming") pleged machineries to Taiyuan Iron & Steel (Group) Co., Ltd. for inventories on consignment. As at 31 December 2018, assets under this restriction amounting to RMB148,917,000 (2017: none).

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**170,872**	139,237
Distribution costs	**2,066**	1,333
Administrative expenses	**18,396**	17,204
	191,334	157,774

For the year ended 31 December 2018, borrowing costs amounting to approximately RMB14,789,000 (2017: RMB19,257,000) were capitalised into the cost of property, plant and equipment at an average borrowing rate of 5.37% (2017: 4.83%) per annum.

7. INVESTMENT PROPERTIES

The investment properties are located in Mainland China and the net book value is analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net book amount	**5,006**	7,069
Transfer to property, plant and equipment *(Note 6)*	**–**	(1,601)
Depreciation *(Note 33(a))*	**(409)**	(462)
Closing net book amount	**4,597**	5,006
Cost	**8,505**	8,505
Accumulated depreciation	**(3,908)**	(3,499)
Net book amount	**4,597**	5,006

For the year ended 31 December 2018, the rental income arising from investment properties amounting to approximately RMB357,000 (2017: RMB370,000) (Note 25).

The future aggregate minimum lease receivable under non-cancellable operating leases were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Not later than 1 year	**357**	370

As at 31 December 2018, the fair values of the investment properties were approximately RMB11,355,000 (2017: RMB12,062,000). These estimates are made by discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

8. INTANGIBLE ASSETS

	Computer software	
	2018	2017
	RMB'000	*RMB'000*
At 1 January		
Cost	**19,430**	5,288
Accumulated amortisation	**(4,100)**	(3,619)
Net book amount	**15,330**	1,669
Opening net book amount	**15,330**	1,669
Additions	**956**	638
Transfer from construction in progress *(Note 6)*	**2,000**	13,504
Amortisation *(Note 33(a))*	**(1,833)**	(481)
Closing net book amount	**16,453**	15,330
At 31 December		
Cost	**22,386**	19,430
Accumulated amortisation	**(5,933)**	(4,100)
Net book amount	**16,453**	15,330

For the year ended 31 December 2018, amortisation of the Group's intangible assets amounting to RMB1,833,000 (2017: RMB481,000) has been charged to administrative expenses in the consolidated statement of comprehensive income.

9. SUBSIDIARIES

(a) The following is a list of the principal subsidiaries at 31 December 2018:

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Allybest Investments Limited ("Allybest")	British Virgin Islands 10 July 2006	Limited liability company	USD20,000	100%	–	Investment holding, in BVI
Fortune Express Industrial Limited ("Fortune Express")	Hong Kong 14 July 2003	Limited liability company	HKD10,000	–	100%	Investment holding and trading of steel products, in Hong Kong
Jiangsu Daming Metal Products Co., Ltd. ("Jiangsu Daming")	Mainland China 21 June 2002	Limited liability company	USD123,250,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Hangzhou Wanzhou Metal Products Co., Ltd. ("Hangzhou Wanzhou")	Mainland China 8 December 2005	Limited liability company	USD26,000,000	–	95%	Processing, distribution and sales of steel products, in the PRC
Wuhan Fortune Express Metal Products Co., Ltd. ("Wuhan Fortune")*	Mainland China 28 September 2005	Limited liability company	USD3,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Tianjin Taigang Daming Metal Products Co., Ltd. ("Tianjin Taigang Daming")	Mainland China 15 February 2007	Limited liability company	USD36,500,000	–	91%	Processing, distribution and sales of steel products, in the PRC
Daming Metals (Hong Kong) Company Limited ("Hong Kong Daming")	Hong Kong 30 November 2009	Limited liability company	USD2,000,000	–	100%	Purchase and sales of metal materials, in Hong Kong
Jiangsu Daming Precision Manufacturing Co., Ltd. ("Daming Precision Sheet", formerly known as Jiangsu Daming Precision Sheet Metal Co., Ltd.)	Mainland China 22 November 2010	Limited liability company	RMB100,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming")	Mainland China 26 July 2011	Limited liability company	RMB500,000,000	–	60%	Processing, distribution and sales of steel products, in the PRC
Daming Heavy Industry Co., Ltd. ("Jingjiang Daming Heavy Industry")	Mainland China 14 March 2012	Limited liability company	USD155,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC

9. SUBSIDIARIES (CONTINUED)

(a) The following is a list of the principal subsidiaries at 31 December 2018: (continued)

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Daming Metal Products Wuxi Co., Ltd. ("Qianzhou Daming")	Mainland China 11 April 2012	Limited liability company	RMB30,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Hubei Daming Metal Technology Co., Ltd. ("Hubei Daming")	Mainland China 22 October 2012	Limited liability company	RMB150,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Jiangsu Daming Allybest Trading Co., Ltd. ("Allybest Trading")	Mainland China 23 December 2013	Limited liability company	RMB10,000,000	–	100%	Sales of steel products, in the PRC
Zibo Daming Fortune Metals Products Co., Ltd. ("Zibo Daming")	Mainland China 13 January 2014	Limited liability company	RMB30,000,000	–	100%	Distribution and sales of stainless steel products, in the PRC
Daming Metal Technology Co., Ltd. ("Daming Metal Technology")	Mainland China 09 June 2014	Limited liability company	USD65,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Daming International Import & Export Co., Ltd. ("Daming Import & Export")	Mainland China 17 June 2014	Limited liability company	RMB58,000,000	–	100%	Distribution and sales of steel products and fixed assets, in the PRC
Jiangsu Daming Steel Union logistics Co., Ltd. ("Steel Union Logistics")	Mainland China 30 June 2015	Limited liability company	RMB10,000,000	–	65%	Distribution sevice, in the PRC
Shandong Daming Allybest Metal Technology Co., Ltd. ("Shandong Allybest")	Mainland China 22 July 2016	Limited liability company	RMB78,161,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Zhejiang Daming Hanwa Metal Technology Co., Ltd. ("Zhejiang Daming")	Mainland China 19 March 2018	Limited liability company	USD45,955,395	–	85%	Processing, distribution and sales of steel products, in the PRC

* As at 31 December 2018, Wuhan Fortune is proceeding the liquidation.

9. SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests:

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2018 was RMB23,107,000 (2017: RMB15,876,000), of which RMB19,651,000 (2017: RMB13,059,000) was related to the 40% non-controlling equity interest in Taiyuan Taigang Daming. The non-controlling interests in respect of other subsidiaries are not material.

Set out below is the summarised financial information of Taiyuan Taigang Daming that has non-controlling interest that is material to the Group.

Summarised balance sheet

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current assets	**452,773**	357,081
Current liabilities	**284,610**	249,950
Total current net assets	**168,163**	107,131
Non-current assets	**498,370**	505,930
Non-current liabilities	**78,035**	68,784
Total non-current net assets	**420,335**	437,146
Net assets	**588,498**	544,277

9. SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests: (continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**4,087,228**	3,419,117
Profit before income tax	**65,077**	43,921
Income tax expense	**(15,950)**	(11,274)
Profit after tax and total comprehensive income	**49,127**	32,647
Total comprehensive income allocated to non-controlling interests	**19,651**	13,059
Dividends paid to non-controlling interests	**2,000**	2,000

Summarised cash flows

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**31,077**	18,884
Interest received	**261**	62
Interest paid	**(7,445)**	(5,650)
Income tax paid	**(15,952)**	(11,875)
Net cash generated from operating activities	**7,941**	1,421
Net cash used in investing activities	**(18,232)**	(20,877)
Net cash generated from financing activities	**9,571**	19,043
Net decrease in cash and cash equivalents	**(720)**	(413)
Cash and cash equivalents at beginning of year	**949**	1,362
Exchange gains on cash and cash equivalents	**–**	–
Cash and cash equivalents at end of year	**229**	949

10. DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
– deferred tax assets to be recovered after more than 12 months	**35,294**	36,678
– deferred tax assets to be recovered within 12 months	**42,748**	26,473
Total deferred tax assets	**78,042**	63,151
Set-off of deferred tax liabilities	**(2,542)**	(2,089)
Net deferred tax assets	**75,500**	61,062
Deferred income tax liabilities:		
– deferred tax liabilities to be settled after more than 12 months	**16,507**	13,365
– deferred tax liabilities to be settled within 12 months	**1,671**	73
Total deferred tax liabilities	**18,178**	13,438
Set-off of deferred tax liabilities	**(2,542)**	(2,089)
Net deferred tax liabilities	**15,636**	11,349

10. DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets during the year was as follows:

	Provision for write-down of inventories *RMB'000*	Deferred income *RMB'000*	Accrued expenses *RMB'000*	Provision for impairment of receivables *RMB'000*	Pre-operating expenses *RMB'000*	Unrealised gains on inventories *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2017	2,835	9,494	5,304	290	33	3,281	19,773	41,010
Recognised in the consolidated statement of comprehensive income	9,288	51	2,107	150	(33)	(1,491)	12,069	22,141
At 31 December 2017	12,123	9,545	7,411	440	–	1,790	31,842	63,151
Recognised in the consolidated statement of comprehensive income	8,582	2,181	620	116	–	(1,790)	5,182	14,891
At 31 December 2018	20,705	11,726	8,031	556	–	–	37,024	78,042

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB14,348,000 (2017: RMB3,723,000) in respect of accumulated losses amounting to RMB62,007,000 (2017: RMB18,179,000) that can be carried forward against future taxable income. As at 31 December 2018, accumulated losses amounting to RMB48,433,000 can be carried forward in the next three years, and accumulated losses amounting to RMB13,574,000 can be carried forward indefinitely. And as at 31 December 2017, accumulated losses amounting to RMB8,517,000 can be carried forward in the next two years, and accumulated losses amounting to RMB9,662,000 can be carried forward indefinitely.

10. DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax liabilities during the year was as follows:

	Interest expenses on capitalised property, plant and equipment *RMB'000*	Withholding tax *RMB'000*	Accelerated tax depreciation *RMB'000*	Unrealised gains on inventories *RMB'000*	Total *RMB'000*
At 1 January 2017	8,809	7,500	224	–	16,533
Recognised in the consolidated comprehensive income statements	4,580	(7,500)	(175)	–	(3,095)
At 31 December 2017	13,389	–	49	–	13,438
Recognised in the consolidated comprehensive income statements	3,143	–	(17)	1,614	4,740
At 31 December 2018	16,532	–	32	1,614	18,178

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings generated after 31 December 2007. The Group's subsidiaries in Mainland China are held by Fortune Express, a company incorporated in Hong Kong and the beneficial owner of these subsidiaries.

None of deferred income tax liabilities (2017: nil) has been recognised for the withholding tax that would be payable on the estimate of retained earnings of certain subsidiary incorporated in Mainland China as at 31 December 2018 that are expected to be distributed due to cancellation in the foreseeable future. Unremitted earnings that deferred income tax liabilities have not been recognised totaled RMB716,211,000 (2017: RMB869,160,000) as at 31 December 2018.

11. OTHER NON-CURRENT ASSETS

As at 31 December 2018, other non-current assets mainly represent the long-term deposits for land use rights.

12. INVENTORIES

	As at 31 December 2018 RMB'000	2017 RMB'000
Raw materials	**2,035,769**	2,132,499
Finished goods and work-in-progress	**653,859**	556,867
	2,689,628	2,689,366

The cost of materials recognised as cost of sales amounting to approximately RMB30,600,469,000 (2017: RMB26,509,875,000).

The Group had made a provision of approximately RMB34,328,000 as at 31 December 2018 (2017: RMB37,153,000). These amounts have been included in the cost of sales in the consolidated statement of comprehensive income (Note 27).

None of bank borrowings was pledged by raw materials as at 31 December 2018 (2017: bank borrowings of approximately RMB132,940,000 were pledged by raw materials with the carrying amount of approximately RMB135,500,000) (Note 22).

13. TRADE RECEIVABLES

	2018			2017		
	Current RMB'000	Non-Current RMB'000	Total RMB'000	Current RMB'000	Non-Current RMB'000	Total RMB'000
Accounts receivable	**301,403**	**27,674**	**329,077**	157,363	–	157,363
Notes receivable						
– bank acceptance notes	**196,277**	**–**	**196,277**	260,671	–	260,671
– commercial acceptance notes	**11,126**	**–**	**11,126**	3,557	–	3,557
	508,806	**27,674**	**536,480**	421,591	–	421,591
Less: provision for impairment	**(2,109)**	**–**	**(2,109)**	(1,632)	–	(1,632)
	506,697	**27,674**	**534,371**	419,959	–	419,959

The carrying amounts of trade receivables approximate their fair value as at the balance sheet date.

13. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2018, bank acceptance notes of RMB188,770,000 (2017: RMB116,646,000) were pledged as security for notes payable for the Group (Note 20), None of notes receivable (2017: RMB52,292,000) was pledged as security for bank borrowings for the Group as at 31 December 2018 (Note 22).

As at 31 December 2018, bank acceptance note of RMB3,333,000 (2017: RMB10,163,000) were pledged as security for letters of guarantee.

The majority of the Group's sales are made on (i) cash on delivery, (ii) bank or commercial acceptance notes with maturity within 1 year, and (iii) credit terms within 180 days. As at 31 December 2018 and 2017, the aging analysis of trade receivables was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable		
– within 30 days	**308,514**	142,067
– 30 days to 3 months	**14,294**	11,422
– 3 months to 6 months	**3,214**	3,241
– 6 months to 1 year	**2,599**	29
– 1 year to 2 years	**278**	593
– over 2 years	**178**	11
	329,077	157,363
Notes receivable		
– within 1 year	**207,403**	264,228
	536,480	421,591

13. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2018, trade receivables of approximately RMB86,049,000 (2017: RMB44,267,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable		
– within 30 days	**65,886**	29,955
– 30 days to 3 months	**14,242**	11,357
– 3 months to 6 months	**3,162**	2,788
– 6 months to 1 year	**2,399**	16
– 1 year to 2 years	**276**	151
– over 2 years	**84**	–
	86,049	44,267

As at 31 December 2018, trade receivables of approximately RMB2,109,000 (2017: RMB1,632,000) were impaired and fully provided for. The impairment was assessed individually for individual significant or long aging balances. The aging of these receivables was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts receivable		
– within 1 year	**2,013**	1,179
– 1 year to 2 years	**2**	442
– over 2 years	**94**	11
	2,109	1,632

13. TRADE RECEIVABLES (CONTINUED)

The movement of the provision for impairment of trade receivables was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
At 1 January	**1,632**	1,029
Provision for trade receivables *(Note 27)*	**931**	666
Written off as uncollectible	**(454)**	(63)
At 31 December	**2,109**	1,632

The creation and reversal of provision for impaired receivables have been included in the administrative expenses. Amounts charged to allowance account are written off when there is no expectation of receiving the receivables.

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**498,601**	395,564
USD	**37,833**	24,428
JPY	**46**	1,599
	536,480	421,591

13. TRADE RECEIVABLES (CONTINUED)

The credit quality of trade receivables can be assessed by types of trade receivables and by reference to historical information about counterparty default rates. The Group categorised the trade receivables as follows:

Group 1 – Bank acceptance notes
Group 2 – Trade receivables and commercial acceptance notes due from customers with no defaults in the past
Group 3 – Trade receivables due from customers with some defaults in the past

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Group 1	**196,277**	260,671
Group 2	**340,203**	160,920
Group 3	**–**	–
	536,480	421,591

None of the trade receivables that were fully performing have been renegotiated in the last financial year.

The maximum exposure to the credit risk as at the balance sheet date is the carrying value of the trade receivables.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Prepayment for purchase of raw materials	**565,335**	536,156
Value-added tax recoverable	**307,966**	308,577
Export tax refundable	**17,305**	11,575
Deposits and other receivables	**37,021**	31,777
	927,627	888,085

The carrying amounts of deposits and other receivables approximate their fair values as at the balance sheet date.

15. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Restricted bank deposits denominated in:		
– RMB	**822,126**	791,050
– USD	**253,938**	33,818
	1,076,064	824,868

The nature of restricted bank deposits was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Deposits for issuing notes payable	**966,603**	742,768
Deposits for issuing letters of credit	**79,309**	77,296
Deposits for issuing letters of guarantee	**27,065**	1,586
Deposits for letters of credit facility	**3,087**	3,218
	1,076,064	824,868

As at 31 December 2018, the weighted average interest rate on restricted bank deposits was 2.65% (2017: 1.72%) per annum, and these deposits have an approximate average maturity of 124 days (2017: 233 days).

The restricted bank deposits are deposited with banks in Mainland China. The conversion of the RMB denominated balances in Mainland China into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China Government.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at bank and in hand.

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**68,060**	81,829
USD	**55,561**	73,737
HKD	**3,514**	7,236
EUR	**8,260**	2,551
JPY	**4,609**	798
	140,004	166,151

As at 31 December 2018, cash at bank was demand deposits and the weighted average interest rates was 0.19% (2017: 0.19%) per annum.

The maximum exposure to credit risk at the reporting date approximates the carrying value of the cash and cash equivalents.

The conversion of the RMB denominated balances in Mainland China into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China Government.

17. SHARE CAPITAL

	Authorised share capital		
	Number of shares *'000*	*HKD'000*	*RMB'000*
As at 31 December 2017 and 2018 (ordinary shares of HKD0.10 each)	1,500,000	150,000	128,886

	Issued and fully paid up		
	Number of shares *'000*	*HKD'000*	*RMB'000*
As at 31 December 2017 and 2018 (ordinary shares of HKD0.10 each)	1,245,190	124,519	106,607

On 20 March 2017, Tisco Stainless Steel (H.K.) Limited ("TISCO HK"), a third party, and the Company entered into a Subscription Agreement for TISCO HK to subscribed for 103,750,000 new shares of the Company at the total Subscription Price of HKD3.50 per share (amounting to approximately HKD363.1 million, which is equivalent to approximately RMB321 million). The issued shares rank power pari passu with the then existing shares.

18. RESERVES

	Share premium *RMB'000*	Merger reserves *RMB'000*	Statutory reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	692,648	48,611	128,610	(20,069)	1,212,517	2,062,317
Comprehensive income						
Profit for the year	–	–	–	–	67,466	67,466
Total comprehensive Income	–	–	–	–	67,466	67,466
Transaction with owners						
Issue of shares *(Note 17)*	311,805	–	–	–	–	311,805
Appropriation to statutory reserves	–	–	14,111	–	(14,111)	–
Employee share options scheme – value of employee services *(Note 19(a))*	–	–	–	3,868	–	3,868
Exercise of share option *(Note 19(a))*	381	–	–	–	–	381
Share award scheme *(Note 19(b))*	8,909	–	–	–	–	8,909
Vesting of award shares *(Note 19(b))*	(7,164)	–	–	7,164	–	–
Dividends	–	–	–	–	(131,775)	(131,775)
Total transaction with owners	313,931	–	14,111	11,032	(145,886)	193,188
Balance at 31 December 2017	1,006,579	48,611	142,721	(9,037)	1,134,097	2,322,971

18. RESERVES (CONTINUED)

	Share premium *RMB'000*	Merger reserves *RMB'000*	Statutory reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	**1,006,579**	**48,611**	**142,721**	**(9,037)**	**1,134,097**	**2,322,971**
Comprehensive income						
Profit for the year	–	–	–	–	**109,557**	**109,557**
Total comprehensive Income	–	–	–	–	**109,557**	**109,557**
Transaction with owners						
Appropriation to statutory reserves	–	–	**25,624**	–	**(25,624)**	–
Employee share options scheme – value of employee services *(Note 19(a))*	–	–	–	**2,100**	–	**2,100**
Share award scheme *(Note 19(b))*	**7,317**	–	–	–	–	**7,317**
Vesting of award shares *(Note 19(b))*	**(8,549)**	–	–	**8,549**	–	–
Dividends	–	–	–	–	**(54,925)**	**(54,925)**
Total transaction with owners	**(1,232)**	–	**25,624**	**10,649**	**(80,549)**	**(45,508)**
Balance at 31 December 2018	**1,005,347**	**48,611**	**168,345**	**1,612**	**1,163,105**	**2,387,020**

(a) Merger reserves

Merger reserves of the Group represent the nominal value of the paid-up share capital of the companies now comprising the Group, after elimination of intra-group investments.

(b) Statutory reserves

Subsidiaries of the Company incorporated in Mainland China are required to make appropriations to certain statutory reserves namely, statutory reserve fund, enterprise expansion fund and discretionary reserve fund from their statutory profit for the year after offsetting accumulated losses as determined under the PRC accounting regulations from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in Mainland China at rates of not less than 10%, or at the discretion of the Board of Directors of the respective companies.

18. RESERVES (CONTINUED)

(c) Other reserves

Other reserves consist of shareholders' loans waived, employee share option schemes (Note 19(a)) and shares held for Share Award Schemes (Note 19(b)).

(d) Retained earnings

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2018.

The dividends actually paid in 2018 were RMB54,925,000 based on the number of issued shares outstanding at revelant time (Note 32).

19. SHARE-BASED PAYMENTS

(a) Share option schemes

As approved by the Board of Directors' meeting on 21 December 2010, 6,150,000 share options were granted to a director and certain employees at an exercise price of HKD2.452 per share, which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As approved by the Board of Directors' meeting on 23 December 2014, 16,750,000 share options were granted to a director and certain employees at an exercise price of HKD2.364 per share, which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2018		2017	
	Average exercise price in HKD per share	**Number of options *('000)***	Average exercise price in HKD per share	Number of options *('000)*
At 1 January	**2.385**	**21,320**	2.386	21,980
Exercise	**–**	**–**	2.452	(190)
Forfeited	**2.373**	**(950)**	2.396	(470)
At 31 December	**2.386**	**20,370**	2.385	21,320

19. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

Details of share options outstanding at the end of year were as follows:

Exercisable from	Expiry date	Exercise price in HKD per share	Number of options ('000) 2018	2017
21 December 2013	20 December 2020	2.452	**1,506**	1,536
21 December 2014	20 December 2020	2.452	**1,506**	1,536
21 December 2015	20 December 2020	2.452	**2,008**	2,048
23 December 2017	22 December 2024	2.364	**6,140**	6,480
23 December 2018	22 December 2024	2.364	**4,605**	4,860
23 December 2019	22 December 2024	2.364	**4,605**	4,860
			20,370	21,320

The weighted average fair value of options granted in 2010 determined by using the Binomial Model was HKD1.31 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 57.7%, expected dividend yield of 1.83% and risk-free interest rate of 2.89%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date.

The weighted average fair value of options granted in 2014 determined by using the Binomial Model was HKD1.09 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 48%, expected dividend yield of 0.8% and risk-free interest rate of 1.82%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date.

The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the listed companies with similar business to the Group. The expected dividend yield is measured based on the dividend yield per companies with similar business as projected by Bloomberg, which agrees to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

(b) Share award schemes

Pursuant to a Board of Directors' resolution dated 25 August 2011, the Board approved the adoption of a Share Award Scheme (the "Scheme") under which shares of the Company may be awarded to selected employees in accordance with its provisions.

An aggregate of 952,000 shares of the Company's existing ordinary shares have been purchased during year 2018 by an independent trustee in the market out of cash HKD2,498,013 (equivalent to RMB2,138,424) contributed by the Company and held in trust for employees until such shares are vested in the relevant selected employees in accordance with the provisions of the Scheme. As at 31 December 2018, the un-utilized cash balance is HKD1,626,000 (equivalent to RMB1,425,000) (2017: HKD3,121,000 (equivalent to RMB2,609,000)).

19. SHARE-BASED PAYMENTS (CONTINUED)

(b) Share award schemes (continued)

Pursuant to a Board of Directors' resolution dated 15 October 2014, 11,740,000 shares were awarded to employees, such shares are vested over a period of three years.

Pursuant to a Board of Directors' resolution dated 20 October 2017, 3,078,000 shares were awarded to employees.

Pursuant to a Board of Directors' resolution dated 11 September 2018, 3,584,000 shares were awarded to employees.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the year ended 31 December 2018 is as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2018	24,112,000	3,078,000	27,190,000
Purchased	952,000	–	952,000
Granted *(Note 18)*	(3,584,000)	3,584,000	–
Vested and transferred	–	(6,662,000)	(6,662,000)
At 31 December 2018	21,480,000	–	21,480,000
Vested but not transferred as at 31 December 2018			–

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HKD2.25 per share (equivalent to approximately RMB1.96 per share). The weighted average fair value of awarded shares granted during the year ended 31 December 2017 was HKD3.40 per share (equivalent to approximately RMB2.90 per share).

20. TRADE PAYABLES

	As at 31 December 2018 RMB'000	2017 RMB'000
Accounts payable	**773,775**	605,938
Notes payable	**1,388,816**	1,561,227
	2,162,591	2,167,165
Less: non-current portion of accounts payable	**(8,959)**	–
	2,153,632	2,167,165

The notes payable as at 31 December 2018 of RMB942,390,000 (2017: RMB888,716,000) was secured by restricted bank deposits of approximately RMB713,055,000 (2017: RMB727,768,000) (Note 15) and bank acceptance notes of RMB188,770,000 (2017: RMB116,646,000) (Note 13).

The aging analysis of the trade payables was as follows:

	As at 31 December 2018 RMB'000	2017 RMB'000
Within 6 months	**2,162,516**	2,167,121
6 months to 1 year	**50**	–
1 year to 2 years	**12**	23
2 years to 3 years	**13**	21
	2,162,591	2,167,165

Trade payables are denominated in the following currencies:

	As at 31 December 2018 RMB'000	2017 RMB'000
RMB	**2,133,373**	2,153,251
USD	**29,218**	13,914
	2,162,591	2,167,165

The carrying amounts of trade payables approximate their fair values as at the balance sheet date.

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other payables	**343,941**	403,151
Value-added tax payable	**26,686**	4,194
Other taxes payable	**14,646**	11,415
Accruals	**4,447**	7,999
Advances from customers	**–**	393,042
	389,720	819,801

The breakdown of other payables was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Payables for purchase of property, plant and equipment and land use rights	**198,870**	209,573
Salaries payable	**67,518**	52,815
Pension and other social welfare payables	**47,475**	43,676
Freight payable	**33,185**	31,456
Loan from Daming Logistic *(Note 35(c))*	**2,000**	45,000
Others	**33,643**	20,631
	382,691	403,151
Less: non-current portion of payables for purchase of property, plant and equipment and land use rights	**(38,750)**	–
	343,941	403,151

The fair values of accruals and other current liabilities approximate their carrying amounts.

Accruals and other current liabilities were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**361,212**	736,611
EUR	**25,211**	63,795
USD	**2,641**	19,377
HKD	**–**	18
JPY	**656**	–
	389,720	819,801

22. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Bank borrowings	**800,200**	1,010,338
Borrowing under finance lease arrangement	**49,983**	284,823
	850,183	1,295,161
Current		
Bank borrowings	**3,008,543**	2,052,643
Borrowing under finance lease arrangement	**234,993**	589
	3,243,536	2,053,232
Total borrowings	**4,093,719**	3,348,393
Representing:		
Bank borrowings		
– unsecured	**3,098,443**	2,497,373
– secured *(a)*	**620,300**	489,620
– guaranteed *(b)*	**90,000**	75,988
Finance lease arrangement *(c)*	**284,976**	285,412
	4,093,719	3,348,393

22. BORROWINGS (CONTINUED)

(a) The secured bank borrowings as at 31 December 2018 were secured by the pledge of restricted bank deposits amounting to RMB323,748,000.

The secured bank borrowings as at 31 December 2017 were secured by the pledge of raw materials with the carrying amount of approsimately RMB135,500,000 (Note 12), note receivable of RMB52,292,000 (Note 13), and restricted bank deposits of RMB67,280,000.

(b) As at 31 December 2018, bank borrowings of RMB90,000,000 (2017: RMB75,988,000) were guaranteed by a subsidiary of the Group and a minority share holder of a subsidiary of the Group.

(c) Finance lease arrangements are repayable by instalment and carry interest between 4.91% to 5.37% (Note 6).

Analysis of the carrying amounts of the Group's borrowings by type and currency was as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
At fixed rates in RMB	**2,457,965**	1,827,501
At fixed rates in USD	**451,599**	450,680
At fixed rates in EUR	**27,155**	41,324
	2,936,719	2,319,505
At floating rates in RMB	**1,157,000**	1,028,888
	4,093,719	3,348,393

22. BORROWINGS (CONTINUED)

The weighted average effective interest rates per annum at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
RMB	**4.93%**	4.57%
USD	**7.76%**	7.04%
EUR	**1.57%**	1.27%

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**3,227,696**	1,598,443
6 months to 1 year	**816,040**	1,059,789
1 year to 5 years	**49,983**	690,161
	4,093,719	3,348,393

The carrying amounts of borrowings approximate their fair values as at the balance sheet date.

23. DEFERRED GOVERNMENT GRANTS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Deferred government grants	**92,391**	56,881
Less: Current portion included in current liabilities	**(4,482)**	(3,346)
	87,909	53,535

The gross movement of the deferred government grants was as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Beginning balance of the year	**56,881**	46,370
Granted during the year	**40,230**	13,500
Recognized in the consolidated statement of comprehensive income *(Note 25)*	**(4,720)**	(2,989)
Ending balance of the year	**92,391**	56,881

Government grants were granted to support the Group's construction of factory buildings and purchase of machineries. These amounts have been deferred and amortised over the relevant assets' expected useful lives of 10 to 40 years.

24. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of goods	**32,135,276**	27,724,286

The chief operating decision-maker has been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker has determined that single business segment information is presented as all of the Group's sales and operating profits are derived from the sales of stainless steel and carbon steel products, and all of the Group's productions and operating assets are located in Mainland China, which is considered as one segment with similar risks and returns.

The Group is domiciled in Mainland China. The revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue.

During the year ended 31 December 2018, none of the customers of the Group from whom the revenue amounting to 10% or more of the Group's revenue (2017: None).

The result of its sales from external customers in different countries and regions was as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Mainland China	**31,370,542**	27,084,654
– Hong Kong and other overseas countries and regions *(i)*	**764,734**	639,632
Total sales	**32,135,276**	27,724,286

(i) Other overseas countries and regions mainly represented Australia, United States of America, South Korea, Europe and Southeast Asia.

24. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The Group has recognised following liabilities related to contracts with customers:

	As at 31 December 2018	As at 1 January 2018
	RMB'000	*RMB'000*
Contract liabilities – advances from customers	**439,470**	393,042

All the carried-forward contract liabilities satisfied in a prior year is recognised as revenue during the year ended 31 December 2018.

25. OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of scraps and packaging materials	**41,201**	31,254
Subsidy income	**29,373**	7,714
Amortisation of deferred government grants *(Note 23)*	**4,720**	2,989
Rental income	**367**	370
Others	**7,009**	5,289
	82,670	47,616

26. OTHER GAIN/(LOSS) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Losses)/gain on disposal of property, plant and equipment – net *(Note 33(a))*	**(552)**	15
Foreign exchange gain/(losses) – net	**7,953**	(9,972)
Others	**(947)**	(3,716)
	6,454	(13,673)

27. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs, administrative expenses and other expenses were analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Changes in inventories of finished goods	**(156,778)**	(109,786)
Raw materials consumed	**30,757,247**	26,619,661
Outsourced processing cost	**52,516**	22,701
Stamp duty, property tax and other surcharges	**35,073**	28,870
Transportation costs	**149,864**	127,891
Employee benefit expenses, including directors' emoluments *(Note 28)*	**584,853**	486,152
Depreciation and amortisation *(Note 5, 6, 7, 8)*	**202,724**	166,597
Operating lease rental for buildings	**4,342**	5,423
Utilities charges	**60,628**	47,714
Provision for write-down of inventories *(Note 12, 33(a))*	**34,328**	37,153
Auditors' remuneration-audit services	**3,050**	3,000
Provision for impairment of trade receivables *(Note 13, 33(a))*	**931**	666
Entertainment and travelling expenses	**37,876**	34,896
Professional service expenses	**6,713**	3,364
Bank charges	**9,848**	8,059
Others	**37,147**	36,374
	31,820,362	27,518,735

28. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**533,217**	427,422
Pension – defined contribution plans *(a)*	**44,992**	45,833
Share award granted to directors and employees	**4,479**	8,909
Share options granted to directors and employees	**2,165**	3,988
	584,853	486,152

(a) Pensions – defined contribution plans

The full time employees of the Mainland China subsidiaries of the Group participate in defined contribution retirement benefit plans organised by the relevant provincial government. For the years ended 31 December 2017 and 2018, the Group is required to make monthly defined contributions to these plans at rates from 14% to 20%, with the base of their total salary subject to a certain ceiling.

The Group has arranged for its Hong Kong employees to join the MPF Scheme, a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HKD1,500 during the year ended 31 December 2018, and thereafter contributions are voluntary.

The full time employees in Mainland China with length of service for no less than two years also participate in the Annuity Plan. The Group and its employees are required to make monthly contribution a certain percentage of the employee's earning depending on employee's rank of position according to the profitability. The monthly contribution is 9% from the Group and 3% from the employees, which are subject to adjustment in accordance with the terms of the Annuity Plan.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

29. FINANCE COSTS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance costs:		
Interest expenses on borrowings	**152,168**	109,499
Interest expenses on bank/commercial acceptance notes and letter of credit	**49,691**	45,094
Exchange loss/(gain) – net	**24,419**	(18,635)
	226,278	135,958
Less: amounts capitalised on qualifying assets *(Note 6)*	**(14,789)**	(19,257)
Total finance costs	**211,489**	116,701
Finance income:		
Interest income *(Note 33(a))*	**(26,915)**	(12,583)
Finance costs – net	**184,574**	104,118

30. INCOME TAX EXPENSE

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– mainland China corporate income tax	**96,951**	77,270
Deferred income tax *(Note 10)*	**(10,151)**	(25,236)
	86,800	52,034

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

30. INCOME TAX EXPENSE (CONTINUED)

The subsidiary incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of British Virgin Islands income tax.

Subsidiaries incorporated in Hong Kong are subject to income tax at the prevailing rates of 16.5%. Hong Kong profits tax has not been provided as there is no estimated assessable profit arising in or derived from Hong Kong during the financial periods.

The PRC Corporate Income Tax ("CIT") is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

Jiangsu Daming, Daming Precision Sheet, Jingjiang Daming Heavy Industry, Qianzhou Daming, Hubei Daming, Taiyuan Taigang Daming, Hangzhou Wanzhou, Wuhan Fortune, Tianjin Taigang Daming, Allybest Trading, Zibo Daming, Daming Metal Technology, Daming Import & Export, Steel Union Logistics, Shandong Allybest and Zhejiang Daming are subject to corporate income tax rate of 25% for the year 2018.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rates applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**219,464**	135,376
Tax calculated at tax rates applicable to profits of the respective subsidiaries	**67,556**	37,431
Expenses not deductible for tax purpose	**2,968**	3,870
Effect of withholding tax on certain unremitted profits of a subsidiary in Mainland China	**6,100**	7,980
Tax losses for which no deferred income tax asset was recognised, net	**484**	480
Reversal of previously recognised deferred income tax asset	**10,277**	2,129
Difference of prior year tax filing	**(585)**	144
Income tax expense	**86,800**	52,034
The weighted average applicable tax rates	**30.78%**	27.65%

31. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**109,557**	67,466
Weighted average number of ordinary shares in issue *(thousands)*	**1,221,915**	1,184,867
Basic earnings per share *(RMB per share)*	**0.09**	0.06

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2018	2017
Earnings		
Profit attributable to equity holders of the Company *(RMB'000)*	**109,557**	67,466
Weighted average number of ordinary shares in issue *(thousands)*	**1,221,915**	1,184,867
Adjustments for share option plan *(thousands)*	**2,046**	6,459
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,223,961**	1,191,326
Diluted earnings per share *(RMB per share)*	**0.09**	0.06

32. DIVIDENDS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interim dividend	**54,925**	–
Proposed final dividend	**–**	–
	54,925	–

On 24 August 2018, the Company's board of directors recommended payment of an interim dividend of HKD0.05 per share.

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2018 (2017: Nil).

The dividends actually paid in 2018 were HKD62,259,500 (equivalent to approximately RMB54,925,000) (2017: HKD149,400,000, equivalent to approximately RMB131,775,000) based on the number of issued shares outstanding at relevant time.

33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**219,464**	135,376
Adjustments for:		
– amortisation of land use rights *(Note 5)*	**9,148**	7,880
– depreciation of property, plant and equipment *(Note 6)*	**191,334**	157,774
– amortisation of intangible assets *(Note 8)*	**1,833**	481
– depreciation of investment properties *(Note 7)*	**409**	462
– amortisation of deferred income *(Note 23)*	**(4,720)**	(2,989)
– gain/(losses) on disposal of property, plant and equipment *(Note 26)*	**552**	(15)
– provision for impairment of trade receivables *(Note 27)*	**931**	666
– provision for write down of inventories *(Note 27)*	**34,328**	37,153
– interest income *(Note 29)*	**(26,915)**	(12,583)
– finance costs *(Note 29)*	**211,489**	116,701
– employee share options scheme-value of employee services *(Note 19(a))*	**2,165**	3,988
– share award scheme-value of employee services *(Note 19(b))*	**7,317**	8,909
	647,335	453,803
Changes in working capital:		
– decrease/(increase) in restricted bank deposits	**5,272**	(137,098)
– increase in trade receivables, prepayments, deposits and other receivables	**(161,170)**	(240,373)
– increase in contract liabilities	**439,470**	–
– increase in inventories	**(34,589)**	(254,569)
– (decrease)/increase in trade payables, accruals and other payables	**(241,026)**	1,437,253
Cash generated from operations	**655,292**	1,259,016

33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December **2018** *RMB'000*	2017 *RMB'000*
Net book amount *(Note 6)*	**1,299**	997
(Losses)/gain on disposal of property, plant and equipment *(Note 26)*	**(552)**	15
Proceeds from disposal of property, plant and equipment	**747**	1,012

(c) The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings and other payables *RMB'000*	Restricted bank deposits *RMB'000*	Total *RMB'000*
As at 1 January 2018	3,393,393	(67,280)	3,326,113
Cash flows			
– proceeds from borrowings	4,566,110	–	4,566,110
– repayment of borrowings	(3,888,201)	–	(3,888,201)
– restricted bank deposits pledged for bank borrowings	–	(256,468)	(256,468)
Non-cash changes			
– currency translations	24,419	–	24,419
As at 31 December 2018	4,095,721	(323,748)	3,771,973

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contracted but not provided for:		
Acquisition of property, plant and equipment	**335,860**	472,172

(b) Operating lease commitments

The Group leases certain office premises, plant and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Not later than 1 year	**114**	1,328
Later than 1 year and not later than 5 years	**–**	320
	114	1,648

35. RELATED PARTY TRANSACTIONS

(a) The directors are of the view that the following companies and persons are related parties of the Group:

Name	**Relationship with the Group**
Ally Good Group Limited	Controlling shareholder
Wuxi Daming Logistics Co., Ltd. (“Daming Logistics”)	The controlling shareholders are Mr. Zhou Keming and Ms. Xu Xia
Mr. Zhou Keming	Chairman and chief executive officer of the Company and the Group
Ms. Xu Xia	The wife of Mr. Zhou Keming and a director of the Company

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The following material transactions were carried out with related party:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(i) Loans received from related party		
Daming Logistics	**5,000**	30,000
(ii) Repayment of related party loan		
Daming Logistics	**48,000**	20,000

The loans received from Daming Logistics are unsecured, interest-free and have no fixed repayment terms.

(c) Other payables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Daming Logistics		
– Loan borrowed	**2,000**	45,000
– Others	**750**	375
	2,750	45,375

(d) Key management compensation
Key management includes directors and top managements. The compensation paid or payable to key management for employee services was shown below:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**13,333**	12,991
Pension – defined contribution plans	**216**	200
	13,549	13,191

36. EVENTS AFTER THE BALANCE DATE

On 28 January 2019, Jiangsu Daming Specialty Steel Co., Ltd., ("Specialty Steel"), a subsidiary of the Group, was incorporated. As of the approval date of these financial statements, Specialty Steel has not received any paid-up capital.

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	**941,670**	939,505
Due from subsidiaries	**1,454,742**	1,419,647
	2,396,412	2,359,152
Current assets		
Cash and cash equivalents	**771**	1,296
	771	1,296
Total assets	**2,397,183**	2,360,448
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**106,607**	106,607
Reserves *(Note (a))*	**1,881,754**	1,866,564
Total equity	**1,988,361**	1,973,171
LIABILITIES		
Non-current liabilities		
Borrowings	**–**	385,338
Current liabilities		
Borrowings	**407,674**	–
Accruals and other payables	**1,148**	1,939
Total liabilities	**408,822**	387,277
Total equity and liabilities	**2,397,183**	2,360,448

The balance sheet of the Company was approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Zhou Keming	**Zou Xiaoping**
Director	*Director*

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) Reserve movement of the Company

	Share premium *RMB'000*	Contributed surplus [i] *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (Accumulated losses) *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	692,648	921,264	(48,929)	65,667	1,630,650
Comprehensive income					
Profit for the year	–	–	–	42,606	42,606
Total comprehensive Income	–	–	–	42,606	42,606
Transaction with owners					
Issue of shares *(Note 17)*	311,805	–	–	–	311,805
Employee share option scheme – value of employee services *(Note 19(a))*	–	–	3,988	–	3,988
Exercise of share option *(Note 19(a))*	381	–	–	–	381
Employee share award scheme – value of employee services *(Note 19(b))*	8,909	–	–	–	8,909
Vesting of award shares *(Note 19(b))*	(7,164)	–	7,164	–	–
Dividends	–	–	–	(131,775)	(131,775)
Total transaction with owners	313,931	–	11,152	(131,775)	193,308
Balance at 31 December 2017	1,006,579	921,264	(37,777)	(23,502)	1,866,564

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) Reserve movement of the Company (continued)

	Share premium *RMB'000*	Contributed Surplus[(i)] *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (Accumulated losses) *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	**1,006,579**	**921,264**	**(37,777)**	**(23,502)**	**1,866,564**
Comprehensive income					
Profit for the year	–	–	–	60,633	60,633
Total comprehensive Income	–	–	–	60,633	60,633
Transaction with owners					
Employee share option scheme – value of employee services *(Note 19(a))*	–	–	2,165	–	2,165
Employee share award scheme – value of employee services *(Note 19(b))*	7,317	–	–	–	7,317
Vesting of award shares *(Note 19(b))*	(8,549)	–	8,549	–	–
Dividends	–	–	–	(54,925)	(54,925)
Total transaction with owners	(1,232)	–	10,714	(54,925)	(45,443)
Balance at 31 December 2018	**1,005,347**	**921,264**	**(27,063)**	**(17,794)**	**1,881,754**

(i) Contributed surplus

Contributed surplus arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with a reorganisation of the Group prior to the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

Contributed surplus is distributable to equity holders of the Company according to Companies Law of the Cayman Islands subject to solvency test.

38. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2018:

Name of director	Fees	Salaries	Discretionary bonus	Shares	Pension-defined contribution plans	Other benefits (i)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
– Mr. Zhou Keming	257	856	70	–	26	16	1,225
– Mr. Zou Xiaoping	257	796	70	–	26	16	1,165
– Ms. Xu Xia	257	835	64	–	15	–	1,171
– Mr. Jiang Changhong	257	856	70	–	25	12	1,220
– Mr. Lu Ping*	257	840	70	–	28	9	1,204
– Mr. Fukui Tsutomu	257	856	70	218	–	–	1,401
– Mr. Zhang Feng	257	661	60	–	26	16	1,020
– Mr. Wang Jian	257	841	60	218	26	16	1,418
– Mr. Tang Zhonghai*	–	920	80	–	26	16	1,042
	2,056	7,461	614	436	198	101	10,866
Independent non-executive directors							
– Mr. Chen Xuedong	257	–	–	–	–	–	257
– Mr. Cheuk Wa Pang	257	–	–	–	–	–	257
– Mr. Hua Min	257	–	–	–	–	–	257
– Mr. Lu Daming	257	–	–	–	–	–	257
– Mr. Liu Fuxing	257	–	–	–	–	–	257
– Mr. Hu Xuefa**	150	–	–	–	–	–	150
	1,435	–	–	–	–	–	1,435
	3,491	7,461	614	436	198	101	12,301

* Persuant to a board resoluation dated 18 April 2018 and with immediate effect, Mr. Tang Zhonghai resigned as an executive director of the Company and Mr. Lu Ping was appointed as an executive director of the Company.

** Persuant to a board resoluation dated 30 May 2018 and with immediate effect, Mr. Hu Xuefa was appointed as an independent non-executive director of the Company.

38. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2017

Name of director	Fees *RMB'000*	Salaries *RMB'000*	Discretionary bonus *RMB'000*	Shares *RMB'000*	Pension-defined contribution plans *RMB'000*	Other benefits [(i)] *RMB'000*	Total *RMB'000*
Executive directors							
– Mr. Zhou Keming	260	840	70	–	27	16	1,213
– Ms. Xu Xia	260	730	65	–	26	16	1,097
– Mr. Zou Xiaoping	260	780	70	–	27	16	1,153
– Mr. Jiang Changhong	260	840	70	–	25	10	1,205
– Mr. Tang Zhonghai	260	960	80	–	27	16	1,343
– Mr. Fukui Tsutomu	260	838	70	588	–	–	1,756
– Mr. Zhang Feng	260	719	60	588	26	16	1,669
– Mr. Wang Jian*	151	837	70	294	27	16	1,395
	1,971	6,544	555	1,470	185	106	10,831
Non-executive director							
– Mr. Shen Dong**	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
Independent non-executive directors							
– Mr. Chen Xuedong	260	–	–	–	–	–	260
– Mr. Cheuk Wa Pang	260	–	–	–	–	–	260
– Mr. Hua Min	260	–	–	–	–	–	260
– Mr. Lu Daming	260	–	–	–	–	–	260
– Mr. Liu Fuxing*	151	–	–	–	–	–	151
	1,191	–	–	–	–	–	1,191
	3,162	6,544	555	1,470	185	106	12,022

* Persuant to a board resolution dated 25 May 2017 and with immediate effect, Mr. Wang Jian was appointed as an executive director of the Company and Mr. Liu Fuxing was appointed as an independent non-executive director of the Company.

** Persuant to a board resolution dated 20 October 2017 and with immediate effect, Mr. Shen Dong resigned as a non-executive director of the Company.

(i) Other benefits include social welfare benefits other than pension disclosed above.

No directors of the Company waived any emolument for the year ended 31 December 2018 and 2017.

38. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 5 (2017: 5) directors, whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2018 and 2017, no emoluments was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office.

(c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

	For the year ended 31 December				
	2018	2017	2016	2015 (restated)	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**32,135,276**	27,724,286	20,518,140	18,043,138	19,633,818
Gross profit	**866,808**	675,358	1,071,531	126,111	632,042
Operating profit/(loss)	**404,038**	239,494	677,926	(198,606)	335,777
Profit/(loss) for the year	**132,664**	83,342	406,587	(251,036)	165,888
Attributable to:					
Equity holders of the Company	**109,557**	67,466	388,215	(247,210)	165,807
Non-controlling interests	**23,107**	15,876	18,372	(3,826)	81
	132,664	83,342	406,587	(251,036)	165,888
ASSETS, LIABILITIES AND EQUITY					
Total assets	**10,161,911**	9,155,376	7,760,974	5,767,061	5,957,580
Total liabilities	**(7,309,309)**	(6,458,172)	(5,347,127)	(3,723,862)	(3,951,326)
	2,852,602	2,697,204	2,413,847	2,043,199	2,006,254
Equity attributable to equity holders of the Company	**2,493,627**	2,429,578	2,159,717	1,807,571	1,770,300
Non-controlling interests	**358,975**	267,626	254,130	235,628	235,954
Total equity	**2,852,602**	2,697,204	2,413,847	2,043,199	2,006,254