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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2738

# 2018 ANNUAL REPORT

# Contents

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Xu Jianhong

### Independent non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Wong Chak Keung

## PRINCIPAL BANKERS

Agricultural Bank of China Limited
Jiangmen Xinhui Branch
Jiangmen Rural Commercial Bank Company Limited
Bank of China Limited Jiangmen Xinhui Branch

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE

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

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

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## STOCK CODE

2738

## WEBSITE

www.huajin-hk.com

# DEFINITIONS

In this report, unless otherwise indicated in the context, the following expressions have the meanings set out below:

| | |
|---|---|
| "Articles of Association" | the articles of association of the Company |
| "associates" | having the meaning ascribed thereto under the Listing Rules |
| "Board" | the board of Directors of the Company |
| "BVI" | the British Virgin Islands |
| "China" or "PRC" | the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Company" | Huajin International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange |
| "Controlling Shareholder(s)" | having the meaning ascribed thereto under the Listing Rules |
| "Deed of Non-competition" | the deed of non-competition dated 23 March 2016 and executed by our Controlling Shareholders in favour of our Company |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "Gujing Town Land Use Rights" | three parcels of industrial land with an aggregate site area of approximately 284,860 sq. m. which are situated in Zhoulang Village, Gujing Town, Xinhui District, Jiangmen City, Guangdong Province, the PRC |
| "Haiyi" | Haiyi Limited (海逸有限公司), a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is owned as to 87.0% by Intrend Ventures and 12.0% by Zhong Cheng, respectively |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hua Jin Holdings" | Hua Jin Holdings Pte. Ltd., a limited liability company incorporated in Singapore and the entire equity interest of which is owned by Mr. Xu |
| "Huajin Investments" | Huajin Investments Limited (華津投資有限公司), a limited liability company incorporated in BVI, the entire issued share capital of which is owned by our Company and is a direct wholly-owned subsidiary of our Company |
| "Independent Third Party(ies)" | individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder of our Company or any of its subsidiaries or any of their respective associates |

# DEFINITIONS

| | |
|---|---|
| "Inter Consortium" | Inter Consortium Holdings Limited (華滙控股有限公司), a limited liability company incorporated in Hong Kong, the entire issued shares of which is owned by Huajin Investments and is an indirect wholly-owned subsidiary of our Company |
| "Intrend Ventures" | Intrend Ventures Limited, a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is wholly-owned by Mr. Xu |
| "Jiangmen Huajin" | 江門市華津金屬製品有限公司 (Jiangmen Huajin Metal Product Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of our Company |
| "Jiangmen Huamu" | 江門市華睦五金有限公司 (Jiangmen Huamu Metals Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of our Company |
| "Jiangmen Huazhi" | 江門市華志金屬製品有限公司 (Jiangmen Huazhi Metal Product Company Limited*), a limited liability company established under the laws of PRC, which is owned as to 60% by Mr. Xu and 40% by Mr. Chen |
| "Jiangmen Zhan Cheng" | 江門市新會區展程制衣有限公司 (Jiangmen Xinhui District Zhan Cheng Garment Limited*), a limited liability company established under the laws of PRC and the entire equity interest of which is beneficially held by Mr. Xu |
| "Listing" or "Listing Date" | the listing of our Shares on the Stock Exchange commenced on 15 April 2016 |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Memorandum" | the memorandum of association of our Company |
| "Mr. Chen" | Mr. Chen Chunniu (陳春牛), our executive Director |
| "Mr. Luo" | Mr. Luo Canwen (羅燦文), our executive Director and Controlling Shareholder |
| "Mr. Xu" | Mr. Xu Songqing (許松慶), our executive Director and Controlling Shareholder |
| "Prospectus" | the prospectus of the Company dated 5 April 2016 |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |

# DEFINITIONS

| | |
|---|---|
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "substantial Shareholder(s)" | having the meaning ascribed thereto under the Listing Rules |
| "Workshop No. 4" | the fourth production workshop of our Group, with approximately gross floor area of 16,714.7 sq. m., which commenced operation and production of galvanized steel products in mid-2016 |
| "Zhong Cheng" | Zhong Cheng International Limited (中誠有限公司) (formerly known as China Reliance Limited (中誠有限公司)), a business company incorporated under the laws of BVI with limited liability and wholly-owned by Mr. Luo, our Controlling Shareholder |
| "HK$"or "HKD" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "S$"or "SGD" | Singapore dollars, the lawful currency of Singapore |
| "US$"or "USD" | United States dollars, the lawful currency of the United States |
| "km" | kilometre(s) |
| "sq. m." | square meter(s) |
| "%" | per cent |

* *for identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese name prevails.*

# FINANCIAL HIGHLIGHTS

| | 2018 | 2017 | Change |
|---|---|---|---|
| Revenue (RMB million) | **2,909.3** | 2,863.5 | 1.6% |
| Gross profit (RMB million) | **144.7** | 212.3 | -31.8% |
| Gross profit margin (%) | **5.0%** | 7.4% | |
| EBITDA (RMB million) *(note 1)* | **105.8** | 206.8 | -48.8% |
| EBITDA margin (%) | **3.6%** | 7.2% | |
| Profit attributable to owners of the Company (RMB million) | **6.4** | 92.6 | -93.1% |
| Basic earnings per Shares (RMB cent) | **1.07** | 15.44 | -93.1% |
| Dividend per Shares (HK cent) | | | |
| — Interim | **0.0** | 3.5 | -100.0% |
| — Proposed final | **0.0** | 2.0 | -100.0% |
| | **0.0** | 5.5 | -100.0% |
| Dividend payout ratio (%) | **0%** | 30.0% | |
| Sales volume (tonne) *(note 2)* | **597,056** | 662,026 | -9.8% |
| Average processing fee per tonne (RMB) *(note 3)* | **379** | 696 | -45.5% |

| | As at 31.12.2018 | As at 31.12.2017 | Change |
|---|---|---|---|
| Net asset value (RMB million) | **586.0** | 596.6 | -1.8% |
| Net asset value per Share (RMB) | **0.98** | 0.99 | -1.0% |
| Borrowings (RMB million) | **848.2** | 958.0 | -11.5% |
| Gearing ratio (%) *(note 4)* | **144.7%** | 160.6% | |

*Notes:*

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

2. It represents the sales volume of processed steel products and galvanized steel products during the reporting period under review.

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

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

# CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present our annual results of Huajin International Holdings Limited and its subsidiaries for the year ended 31 December 2018 to our Shareholders.

## REVIEW

In 2018, our revenue increased from approximately RMB2,863.5 million in 2017 to approximately RMB2,909.3 million in 2018 by approximately RMB45.8 million, or 1.6%. Our domestic sales in the PRC market contributed over 99% of our revenue while the remaining portion was attributable to sales to our customers located in Southeast Asia during the reporting period under review. Our basic earnings per Share decreased from approximately RMB15.44 cents in 2017 to approximately RMB1.07 cents in 2018.

Our total sales volume of processed steel products and galvanized steel products decreased from approximately 662,026 tonnes in 2017 to approximately 597,056 tonnes in 2018 by approximately 64,970 tonnes, or 9.8%.

In 2018, our Group recorded a profit before tax of approximately RMB9.3 million, representing a decrease of 91.4% as compared with RMB108.4 million in 2017. Net profit attributable to Shareholders was approximately RMB6.4 million, representing a decrease by approximately RMB86.2 million, or 93.1% as compared with RMB92.6 million in 2017. Our Group's EBITDA decreased from approximately RMB206.8 million in 2017 to approximately RMB105.8 million in 2018 and such decrease was affected by a decrease in the average processing fee per tonne in our products during the reporting period under review.

Same to 2017, our Board decided not to pay any discretionary bonus to our executive Directors and senior management in 2018 so as to reserve more internal resources for the Group's operation and expansion.

In order to maintain its business growth in the long run, the Group invested substantially in property, plant and equipment to strengthen the scale and processing capacity of the existing production base and facilities to decrease unit production cost to be benefited from boosted economy of scale in production. In 2018, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB181.1 million.

For corporate social responsibility, the Group is committed to striking a balance between earnings and sustainable development. We believe outstanding business environment, society and corporate governance are fundamental to maintaining long-term sustainable success. The Group encourages our staff to participate in community services with non-profit organizations, social enterprises and governments to benefit countries and communities where the Group operates.

## PROSPECTS AND FUTURE PLAN

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

# CHAIRMAN'S STATEMENT

With a view to expand our market share and achieve our comparative advantage, our Group will strive towards the expansion of production capacity for our processed steel products and galvanized steel products by increasing investments in property, plant and equipments. It is believed that these investments in production plants and facilities, including the acquisition of Gujing Town Land Use Rights, for the expansion of our production capacity will contribute to the Group's business growth and net profit margin improvement by the Group's efforts to decrease unit production cost to be benefited from boosted economy of scale in production in the years ahead. Our Group will continue to maintain its leading position in the cold rolled carbon steel processors in Guangdong Province in terms of annual production volume thereby providing a solid foundation for the entrenchment of the Company's long term competitive advantage. Our management is committed to achieving sustainable business growth and bringing long-term values to our Group's Shareholders.

## PROPOSED DIVIDEND

The Board do not recommend the payment of a final dividend for the year ended 31 December 2018.

## APPRECIATION

To conclude, I would like to take this opportunity to express my heartfelt gratitude and appreciation to the Board for their support and contributions, to the devotion of our management team and staff over the past year. Last but not least, I would like to give my sincerest thanks to our Shareholders, business partners and customers for their unflagging support.

**Xu Songqing**
*Chairman*

Hong Kong, 28 March 2019

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive directors

**Mr. Xu Songqing (許松慶)**, aged 48, is the chairman of our Company and was appointed as an executive Director of our Company on 13 March 2015. Mr. Xu is also the chairman of the nomination committee and a member of remuneration committee of the Company. As a founder of our Group, Mr. Xu is also a director of Huajin Investments, Inter Consortium, Huajin (Singapore) Pte. Ltd. and Jiangmen Jinyuan Metals Company Limited* (江門市津源金屬製品有限公司, "Jiangmen Jinyuan"). Mr. Xu founded Jiangmen Huajin in July 2005 and Jiangmen Huamu in November 2006, and previously served as a director of Jiangmen Huajin and Jiangmen Huamu. He has been primarily responsible for overall strategic planning and business development. Prior to joining our Group, Mr. Xu served as a general manager at Zhongshan Guzhen Luhao Street Light Factory* (中山市古鎮路豪路燈廠) from December 2001 to July 2005, responsible for managing and supervising overall production of steel poles of street light. Mr. Xu served as a factory manager at Zhongshan Guzhen Henghua Lighting & Appliances Factory* (中山市古鎮恒華電器燈飾廠) from October 1999 to December 2001, responsible for managing the workshop and familiarising with characteristics and manufacturing requirements of all kinds of lamp poles. Mr. Xu worked in lighting and transportation industry as a self-employed entrepreneur from 1991 to 1999. Mr. Xu is the elder brother of Mr. Xu Songman and the father of Mr. Xu Jianhong.

**Mr. Luo Canwen (羅燦文)**, aged 45, was appointed as an executive Director and chief executive officer of our Company on 18 December 2015. Mr. Luo joined our Group in May 2010 and currently serves as the raw material procurement director of Jiangmen Huajin and Jiangmen Huamu. Mr. Luo has been primarily responsible for the overall operation, management and raw material procurement of our Group. Mr. Luo is also a director of Inter Consortium and the supervisor of Jiangmen Hairun Renewable Resources Recycling Company Limited* (江門市海潤再生資源回收有限公司, "Jiangmen Hairun"). Prior to joining our Group, Mr. Luo has over 12 years experience in the trading industry. Mr. Luo was the chief executive officer of Foshan Shunde Jinhong Trading Company Limited* (佛山市順德區晉虹貿易有限公司) (formerly known as Foshan Shunde Qianghong Trading Company Limited* (佛山順德區強虹貿易有限公司)) from May 2001 to April 2010. Mr. Luo also worked in the sales department in Foushan Dongying Trading Company Limited* (佛山市東盈貿易有限公司) (formerly known as Foushan Dongsheng Zhilian Trading Company Limited* (佛山市東升志聯貿易有限公司)) from May 1998 to April 2001.

**Mr. Chen Chunniu (陳春牛)**, aged 47, was appointed as an executive Director of our Company on 18 December 2015. Mr. Chen joined our Group in July 2005 and currently serves as the procurement director of ancillary materials of Jiangmen Huajin and Jiangmen Huamu. Mr. Chen is also a director of Jiangmen Huajin, Jiangmen Huamu and Jiangmen Hairun. Mr. Chen is also the supervisor of Jiangmen Jinyuan. Mr. Chen has been primarily responsible for the overall procurement of ancillary materials for our Group. Prior to joining our Group, Mr. Chen worked in an oil pump repairing factory in Jiangmen. Mr. Chen graduated from Jiangmen Advanced Technical Institute* (江門市高級技工學校) in June 1990. Mr. Chen also attained a certificate of junior safety officer in Guangdong Province (廣東省初級安全主任證書) issued by Jiangmen Administration of Work Safety* (江門市安全生產監督管理局) on 26 October 2005.

**Mr. Xu Songman**, aged 42, was appointed as an executive Director of our Company on 18 December 2015. Mr. Xu Songman joined our Group in July 2005 and currently serves as the sales director of Jiangmen Huajin and Jiangmen Huamu. Mr. Xu Songman has been primarily responsible for the overall domestic and overseas marketing and logistics related services of our Group. Prior to joining our Group, Mr. Xu Songman was involved in and managed his steel trading business in the Guangdong Province, the PRC, from 2002 to 2005. Mr. Xu Songman was engaged in the restaurant industry in the United Kingdom from 1997 to 2001. Mr. Xu Songman completed an EMBA course at Sun Yat-sen University (中山大學) located in Guangdong Province, the PRC in April 2014. Mr. Xu Songman is the younger brother of Mr. Xu and the uncle of Mr. Xu Jianhong.

# DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Director

**Mr. Xu Jianhong (許健鴻)**, aged 25, was appointed as a non-executive Director of our Company on 21 November 2017. Mr. Xu Jianhong graduated from The Kilmore International School in Australia in 2014 and received his Bachelor of Science degree from The University of Melbourne, Australia in July 2018. Mr. Xu Jianhong is the son of Mr. Xu and the nephew of Mr. Xu Songman.

## Independent non-executive Directors

**Mr. Goh Choo Hwee (吳慈飛)**, aged 47, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Goh is also a member of each of the audit, remuneration and nomination committees of the Company. Mr. Goh is a practising solicitor in Hong Kong and currently a partner at Ma Tang & Co., a law firm in Hong Kong. Mr. Goh graduated from The University of Hong Kong with Postgraduate Certificate in Laws in June 1995.

Mr. Goh is currently an independent non-executive director of China Ever Grand Financial Leasing Group Co., Ltd. (stock code: 379) and Tsui Wah Holdings Limited (stock code: 1314), both companies listed on the Main Board of the Stock Exchange. Mr. Goh served as a joint company secretary and authorised representative of Xinhua News Media Holdings Limited (stock code: 309), a company listed on the Main Board of the Stock Exchange, from December 2013 to November 2018.

**Mr. Tam Yuk Sang Sammy (譚旭生)**, aged 55, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Tam is also the chairman of the remuneration committee and a member of each of the audit and nomination committees of the Company. Mr. Tam has over 30 years experience in accounting, auditing and finance. Mr. Tam is currently the president of Essentack Limited, a corporate strategy and management advisory company. Mr. Tam graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a professional diploma in accountancy in November 1986, and from the University of London with a Master of Science degree in Professional Accountancy in August 2018. Mr. Tam is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Tam is currently an independent non-executive director of China Internet Investment Finance Holdings Limited (previously known as Opes Asia Development Limited) (stock code: 810) which is listed on the Main Board of the Stock Exchange. Mr. Tam was also an independent non-executive director of the following companies listed on the Stock Exchange: KEE Holdings Company Limited (stock code: 2011) from August 2010 to February 2016, Renheng Enterprise Holdings Limited (stock code: 3628) from October 2011 to October 2014, Kith Holdings Limited (stock code: 1201) from August 2010 to July 2014.

**Mr. Wu Chi Keung (胡志強)**, aged 62, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Wu is also the chairman of the audit committee and a member of each of the remuneration and nomination committees of the Company. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently a director of family-owned private company, Born Best Company Limited, engaging in property and other investment. Mr. Wu obtained a high diploma in accountancy from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1980. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu is currently an independent non-executive director of China Medical System Holdings Limited (stock code: 867), Huabao International Holdings Limited (stock code: 336), Jinchuan Group International Resources Co., Ltd. (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475) and Zhou Hei Ya International Holdings Company Limited (stock code: 1458), each a publicly listed company on the Main Board of the Stock Exchange.

Mr. Wu was also an independent non-executive director of COFCO Meat Holdings Limited (stock code: 1610) from June 2016 to December 2017 and an independent non-executive director of YuanShengTai Dairy Farm Limited (stock code: 1431) from November 2013 to September 2018, each a publicly listed company on the Main Board of the Stock Exchange.

Save as disclosed above, each of our Directors has confirmed that he did not have any relationships with any other Directors, senior management or substantial or Controlling Shareholders, if any, of our Company as at the date of this annual report.

## SENIOR MANAGEMENT

**Mr. Zhu Huaiqing (朱懷清)**, aged 66, joined our Group on 5 June 2015 and currently serves as a deputy general manager of Jiangmen Huamu. Mr. Zhu has been primarily responsible for the product research and development of our Group. Prior to joining our Group, Mr. Zhu served as general manager at Anshan Tianli Precision Strip Steel Co., Ltd.* (鞍山天力精密帶鋼有限責任公司) from October 2014 to June 2015 and from February 2000 to March 2002, respectively. Mr. Zhu also worked at Guangdong Foshan Gaoming Yunran Strip Steel Industrial Co., Ltd.* (廣東佛山高明允然帶鋼實業有限公司) from March 2010 to September 2014. During 2002 to 2010, Mr. Zhu successively served as general manager of Yongxin Precision Material (Wuxi) Co., Ltd.* (永鑫精密材料(無錫)有限公司), Ningbo Baori Precision Sheet Co., Ltd.* (寧波寶日精密薄板有限公司) and then Beijing Yeke Magnetic Materials Co., Ltd.* (北京冶科金屬有限公司). Mr. Zhu worked as general manager at Qinhuangdao Longteng Precision Strip Steel Co., Ltd.* (秦皇島龍騰精密帶鋼有限公司) from June 1988 to January 2000. Mr. Zhu served as research director, department head and engineer at Anshan Research Institute of Thermo-Energy, Ministry of Metallurgical Industry* (冶金工業部鞍山熱能研究院) from October 1977 to May 1988. Mr. Zhu graduated from Northeastern University of Technology* (東北工學院) (currently known as Northeastern University* (東北大學)) with a bachelor's degree in physical chemistry of metallurgy in September 1977. In 1992, Mr. Zhu attained a diploma for tertiary studies (accounting) from Qinhuangdao branch, Northeastern University of Technology.

**Mr. Xie Guanming (謝冠明)**, aged 48, joined our Group on 1 March 2006 and currently serves as a deputy general manager of Jiangmen Huajin. Mr. Xie has been primarily responsible for the daily operation and management of the workshops of our Group in the PRC. Prior to joining our Group, Mr. Xie worked at Nanhai branch, Industrial and Commercial Bank of China Ltd. for over twelve years. Mr. Xie obtained his certificate of accounting professional in February 2002 and attained a diploma for tertiary studies (administrative management) from Guangzhou Open University (廣州市廣播電視大學) in July 2003.

**Mr. Wong Chak Keung (黃澤強)**, aged 52, was appointed as the company secretary and the chief financial officer of our Company on 18 December 2015 and 10 July 2017, respectively. Mr. Wong has been in the accounting profession for over 15 years. In addition to his working experience in an international accounting firm in Hong Kong, Mr. Wong has also worked for listed and other companies engaged in investment, accounting, educational business, manufacturing and merger and acquisition. Mr. Wong obtained a bachelor degree in business from The University of Southern Queensland in Australia in 1995. Mr. Wong is also a member of the Hong Kong Institute of Certified Public Accountants and certified practising accountant of the Australian Society of Certified Practising Accountants, respectively.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of the shareholders and stakeholders, and enhance shareholder value.

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2018, except as noted hereunder.

### Code provision A.4.1

In respect of the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive Director is appointed for a term of 3 years and all the independent non-executive Directors of the Company are not appointed for a specific term. However, all Directors are subject to retirement by rotation and re-election by the Shareholders at the forthcoming annual general meeting in accordance with the Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

The Board is responsible for providing high-level guidance and effective oversight of the Group's management and operation. In addition, the Board has also delegated various responsibilities to the Board committees and further details of these Board committees are set out in this report.

The Board is also responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;

2. to review and monitor the training and continuous professional development of Directors and senior management;

# CORPORATE GOVERNANCE REPORT

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct applicable to Directors and employees; and

5. to review the Company's compliance with the GC Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

### (a) Board composition

The Board currently comprises a combination of four executive Directors, one non-executive Director and three independent non-executive Directors. The profile, role and function of each Director, their relationship with each other and the membership of the board committees are set out in the section headed "Directors and senior management" in this annual report. In compliance with Rule 3.10(1), the Board includes at least three independent non-executive Directors.

Mr. Xu is the elder brother of Mr. Xu Songman and Mr. Xu Jianhong is the son of Mr. Xu and a nephew of Mr. Xu Songman. Save as disclosed above, the Board members have no financial, business, family or other material/relevant relationship with each other. The Company has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors.

### (b) Board process

During the year ended 31 December 2018, five board meetings were held. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary is responsible for keeping minutes for the board meetings.

The Directors are requested to declare their and their connected entities' direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in the Board meetings as appropriate.

# CORPORATE GOVERNANCE REPORT

## (c) Directors' attendance at Board meetings and general meeting

The attendance record of each Director at the Board meetings and general meeting during the year ended 31 December 2018 is set out in the table below:

| Name of Directors | number of attendance/ number of meeting(s) Board meetings | general meeting |
|---|---|---|
| **Executive Directors** | | |
| Mr. Xu Songqing *(Note 2)* | 5/5 | 0/1 |
| Mr. Luo Canwen *(Note 2)* | 5/5 | 0/1 |
| Mr. Chen Chunniu | 5/5 | 1/1 |
| Mr. Xu Songman | 5/5 | 1/1 |
| **Non-executive Director** | | |
| Mr. Xu Jianhong | 5/5 | 1/1 |
| **Independent non-executive Directors** | | |
| Mr. Goh Choo Hwee *(Note 2)* | 5/5 | 0/1 |
| Mr. Tam Yuk Sang Sammy *(Note 2)* | 5/5 | 0/1 |
| Mr. Wu Chi Keung | 5/5 | 1/1 |

*Notes:*

1. For the year ended 31 December 2018, besides the Board meetings, a number of resolutions were passed by the Board by way of written resolutions.

2. Mr. Xu Songqing, Mr. Luo Canwen, Mr. Goh Choo Hwee and Mr. Tam Yuk Sang Sammy were absent from the annual general meeting of the Company held on 28 June 2018 due to their business engagement.

## (d) Responsibilities, accountabilities and contributions of the Board and management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They ensure that proper internal control system is in place and the Group's business conforms to applicable laws and regulations. All independent non-executive Directors bring their wealth of experience to the Board and serve the important function of advising the management on strategy development to ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks for safeguarding the interests of the Shareholders and the Company as a whole.

# CORPORATE GOVERNANCE REPORT

The Directors acknowledge their responsibilities for preparing the consolidated financial statements that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2018, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The Directors had conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2018.

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. The management has the obligation to supply the Board and the various Board committees with adequate information in a timely manner to enable the members to make informed decisions. All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

### (e) Independence of independent non-executive Directors

The Board must be satisfied itself that an independent non-executive Directors does not have any material relationship with the Group. The Board is guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

The independent non-executive Directors of the Company, namely Mr. Goh Choo Hwee, Mr. Tam Yuk Sang Sammy and Mr. Wu Chi Keung, have each provided annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider these Directors to be independent.

### (f) Directors' induction and continuous professional development

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

Pursuant to Code A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. For the year ended 31 December 2018, all Directors had participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

# CORPORATE GOVERNANCE REPORT

### (g) Directors' and officers' insurance

The Company has arranged appropriate Directors' and officers' ("D&O") insurance cover, which gives appropriate cover for any legal action brought against Directors and officers throughout the year ended 31 December 2018. To ensure sufficient cover is provided, we review the Company's D&O insurance policy annually to ensure that the coverage is sufficient and remains appropriate in light of recent trends in the insurance market and other relevant factors.

## CHAIRMAN AND CHIEF EXECUTIVE

According to the CG Code, the roles of the chairman and chief executive should be separate and performed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one individual.

The chairman and chief executive officer of the Company are Mr. Xu and Mr. Luo respectively. The roles of the chairman and chief executive officer are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual.

The chairman of the Board is responsible for the leadership and effective running of the Board, while the chief executive officer is delegated with the authorities to manage the business of the Group in all aspects effectively.

## NON-EXECUTIVE DIRECTORS

All the independent non-executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of our Company and until terminated by not less than three months' notice in writing served by either the Company or the relevant Director.

The non-executive Director has entered into a letter of appointment with the Company for an initial term of three years which unless otherwise terminated pursuant to the terms of the appointment is subject to automatic renewal. The appointment shall be subject to normal retirement and re-election at the annual general meeting by shareholders of the Company pursuant to the Articles of Association.

## BOARD COMMITTEES

The Board has established three Board committees and has delegated various responsibilities to the committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"). All the Board committees perform their distinct roles in accordance with their respective terms of reference which are available to Shareholders on the websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

# CORPORATE GOVERNANCE REPORT

## Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rule and paragraph C.3 of the CG Code. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The audit committee currently consists of three independent non-executive Directors, namely Mr. Goh Choo Hwee, Mr. Tam Yuk Sang Sammy and Mr. Wu Chi Keung. The chairman of the Audit Committee is Mr. Wu Chi Keung. In compliance with Rule 3.10(2) of the Listing Rules, Mr. Wu Chi Keung and Mr. Tam Yuk Sang Sammy possess the appropriate professional and accounting qualifications or accounting or related financial management expertise.

During the year ended 31 December 2018, the Audit Committee held two meetings to consider and approve the following:

(a) to review the Group's consolidated financial results for the year ended 31 December 2017 and six months ended 30 June 2018 before submission to the Board, with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting of the Audit Committee;

(b) to discuss the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;

(c) to review the accounting principles and practices adopted by the Group and other financial reporting matters.

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditor during the year ended 31 December 2018.

The Group's audited consolidated results for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee has been satisfied with the review of the audit scope, process and effectiveness, independence of Deloitte Touche Tohmatsu and thus recommended to the Board for the approval of the consolidated financial statements.

The individual attendance record of each member of the Audit Committee is as follows:

| Name of Directors | Number of attendance/ number of meetings |
|---|---|
| Mr. Goh Choo Hwee | 2/2 |
| Mr. Tam Yuk Sang Sammy | 2/2 |
| Mr. Wu Chi Keung | 2/2 |

# CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the CG Code. The primary duties of the Remuneration Committee include (but not limited to): (a) making recommendations to the Board on the policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) making recommendations on the terms of the specific remuneration package of the executive Directors and senior management; and (c) reviewing and approving performance-based remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee consists of four members, of whom three are independent non-executive Directors. The four members are Mr. Xu, Mr. Goh Choo Hwee, Mr. Tam Yuk Sang Sammy and Mr. Wu Chi Keung. Mr. Tam Yuk Sang Sammy is the chairman of the Remuneration Committee.

During the year ended 31 December 2018, the Remuneration Committee held one meeting. The Remuneration Committee determined the policy for the remuneration of executive Directors and non-executive Director, assessed the performance of the executive Directors and approved the terms of their service contracts. The Remuneration Committee had also made recommendations to the Board regarding the Company's remuneration policy and the formulation and review of the remuneration package of all Directors and senior management of the Company for determination by the Board. Details of the Directors' emolument are set out in note 11 to the consolidated financial statements.

The individual attendance record of each member of the Remuneration Committee is as follows:

| Name of Directors | Number of attendance/ number of meetings |
|---|---|
| Mr. Goh Choo Hwee | 1/1 |
| Mr. Tam Yuk Sang Sammy | 1/1 |
| Mr. Wu Chi Keung | 1/1 |
| Mr. Xu Songqing | 1/1 |

### Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, select and make recommendations to the Board on the appointment of Directors, re-appointment of Directors, succession planning for Directors and assess the independence of independent non-executive Directors.

The Nomination Committee consists of four members, of whom three are independent non-executive Directors. The four members are Mr. Xu, Mr. Goh Choo Hwee, Mr. Tam Yuk Sang Sammy and Mr. Wu Chi Keung. Mr. Xu is the chairman of the Nomination Committee.

During the year ended 31 December 2018, the Nomination Committee held one meeting. The Nomination Committee carried out the process of selecting and recommending to the Board candidates for directorship with reference to diversity policy of the Company, including the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition, assessed the independence of independent non-executive Directors and recommended the re-appointment of retiring Directors for Shareholders' approval at the forthcoming annual general meeting.

# CORPORATE GOVERNANCE REPORT

The individual attendance record of each member of the Nomination Committee is as follows:

| Name of Directors | Number of attendance/ number of meetings |
|---|---|
| Mr. Goh Choo Hwee | 1/1 |
| Mr. Tam Yuk Sang Sammy | 1/1 |
| Mr. Wu Chi Keung | 1/1 |
| Mr. Xu Songqing | 1/1 |

## EXTERNAL AUDITORS

Below is an analysis of remuneration in respect of audit and non-audit services provided by the external auditors for the year ended 31 December 2018 and the amount charged to profit or loss during the year ended 31 December 2018 is shown in note 10 to the consolidated financial statements on page 80 of this annual report.

| | Deloitte Touche Tohmatsu *RMB'000* | Other auditors *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Audit services: | | | |
| Annual audit service | 1,366 | 265 | 1,631 |
| Non-audit services*: | | | |
| Other related services | 386 | 270 | 656 |
| Total | 1,752 | 535 | 2,287 |

* The non-audit services included the review of interim condensed consolidated financial statements and other tax advising services of the Group.

The reporting responsibilities of Deloitte Touche Tohmatsu are stated in the independent auditor's report on pages 47 to 50 of this annual report.

## COMPANY SECRETARY

The company secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The company secretary is responsible for advising the Board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

The appointment of company secretary is appointed by the Board. The company secretary is an employee of the Group and has day-to-day knowledge of the Company's affairs. Biographical details of the company secretary are set out in the section "Directors and Senior Management" in this annual report. The company secretary confirmed that he undertook no less than 15 hours of relevant professional training and relevant updates during the year ended 31 December 2018.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDER RIGHTS

### (a) Convening an extraordinary general meeting ("EGM") and putting forward proposals at EGM.

Pursuant to Article 58 of the Article of Association, the Board may whenever it thinks fit call EGM. 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 company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Save for the procedures for Shareholders to convene an EGM as set out above, there are no provisions allowing Shareholders to put forward proposals at the general meeting under the Articles of Association. Shareholders may follow the procedures set out above to convene an EGM for any business specified in such written requisition.

### (b) Procedures for directing shareholders' enquiries to the Board.

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the company secretary by post at Room 518, Tower A, New Mandarin Plaza, No. 14 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong or via email at the contact information as provided on the website of the Company.

The company secretary shall forward the Shareholder(s)' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to the Shareholder(s)' enquires.

## INVESTOR RELATIONS

The Company believes that effective and proper investor relations play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public via the websites of the Company and the Stock Exchange at www.huajin-hk.com and www.hkexnews.hk, respectively, in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

The Company also endeavours to maintain an on-going dialogue with Shareholders and in particular, through general meetings which provides a forum for Shareholders to raise comments and exchange views with the Board. Our Directors will be available at the annual general meetings of the Company to address Shareholders' queries. The Company will continue to take measures to ensure effective Shareholders' communication and transparency.

During the reporting period under review, there was no significant change in the Company's constitutional documents. Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its Memorandum and Articles of Association on the respective websites of the Company and the Stock Exchange.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for risk management and internal control systems of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations. The management, supported by the operation units and the internal audit team, are responsible for formulating, implementing and monitoring sound risk management and internal control systems, and reporting to the Board and the Audit Committee on the result of risk assessment, as well as the assessment on the effectiveness of risk management and internal control systems.

Principles and guidelines of our risk management framework are set for an effective and adequate approach to be applied across the Group to manage the risks associated with its business and operations. This framework is designed to enhance risk management of the Group through an integrated framework so that all material risks faced by the Group are identified and appropriately managed. Each department is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal control for effective risk management are implemented. The management is responsible for overseeing the risk management and internal control activities of the Group. Principal risks and uncertainties facing our Group during the year are set out in the paragraph headed "Principal Risks and Uncertainties" in the Directors' report.

The internal audit department of the Group is responsible for evaluating the effectiveness of the Group's policies and procedures in relation to risk management and internal control systems and submitting their reports of their findings to the Board. The yearly internal audit plan is derived based on the assessed risk of the Group's major operations and business and, taking into account also result of internal audit activities conducted in the preceding period, are reported to the Audit Committee. In addition to its scheduled internal audit works, the internal audit team may be requested to conduct other review or investigative work. The results of internal audit reviews and agreed management action plans in response to recommendations of the internal audit are reported to the executive Directors and the Audit Committee periodically. The internal audit also follows up with management regarding the implementation of the agreed action plans to ensure that operation procedures and internal controls are continuously enhanced. The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management.

During the reporting period under review, the management assisted the Board in the implementation of the Group's policies and procedures within the Board's delegation by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control such risks. The Board conducted reviews and discussed with the management on the effectiveness of the Group's risk management and internal control systems as required by paragraph C.2 of the CG Code, covering adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions and any resolutions for material internal control defects.

The risk management and internal control systems are reviewed and assessed on an on-going basis by the executive Directors and the Audit Committee, and will be further reviewed and assessed at least once each year by the Board. These systems were considered effective and adequate. In addition to the assessment and review of risk management and internal controls undertaken internally, the half-yearly review and annual review conducted by our external auditors will also provide to certain extent independent checks on the Group's internal controls system.

The Board has implemented procedures and internal controls for handling and dissemination of inside information. Since the Listing Date, the Company has adopted a policy which aims to set out guidelines to the Company's Directors, officers and all relevant employees to ensure inside information of the Company is to be disseminated to the public in equal and timely manner in accordance with the SFO and the Listing Rules.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

During the year ended 31 December 2018, the Group recorded revenue of RMB2,909.3 million and a profit attributable to Shareholders of RMB6.4 million, representing an increase of 1.6% and a decrease of 93.1%, respectively, from the corresponding period in 2017.

Our sales volume of processed steel products and galvanized steel products in aggregate was 597,056 tonnes for the year ended 31 December 2018, representing a decrease of 64,970 tonnes or 9.8%, as compared to 662,026 tonnes for the year ended 31 December 2017. The annual processing capacity of our cold-rolling process and zinc coating process was approximately 750,000 tonnes and 250,000 tonnes respectively, with an average utilisation rate of approximately 67.4%, and 36.8%, respectively during the reporting period under review. The low utilisation rate for our zinc coating process during the reporting period under review was partly due to the drop in the average processing fee (being the difference between the selling price and the cost of the raw materials, namely hot-rolled steel coils) we charged for our galvanized steel products and temporary suspension of the galvanizing line for production improvement during the period from October 2018 to February 2019. The market price of steel products, including hot-rolled steel and cold-rolled steel, experienced upward trend during the reporting period under review. The management considered that it was justified not to accept additional sales order at a lower processing fee to incur additional production costs. Thus, the sales volume and the average utilisation rate of the existing production capacity were decreased during the reporting period under review. By further investments in property, plant and equipment, the management considers that the Group is able to promote the sales volume when a lower unit production costs will be achieved and benefited from boosted economy of sales in production when the new production plant at Gujing Town commences operation.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

In order to maintain its business growth in the long run, the Group invested substantially in property, plant and equipment to strengthen the scale and processing capacity of the existing production base and facilities. During the year ended 31 December 2018, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB181.1 million. The Group started the construction and foundation works of the new production site at the Gujing Town Land Use Rights in the second half of 2018 and it was expected that the new production site will commence operation by late 2019.

The net current liabilities position as at 31 December 2018 was primarily attributable to the fact that short-term borrowings were obtained to finance the non-current capital expenditures on property, plant and equipment, and land use rights. The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group, and (ii) the Group's presently available financing facilities and the intended renewal of the existing financing facilities upon maturity, the Group was in the process to apply additional long-term borrowings and the Group would have sufficient working capital to meet its current liabilities or expand its operations as anticipated.

Our capital commitments towards the acquisition of property, plant and equipment and land use rights, as at 31 December 2018, was approximately RMB204.4 million, which will be financed by the Group's internal resources and borrowings. The Group envisages ongoing growth in demand for its products and an ongoing need to increase its production capacity. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the years ahead.

## FINANCIAL REVIEW

### Revenue

Our Group primarily generates revenue from the sales of processed steel products and galvanized steel products. Our revenue slightly increased to approximately RMB2,909.3 million for the year ended 31 December 2018, by approximately RMB45.8 million or 1.6%, as compared with that of approximately RMB2,863.5 million for the year ended 31 December 2017.

Our sales volume of processed steel products decreased to 505,127 tonnes for the year ended 31 December 2018, by 29,834 tonne or 5.6%, as compared with that of 534,961 tonnes for the year ended 31 December 2017. Our sales volume of galvanized steel products decreased to 91,929 tonnes for the year ended 31 December 2018, by 35,136 tonnes or 27.7%, as compared with that of 127,065 tonnes for the year ended 31 December 2017. Thus, our sales volume of processed steel products and galvanized steel products in aggregate was 597,056 tonnes for the year ended 31 December 2018, representing a decrease of 64,970 tonnes or 9.8%, as compared to 662,026 tonnes for the year ended 31 December 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

The increase in revenue was mainly attributable to the increase in the average selling price of our products. The market price of steel products, including hot-rolled steel and cold-rolled steel, experienced upward trend during the reporting period under review. The average selling price of our processed steel products increased to RMB4,462 per tonne for the year ended 31 December 2018 as compared with that of RMB4,120 per tonne for the year ended 31 December 2017. The average selling price of our galvanized steel products increased to RMB4,751 per tonne for the year ended 31 December 2018 as compared with that of RMB4,300 per tonne for the year ended 31 December 2017. In summary, the average selling price of our processed steel products and galvanized steel products increased to RMB4,506 per tonne for the year ended 31 December 2018 as compared with that of RMB4,154 per tonne for the year ended 31 December 2017.

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

Other revenue was primarily attributable to the sales of scrap steel residual in our manufacturing process to recycling agents and the provision of processing service to the customers who engage us to process hot-rolled steel coils provided by them. Such other revenue accounted for about 7.5% of our revenue for the year ended 31 December 2018.

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***RMB'000*** | **%** | *RMB'000* | *%* |
| Sales of processed steel products | **2,253,719** | **77.5** | 2,203,815 | 77.0 |
| — processed steel strips and sheets | **2,068,096** | **71.1** | 2,034,582 | 71.1 |
| — welded steel tubes | **185,623** | **6.4** | 169,233 | 5.9 |
| Sales of galvanized steel products | **436,769** | **15.0** | 546,386 | 19.1 |
| Others | **218,777** | **7.5** | 113,264 | 3.9 |
| | **2,909,265** | **100.0** | 2,863,465 | 100.0 |

### Cost of sales

Our cost of sales increased to approximately RMB2,764.6 million for the year ended 31 December 2018, by approximately RMB113.4 million or 4.3%, as compared with that of approximately RMB2,651.2 million for the year ended 31 December 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | *RMB'000* | % | *RMB'000* | % |
| Direct materials | 2,463,768 | 89.2 | 2,289,313 | 86.4 |
| Utilities | 94,888 | 3.4 | 114,513 | 4.3 |
| Consumables | 88,204 | 3.2 | 105,509 | 4.0 |
| Depreciation expense | 46,375 | 1.7 | 50,452 | 1.9 |
| Direct labour | 62,064 | 2.2 | 71,934 | 2.7 |
| Others | 9,287 | 0.3 | 19,438 | 0.7 |
| | 2,764,586 | 100.0 | 2,651,159 | 100.0 |

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 89% of our cost of sales for the year ended 31 December 2018. The increase in direct materials was mainly attributable to the increase in the prevailing market price of our direct materials during the reporting period under review.

Utilities related primarily to electricity, water, and natural gas consumed throughout our production process. Utilities expenses decreased to approximately RMB94.9 million for the year ended 31 December 2018, by approximately RMB19.6 million or 17.1%, as compared with that of approximately RMB114.5 million for the year ended 31 December 2017. Such decrease was mainly due to the decrease in sales volume during the reporting period under review and temporary suspension of the galvanizing line for production improvement during the period from October 2018 to February 2019.

Consumables consisted of machinery spare parts and supplies consumed in the production process. Our consumables also decreased to approximately RMB88.2 million for the year ended 31 December 2018, by approximately RMB17.3 million or 16.4%, as compared with that of approximately RMB105.5 million for the year ended 31 December 2017. Such decrease was mainly attributable to the decreased production activity for processed steel products and galvanized steel products.

Depreciation expense experienced a decrease to approximately RMB46.4 million for the year ended 31 December 2018, by approximately RMB4.1 million or 8.1%, as compared with that of approximately RMB50.5 million for the year ended 31 December 2017. Such decrease was attributable to the lower amortisation in production during the reporting period under review.

Our direct labour decreased to approximately RMB62.1 million for the year ended 31 December 2018, by approximately RMB9.8 million or 13.6%, as compared with that of approximately RMB71.9 million for the year ended 31 December 2017. The decrease in our direct labour was mainly due to the decrease in the wages and contributions to social insurance fund and housing provident funds by our PRC subsidiaries.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gross profit

The price of raw materials, namely hot-rolled steel coils, went up substantially since March 2018, hitting the highest level in the past five years. Some of our customers adopted a wait and see approach in reordering their stock which resulted in a decrease in our sales volume as compared to the corresponding period of 2017. In addition, we reduced our average processing fee (being the difference between the selling price and the cost of direct materials) charged for our cold-rolled steel products and galvanized steel products from approximately RMB696 per tonne during the year ended 31 December 2017 to approximately RMB379 per tonne during the year ended December 2018 in order to maintain our business flow in view of the keen competition in the market and rising raw material cost to our customers. Accordingly, the Group recorded a gross profit of approximately RMB144.7 million during the year ended 31 December 2018, representing a decrease of approximately RMB67.6 million or 31.8%, as compared with that of approximately RMB212.3 million in the corresponding period in 2017 and a gross profit margin of 5.0%, representing a decrease of approximately 2.4 percentage points as compared with that of 7.4% in the corresponding period.

The following table sets out the sale volume, average selling price of our products, average cost of direct materials used, and the difference between the average selling price and the average cost of direct materials used for the periods indicated:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Sales volume of processed steel products | **505,127 tonnes** | 534,961 tonnes |
| — processed steel strips and sheets | **465,235 tonnes** | 493,930 tonnes |
| — welded steel tubes | **39,892 tonnes** | 41,031 tonnes |
| Sales volume of galvanized steel products | **91,929 tonnes** | 127,065 tonnes |
| | **597,056 tonnes** | 662,026 tonnes |
| Average selling price (per tonne) | | |
| — processed steel products | **RMB4,462** | RMB4,120 |
| — galvanized steel products | **RMB4,751** | RMB4,300 |
| — processed steel products and galvanized steel products | **RMB4,506** | RMB4,154 |
| Average cost of direct materials used (per tonne) | **RMB4,127** | RMB3,458 |
| Difference (per tonne) between average selling price and average cost of direct materials used | | |
| — processed steel products | **RMB335** | RMB662 |
| — galvanized steel products | **RMB625** | RMB842 |
| — processed steel products and galvanized steel products | **RMB379** | RMB696 |

# MANAGEMENT DISCUSSION AND ANALYSIS

### Other income, other gains and losses

Other income, other gains and losses decreased to approximately RMB6.2 million for the year ended 31 December 2018, by approximately RMB3.5 million or 36.1%, as compared with that of approximately RMB9.7 million for the year ended 31 December 2017. Such decrease was mainly attributable to the decrease in government grants to our PRC subsidiaries during the reporting period under review.

### Selling expenses

Our selling expenses decreased to approximately RMB31.8 million for the year ended 31 December 2018, by approximately RMB14.4 million or 31.2%, as compared with that of approximately RMB46.2 million for the year ended 31 December 2017. The decrease in selling expenses during the reporting period under review was mainly attributable to the decrease in salary, delivery costs and other selling related expenses.

### Administrative expenses

Our administrative expenses increased to approximately RMB38.7 million for the year ended 31 December 2018, by approximately RMB1.7 million or 4.6%, as compared with that of approximately RMB37.0 million for the year ended 31 December 2017.

### Investment loss

Our investment loss increased to approximately RMB27.3 million for the year ended 31 December 2018 when compared with investment gain of approximately RMB9.4 million for the year ended 31 December 2017. Such investment loss during the reporting period under review was primarily due to the increase in net realized loss on the derivative financial instruments in relation to the commodity futures contracts with the primary objective to hedge with the Group's purchase of raw materials.

### Finance costs

The finance costs comprised interest expenses on borrowings which were charged at interest rates ranging from 4.35% to 8.05% (2017: 4.35% to 8.49%) per annum for the year ended 31 December 2018. Finance costs increased to approximately RMB45.3 million for the year ended 31 December 2018, by approximately RMB3.6 million or 8.6%, as compared with that of approximately RMB41.7 million for the year ended 31 December 2017. Such increase was primarily resulted from the increase in borrowings during the reporting period under review.

### Income tax expenses

Income tax expenses decreased to approximately RMB3.0 million for the year ended 31 December 2018, by approximately RMB13.0 million or 81.3%, as compared with that of approximately RMB16.0 million for the year ended 31 December 2017. The decrease was mainly attributable to the decrease in profit during the reporting period under review. In February 2017, our two major PRC subsidiaries were recognized as high and new technology enterprises in the PRC and enjoyed a preferential enterprise income tax rate of 15% for a term of three years from 1 January 2016 to 31 December, 2018. The two PRC subsidiaries were in the process to apply for renewal of high and new technology enterprises' certificates in March 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Profit for the year

The Group's EBITDA decreased to approximately RMB105.8 million for the year ended 31 December 2018, by approximately RMB101.0 million or 48.8%, as compared with that of approximately RMB206.8 million for the year ended 31 December 2017. Such decrease reflected the drop in the operating cash flow from our business during the reporting period under review.

Our profit attributable to shareholders of the Company decreased to approximately RMB6.4million for the year ended 31 December 2018, by approximately RMB86.2 million or 93.1%, as compared with that of approximately RMB92.6 million for the year ended 31 December 2017.

Net profit margin decreased to approximately 0.2% for the year ended 31 December 2018 by approximately 3.0% from approximately 3.2% for the year ended 31 December 2017.

### Liquidity and financial resources

As at 31 December 2018, the Group's bank balances and cash decreased to approximately RMB72.5 million, by approximately RMB55.5 million or 43.4%, from approximately RMB128.0 million as at 31 December 2017. The Group's restricted bank deposits increased to approximately RMB123.9 million as at 31 December 2018, by approximately RMB25.5 million or 25.9%, from approximately RMB98.4 million as at 31 December 2017.

As at 31 December 2018, the Group had the net current liabilities and the net assets of approximately RMB234.2 million (2017: net current assets of RMB80.9 million) and approximately RMB585.9 million (2017: RMB596.6 million), respectively. As at 31 December 2018, the current ratio calculated based on current assets divided by current liabilities of the Group was 79.3% as compared with that of 106.9% as at 31 December 2017.

At 31 December 2018, the Group's total borrowings amounted to approximately RMB848.0 million (2017: RMB958.0 million) and total equity amounted to approximately RMB585.9 million (2017: RMB596.6 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 1.45 times (31 December 2017: 1.61 times) as at 31 December 2018.

As at 31 December 2018, the Group had total financing facilities amounted to approximately RMB958.5 million (2017: RMB1,028.7 million), of which approximately RMB798.8 million (2017: RMB738.6 million) had been utilised. The Group believes it has and will have sufficient unutilised financing facilities to meet its business operation, capital expenditures and expansion.

### Foreign currency exposure

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

# MANAGEMENT DISCUSSION AND ANALYSIS

### Financial instruments

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

### Material acquisitions and disposal

The Group has entered into an acquisition agreement in relation to the acquisition of remaining 40% equity interest in Jiangmen Jinyuan Metals Company Limited from non-controlling shareholder at a total consideration of RMB10.1 million on 7 September 2018. During the reporting period under review, saved as disclosed, the Group had no material acquisitions or disposal of subsidiaries, associates and joint ventures.

### Capital structure

Details of the share capital are set out in note 27 to the consolidated consolidated financial statements.

### Capital commitment

Details of the capital commitment are set out in note 29 to the consolidated consolidated financial statements.

### Pledge of assets

Details of the pledge of assets are set out in note 31 to the consolidated consolidated financial statements.

### Contingent liabilities

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

### Employees

As at 31 December 2018, the Group had a total of 1,044 (31 December 2017: 1,034) full-time employees in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) in 2018 amounted to approximately RMB85.6 million (2017: RMB98.8 million). The Group remunerated the employees based on their performance, experience and prevailing market practices. The Company has share option scheme in place as a means to encourage and reward the eligible employees (including the Directors) for their contributions to the Group's results and business development based on their individual performance. No share option was granted during the year ended 31 December 2018.

Pursuant to our discretionary bonus policy after Listing, discretionary bonus that may be available to our executive Directors and senior management members for each financial year, if so approved by the remuneration committee of the Board, will not exceed 5% of the audited consolidated profit before taxation and extraordinary items of our Group. Out of such discretionary bonus, it is intended that half of it will be available for awarding bonus to our executive Directors and the remaining half for our senior management. Same to 2017, our Board decided not to pay any discretionary bonus to our executive Directors and senior management for the year ended 31 December 2018 so as to reserve more internal resources for the Group's operation and expansion.

# DIRECTORS' REPORT

The Directors are pleased to present this annual report together with audited consolidated financial statements for the year ended 31 December 2018.

All reference below to other sections, reports or notes in this annual report form part of this Directors' report.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is a leading cold-rolled carbon steel processor in Guangdong Province, the PRC. The Group provides processing, cutting, slitting, warehousing and delivery services on customised cold-rolled carbon steel and the Group is principally engaged in providing cold-rolled carbon steel strips, sheets, welded steel tubes and galvanized steel products customised to the specification of the customers covering a wide range of industries, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting.

A list of the Company's subsidiaries as at 31 December 2018 and their particulars are set out in note 38 to the consolidated financial statements.

## BUSINESS REVIEW

The Group's revenue is derived primarily from business activities conducted in the PRC and Southeast Asia. An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of this financial year, and an indication of likely future development in the Group's business, can be found in this report and the sections headed "Chairman's Statement", "Management Discussion and Analysis", and "Corporate Governance Report" of this annual report. Details about the Group's financial risk management are set out in note 35 to the consolidated financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The following list, although not exhaustive, highlights the principal risks and uncertainties facing the Group. Besides, this report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

### Risks relating to our business and the steel processing industry

Our business depends on our customers' ability to sell their products and we rely on customers with short-term orders and it is difficult for us to forecast the volume of their purchases from us in the future. Our products are sold to end users of steel including primarily manufacturers of light industrial hardware, home appliances as well as furniture for their further production of their end products. Demand for the end products manufactured and sold by our customers to the end users derives demand for our processed steel products and galvanized steel products.

# DIRECTORS' REPORT

We generally do not enter into long-term sales contracts with our customers. They directly, or through trading companies indirectly, purchase processed steel products and galvanized steel products from us on order-by-order basis for the production of their end products they sell to their customers. Therefore, they are not obliged in any way to continue placing orders with us and the quantity of our processed steel products and galvanized steel products they order from us depends on their sales forecast and/or the actual sales performance of the end products in the market. Accordingly, the sales volume to our customers may vary significantly from period to period, and it is difficult for us to forecast the volume of our customers' purchases from us in the future.

Developments adverse to our major customers may have a negative impact on our business and performance. We derive a significant portion of our revenue from customers in certain end market segments. Any adverse changes in the business environment of these end market segments could materially and adversely affect our business and operating results.

Our business relationship with our major suppliers for our principal raw materials is pivotal for us to purchase the necessary quantities of steel raw materials at market price on a timely basis especially during an excess demand condition and cessation of their supply to us may affect our business and financial conditions. If there is any abrupt increase in the purchase price of our principal raw materials or labour costs and we are not able to pass on such increase to our customers, our profit margins and operating results may be adversely affected.

Our expansion plan to increase the processing capacity of our existing production facilities is subject to risks and uncertainties and if it proves to be unsuccessful, our business and operating results may be adversely affected.

### Operational risks

The Group's operation is subject to a number of risk factors distinctive to the steel processing industry. Default on the part of the Group's suppliers, customers, and inadequacies or failures of internal processes, people and systems or other external factors may have various levels of negative impact on the results of operations. Despite we have adopted appropriate policies and are compliant with relevant health and safety laws, there is no assurance that industrial accidents, whether due to malfunctions of machineries or other reasons, will not occur in the future at our production facilities. In an event of industrial accident, it may adversely affect our business, financial condition or results of operations.

### Financial risks and estimation uncertainty

The risks associated with the financial instruments of the Group include market risks (i.e. currency risk and interest rate risk), credit risk and liquidity risk. The key sources of estimation uncertainty are set out in note 5 to the consolidated financial statements.

### Past performance and forward looking statements risks

The performance and the results of operation of the Group as set out in this annual report are based on historical figures, where past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that are subject to risks and uncertainties. Actual results may materially differ from expectations discussed in such forward-looking statements and opinions.

# DIRECTORS' REPORT

## RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group recognises that employees, customers and suppliers are the key to our sustainability and stable development. The Group is committed to establishing a close relationship with its employees, enhancing cooperation with our suppliers and providing processed steel products and galvanized steel products customised to the specification of the customers so as to ensure the Group's sustainable development.

### (a) Employees

The remuneration packages of our employees include salary, bonuses and allowances. The Group also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational safety and health. The Group maintains a good relationship with its employees and maintains a relatively low turnover rate. To ensure the quality of our employees and to train up future generations of our management personnel, we provide in-house training to our employees to enhance their knowledge in operation and safety practice as well as training to individual employees according to specific job requirements. The goal of the in-house training is to train our employees and to identify talent, with the aim of providing promotion opportunities within our Company and fostering employee loyalty.

### (b) Customers

The Group processes hot-rolled carbon steel into cold-rolled carbon steel products and galvanized steel products for our manufacturing customers. We derived most of our revenue from domestic sales which were made mainly to customers located in Guangdong Province, the PRC. Our customers are primarily manufacturers of different industrial products which purchase our processed steel products and galvanized steel products for the manufacture of end products, agents for manufacturers, and steel trading companies. During the year ended 31 December 2018, we served approximately 800 to 900 customers per year across a variety of industries in the PRC, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. With a broad and diversified customer base, we are not dependent on any single customer, group of customers or any particular industry and are able to capture growth in various industries.

### (c) Suppliers

Our major suppliers are primarily steel producers or their agents and steel trading companies located in the PRC. We have established stable and long-standing business relationship with our key steel raw material suppliers given our large-scale operations and the resultant demand for their products. Our business relationship with our major suppliers for our principal raw materials is pivotal for us to purchase the necessary quantities of steel raw materials at market price on a timely basis. We have an assessment and selection procedure for selecting our suppliers. Our procurement team in general conducts a background assessment which covers various aspects including scale of operation, quality control, delivery time and reputation in the industry on each potential supplier before their admission to our approved supplier list. It is our procurement policy that we only purchase raw materials from approved suppliers to ensure the quality of our raw materials. We also carry out evaluation and assessment of our existing suppliers from time to time. In order to leverage our suppliers' in-depth understanding of the industry and market trends, we closely communicate and collaborate with our major suppliers to obtain the latest market information in anticipation of our customers' future needs. We believe that our long-standing and stable relationship with our suppliers have also helped us to strengthen our relationship with our key customers and maintain our competitiveness.

# DIRECTORS' REPORT

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51 of this annual report.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2018.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2018, the total purchases of raw materials from our five largest suppliers in aggregate accounted for approximately 72.5% (2017: 65.1%) of our total purchases and the total purchases from our largest supplier accounted for approximately 21.0% (2017: 22.2%) of our total purchases of raw materials.

For the year ended 31 December 2018, revenue from our five largest customers in aggregate accounted for approximately 14.3% (2017: 15.9%) of our revenue and revenue from our largest customer accounted for approximately 4.3% (2017: 6.2%) of our revenue.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the section headed "Financial Summary" on page 108 of this annual report.

## DONATIONS

During the year ended 31 December 2018, the Group's charitable and other donations amounted to approximately RMB60,000 (2017: RMB510,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment during the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

## BORROWINGS

Details of the borrowings of the Group as at 31 December 2018 are set out in note 24 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2018 are set out in note 27 to the consolidated financial statements.

# DIRECTORS' REPORT

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

Based on the offer price of HK$2.38 per Share and the actual listing expenses incurred, the net proceeds from the global offering received by the Company amounted to approximately HK$330.7 million (equivalent of approximately RMB276.8 million) and the balance of unutilized net proceeds of HK$1.7 million (equivalent of approximately RMB1.4 million) were kept at the bank accounts of the Group as at 31 December 2018.

The net proceeds from the global offering (adjusted on a pro rata basis based on the actual net proceeds) are substantially utilized in accordance with the purposes set out in the section "Future Plans and Use of Proceeds" of the prospectus of our Company dated 5 April 2016. The below table sets out the planned applications of the net proceeds and usage up to 31 December 2018:

| Use of proceeds | Planned applications *(HK$ million)* | % of total net proceeds *(%)* | Actual usage up to 31 December 2018 *(HK$ million)* | Actual usage up to 31 December 2018 *(RMB million)* |
|---|---|---|---|---|
| To repay working capital loans from PRC commercial banks | 150.0 | 45.4 | 150.0 | 126.1 |
| To purchase production machinery and equipment | 71.0 | 21.5 | 71.0 | 59.6 |
| To finance the acquisition of two parcels of industrial lands and the operational buildings erected thereon from Mr. Xu | 48.6 | 14.7 | 48.6 | 40.5 |
| To finance the construction and operation of Workshop No. 4 | 27.3 | 8.2 | 27.3 | 22.7 |
| To upgrade our ERP system | 4.1 | 1.2 | 2.4 | 2.1 |
| For general working capital and other general corporate purposes | 29.7 | 9.0 | 29.7 | 24.5 |
| Total | 330.7 | 100.0 | 329.0 | 275.5 |

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 54 of this annual report and note 37 to the consolidated financial statements, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to Shareholders, comprising share premium and retained profit amounted to approximately RMB481.0 million (2017: RMB487.7 million) calculated in accordance with the Companies Law (as revised) of the Cayman Islands.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or applicable laws of the Cayman Islands where the Company is incorporated.

# DIRECTORS' REPORT

## DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report were:

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

### Non-executive Director:
Mr. Xu Jianhong

### Independent non-executive Directors:
Mr. Goh Choo Hwee
Mr. Tam Yuk Sang Sammy
Mr. Wu Chi Keung

Pursuant to Article 84 of the Articles of Association of the Company, Mr. Luo Canwen, Mr. Chen Chunniu and Mr. Wu Chi Keung shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 9 to 11 of this annual report.

## DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 11 to the consolidated financial statements.

No Director has waiver or has agreed to waive any emoluments and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2018.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years with effect from the Listing Date renewable automatically unless terminated by not less than three months' notice in writing served by either the Director or the Company.

The non-executive Director has entered into a letter of appointment with the Company for an initial term of three years renewable automatically which unless otherwise terminated pursuant to the terms of the appointment is subject to automatic renewal. The appointment shall be subject to normal retirement and re-election at the annual general meeting by Shareholders of the Company pursuant to the Articles of Association.

# DIRECTORS' REPORT

Each of the independent non-executive Directors has entered into a letter of appointment with the Company with effect from the Listing Date subject to retirement by rotation and re-election at annual general meetings of our Company and until terminated by not less than three months' notice in writing served by either the Company or the relevant Director.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## CONFIRMATION FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors the confirmation of their independence pursuant to rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers each of the independent non-executive Directors is independent in accordance with rule 3.13 of the Listing Rules.

## EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2018, the Group did not entered into any equity-linked agreement.

## SHARE OPTION SCHEME

Prior to the Listing, the Company conditionally adopted a share option scheme (the "Scheme") on 23 March 2016 which became effective and unconditional upon the Listing. The purpose of the Scheme is to enable the Company to grant options to the Eligible Persons (as defined below) as incentives or rewards for their contribution or potential contribution to the Group.

Details of the Scheme are as follows:

### a. Purpose

The primary purpose of the Scheme is to grant options as incentives or rewards to Eligible Persons for their contribution or potential contribution to the Group.

### b. Eligible Persons

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (h) below to any full-time or part-time employee of the Company or any member of the Group, including any executive Director, non-executive Director and independent non-executive Director, and any supplier, customer, agent, advisor and consultant of our Group who, in the sole opinion of the Board, will contribute or have contributed to the Group (collectively, the "Eligible Persons").

### c. Total number of Shares available for issue

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not exceed 60,000,000 Shares, representing 10% of the Company's issued share capital upon Listing.

# DIRECTORS' REPORT

The total number of Shares available for issue under the Scheme is 60,000,000 Shares, representing 10% of the Company's issued share capital as at the date of this annual report.

Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may: (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Persons specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditor of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

## d. Maximum entitlement for each Eligible Person

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Person in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company which shall comply with Rules 17.03(4) and 17.06 of the Listing Rules containing the identity of the Eligible Person, the numbers and terms of the options to be granted (and options previously granted to such person, if any) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Person and his/her associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such person must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Person shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Person an offer document in such form as the Board may from time to time determine.

## e. Time of exercise of option

Options may be exercised at any time commencing on the date as the Board may determine and ending on such date as the Board may determine but shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted). The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of adoption of the Scheme.

# DIRECTORS' REPORT

### f. Minimum holding period of the option before it can be exercised

The Scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised.

### g. Acceptance and payment on acceptance

Offer for the grant of options must be accepted within 28 days from the offer date. Consideration of HK$1 is required to be paid by the grantee of an option to the Company on acceptance of the offer for the grant of an option.

### h. Exercise price

The exercise price is determined by the Board, and will not be less than the higher of the closing price of the Shares on the date of offer of grant and the average closing price of the shares for the five business days immediately preceding the date of offer of grant.

### i. Remaining life of the Scheme

Subject to earlier termination by the Company in general meeting, the Scheme shall be valid and effective for a period of ten years from the date of its adoption and will expire on 22 March 2026.

### j. Details of any options granted

No option was granted, exercised, cancelled or lapsed under the Scheme since the date of adoption of the Scheme and there was no outstanding share option as at 31 December 2018.

## MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2018.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Directors of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto. The Company has maintained Directors and officers liabilities insurance and such provisions were in force during the year ended 31 December 2018 and remained in force as of the date of this report.

# DIRECTORS' REPORT

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company and their associates in the Shares and underlying Shares of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

### Long positions in Shares of the Company

| Name of Directors | Nature of interest | Number of Shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Xu Songqing ("Mr. Xu") | Interest held jointly with another person[1]<br>Interest of controlled corporation[2][3] | 450,000,000 | 75.00% |
| Mr. Luo Canwen ("Mr. Luo") | Interest held jointly with another person[1]<br>Interest of controlled corporation[2][3] | 450,000,000 | 75.00% |

*Notes:*

1. On 4 January 2016, Mr. Xu and Mr. Luo entered into the acting in concert agreement, pursuant to which, among other things, Mr. Xu and Mr. Luo acknowledged and confirmed that they, as ultimate shareholders of the Company, have been parties acting in concert throughout the period and up to the date thereof and will continue to act in concert thereafter. As such, our ultimate controlling shareholders together control 75.00% interest in the share capital of the Company through Intrend Ventures, Zhong Cheng and Haiyi (as defined below). As a result, each of our ultimate controlling shareholders and their respective holding company is deemed to be interested in such 75.00% interest in the share capital of the Company. On 30 August 2017, 391,500,000 Shares beneficially owned by Haiyi were pledged to Big Thrive (as defined below).

2. The entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu and the entire issued share capital of Zhong Cheng is legally and beneficially owned by Mr. Luo. Haiyi is legally owned as to 87.00% by Intrend Ventures and 12.00% by Zhong Cheng. Intrend Ventures and Zhong Cheng are taken to be interested in all the Shares held by Haiyi for the purposes of the SFO.

3. As disclosed in the announcement of the Company dated 30 August 2017, Haiyi has pledged an aggregate of 391,500,000 Shares (representing 65.25% of the issued share capital of the Company) in favour of Big Thrive as security for an extendable senior secured bonds with the principal amount of HK$450,000,000 issued by Intrend Ventures. Based on the disclosure of interests' records on the Disclosure of Interests Online System of the Stock Exchange, Big Thrive is an indirect wholly-owned subsidiary of Huarong Investment Stock (as defined below), which is an indirect subsidiary of China Huarong Asset (as defined below).

4. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2018.

# DIRECTORS' REPORT

### Long positions in the shares of associated corporations of the Company

| Name of Directors | Name of associated corporation | Nature of interest | Number of shares held | Percentage of the issued share capital of the associated corporation |
|---|---|---|---|---|
| Mr. Xu | Haiyi | Interest of controlled corporation | 870 | 87.00% |
| Mr. Luo | Haiyi | Interest of controlled corporation | 120 | 12.00% |

*Note:*

Haiyi is legally owned as to 87.00% by Intrend Ventures and 12.00% by Zhong Cheng. The entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu and the entire issued share capital of Zhong Cheng is legally and beneficially owned by Mr. Luo.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the Shares or underlying Shares of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2018, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) who/which had interests and/or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were:

# DIRECTORS' REPORT

### Long positions in Shares of the Company

| Name of shareholders | Nature of interest | Number of Shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Haiyi Limited ("Haiyi") | Beneficial owner(1)(3) | 450,000,000 | 75.00% |
| Intrend Ventures Limited ("Intrend Ventures") | Interest held jointly with another person(1)<br>Interest of controlled corporation(2)(3) | 450,000,000 | 75.00% |
| Zhong Cheng International Limited ("Zhong Cheng") | Interest held jointly with another person(1)<br>Interest of controlled corporation(2)(3) | 450,000,000 | 75.00% |
| Big Thrive Limited ("Big Thrive") | Security interest(3) | 391,500,000 | 65.25% |
| Huarong Investment Stock Corporation Limited ("Huarong Investment Stock") | Interest of controlled corporation(3) | 391,500,000 | 65.25% |
| Right Select International Limited ("Right Select") | Interest of controlled corporation(3) | 391,500,000 | 65.25% |
| China Huarong International Holdings Limited ("China Huarong International") | Interest of controlled corporation(3) | 391,500,000 | 65.25% |
| China Huarong Asset Management Co., Ltd. ("China Huarong Asset") | Interest of controlled corporation(3) | 391,500,000 | 65.25% |

*Notes:*

1. On 4 January 2016, Mr. Xu and Mr. Luo entered into the acting in concert agreement, pursuant to which, among other things, Mr. Xu and Mr. Luo acknowledged and confirmed that they, as ultimate shareholders of our Group, have been parties acting in concert throughout the period and up to the date thereof and will continue to act in concert thereafter. As such, our ultimate controlling shareholders together control 75.00% interest in the share capital of the Company through Intrend Ventures, Zhong Cheng and Haiyi. As a result, each of our ultimate controlling shareholders and their respective holding company is deemed to be interested in such 75.00% interest in the share capital of the Company. On 30 August 2017, 391,500,000 Shares beneficially owned by Haiyi were pledged to Big Thrive.

2. The entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu and the entire issued share capital of Zhong Cheng is legally and beneficially owned by Mr. Luo. Haiyi is legally owned as to 87.00% by Intrend Ventures and 12.00% by Zhong Cheng. Intrend Ventures and Zhong Cheng are taken to be interested in all the Shares held by Haiyi for the purposes of the SFO.

3. As disclosed in the announcement of the Company dated 30 August 2017, Haiyi has pledged an aggregate of 391,500,000 Shares (representing 65.25% of the issued share capital of the Company) in favour of Big Thrive as security for an extendable senior secured bonds with the principal amount of HK$450,000,000 issued by Intrend Ventures. Based on the disclosure of interests' records on the Disclosure of Interests Online System of the Stock Exchange, Big Thrive is an indirect wholly-owned subsidiary of Huarong Investment Stock. Huarong Investment Stock is owned as to approximately 50.99% by Right Select, which is in turn wholly owned by China Huarong International. China Huarong International is an indirect wholly-owned subsidiary of China Huarong Asset. Each of Huarong Investment Stock, Right Select, China Huarong International, and China Huarong Asset is deemed to be interested in all the interests held by Big Thrive.

4. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2018.

# DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any person nor corporation (other than Directors or the chief executive of the Company) who/which had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Details of the connected/continuing connected transactions and material related party transactions are set out in this report and note 33 to the consolidated financial statements.

Save for the above, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any its subsidiaries was a party and in which a Director of the Company or his connected entity had, directly or indirectly, a material interest subsisted at any time during the year or at the end of the financial year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 was the Company, its holding company, or any of its subsidiaries or associated corporations, a party to any arrangement which enables the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Company, none of the Directors and Controlling Shareholders of the Company (as defined under the Listing Rules) nor their respective associates were interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the year ended 31 December 2018 and up to the date of this annual report.

## NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders, namely Haiyi, Intrend Ventures, Zhong Cheng, Mr. Xu and Mr. Luo, has provided written confirmation (the "Confirmation") to the Company that, for the year ended 31 December 2018, each of the Controlling Shareholders has complied with the non-competition undertakings (the "Undertakings") given under the Deed of Non-competition.

Details of the Deed of Non-competition are set out in the paragraph headed "Relationship with our Controlling Shareholders — Non-competition undertakings" in the Prospectus.

# DIRECTORS' REPORT

Upon receiving the Confirmation, the independent non-executive Directors of the Company had reviewed the same as part of the annual examination. In determining whether the Controlling Shareholders had fully complied with the Undertakings, the independent non-executive Directors noted that (a) the Controlling Shareholders declared that they had fully complied with the Undertakings; (b) no new competing business was reported by the Controlling Shareholders for the year ended 31 December 2018; and (c) there was no particular situation rendering the full compliance of the Undertakings being questionable. In view of the above, the independent non-executive Directors confirmed that the Controlling Shareholders had fully complied with the Deed of Non-competition for the year ended 31 December 2018.

## RELATED PARTY TRANSACTIONS

Details of material related party transactions of the Group undertaken in the normal course of business are set out in note 33 to the consolidated financial statements. During the year ended 31 December 2018, certain related party transactions set out in note 33 to the consolidated financial statements are regarded as connected transactions or continuing connected transactions of the Group. Save for those as disclosed below, none of which is required to be disclosed under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had the following continuing connected transactions:

As disclosed in the Prospectus, on 4 January 2016, a lease agreement (the "Lease Agreement A") was entered into between Jiangmen Huazhi, as the landlord, and Jiangmen Huamu, as the tenant, in respect of the warehouses built on a parcel of land situated at Dawei, Niugutian Village Committee, Muzhou Town, Xinhui District, Jiangmen, Guangdong Province, the PRC (中國廣東省江門市新會區睦洲鎮牛古田村民委員會大圍) (the "Warehouses") with an aggregate gross floor area of approximately 5,375 square metres. Under the Lease Agreement A, Jiangmen Huazhi would lease the Warehouses to Jiangmen Huamu for an initial term commencing from the Listing Date to 31 December 2018, at an aggregate monthly rent of RMB28,000, exclusive of water, electricity and gas charges which are payable by the tenant. We have the right to renew the Lease Agreement A, for consecutive terms of three years at our own discretion upon serving Jiangmen Huazhi three months' written notice, prior to the expiration of the Lease Agreement A. The monthly rent of the Warehouses for the initial term of the lease was determined after arm's length negotiation between the parties with reference to the market rent of the Warehouses as assessed by Greater China Appraisal Limited, an independent property valuer. The lease agreement was renewed in the same terms on 31 December 2018. Jiangmen Huazhi is owed as to 60% by Mr. Xu and 40% by Mr. Chen. As Mr. Xu is an executive Director and one of our Controlling Shareholders and Mr. Chen is an executive Director, Jiangmen Huazhi is a connected person pursuant to the Listing Rules.

On 1 July 2016, a lease agreement (the "Lease Agreement B") was entered into between Hua Jin Holdings, as the landlord, and the Group, as the tenant, in respect of a office in Singapore at a monthly rental of S$5,000 for a term commencing from 1 July 2016 to 30 July 2019. Mr. Xu holds the entire equity interest of Hua Jin Holdings and is a director of Hua Jin Holdings. As Mr. Xu is an executive Director and one of our Controlling Shareholders, Hua Jin Holdings is a connected person pursuant to the Listing Rules. The monthly rent of the lease was determined after arm's length negotiation between the parties with reference to the market rent of the office as assessed by an independent property consultant.

# DIRECTORS' REPORT

As the relevant applicable percentage ratios (other than the profits ratio) with respect to the transaction contemplated under each of the Lease Agreement A and the Lease Agreement B on an annual basis are less than 5% and the total consideration is less than HK$3 million, pursuant to Rule 14A.76(1) of the Listing Rules, such transactions constitute de minimis continuing connected transactions which are fully exempt from the relevant reporting, announcement and Shareholders' approval requirements.

The above continuing connected transactions have been reviewed by our independent non-executive Directors 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; and

(3) in accordance with the agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

The Company confirms that it has compiled with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above continuing connected transactions.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had the following connected transactions:

On 7 September 2017, the Group entered into a loan agreement (as amended by the supplement agreement dated 21 November 2017) with Mr. Xu whereby Mr. Xu agreed to provide an unsecured and interest-free loan up to the amount of HKD60 million which is repayable on demand for the purpose of general working capital to the Group. On 23 January 2018, the Group entered into two loan agreements with Mr. Xu whereby Mr. Xu agreed to provide unsecured loans in an amount of HKD40 million and USD3 million respectively to the Group for a term of three years at the interest rate of 1.00% per annum. The financial assistance from Mr. Xu was utilized by the Group as its general working capital. The entire amounts of the two loans and the relevant interests had been repaid to Mr. Xu during the reporting period under review.

The Company confirms that it has compiled with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

## TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" on pages 12 to 21 of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Our PRC subsidiaries are subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). Our production process generates noise, liquid waste, industrial waste water and metropolitan waste water. We consider protection of the environment to be important and have implemented measures such as neutralising the waste water before disposal and recycling of the waste water. Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. During the reporting period under review, we did not receive any complaint from our customers or any other parties in respect of any environmental protection issues, and we have not experienced any material environmental incidents arising from our production activities. During the reporting period under review, no material administrative sanctions or penalties were imposed upon us for the violation of environmental laws or regulations which had an adverse impact on our operations. Our PRC subsidiaries have obtained the environmental permit necessary to conduct our business and have complied with the relevant environmental laws and regulations in the PRC in all material respects.

As required by the Listing Rules, the Company is required to report on environmental, social and governance ("ESG") information ("ESG Information") on an annual basis and regarding the same period covered in this annual report. The Company will publish the ESG report on the websites of the Company and the Stock Exchange in due course.

## COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company is listed on the main board of the Stock Exchange. The Group accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong and the respective places of incorporation of the Company and its subsidiaries.

During the reporting period and up to the date of this annual report, the Board was unaware of any non-compliance with relevant laws and regulations that have a significant impact on the business and operations of the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

# DIRECTORS' REPORT

## AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu, who will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution to re-appoint Deloitte Touche Tohmatsu and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board
**Xu Songqing**
*Chairman*

Hong Kong, 28 March 2019

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Huajin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 107, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 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 are independent of the Group in accordance with HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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.

# INDEPENDENT AUDITOR'S REPORT

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Provision for inventories*** | |
| We identified the provision for inventories as a key audit matter because of its significance to the consolidated financial statements and high degrees of management judgement involved in determining whether the carrying amount of the inventories are recoverable based on the latest invoice prices, current market conditions and estimates for costs of completion and costs necessary to make the sale for the products.<br><br>As disclosed in note 5 to the consolidated financial statements, carrying amount of the Group's inventories as at 31 December 2018 amounted to RMB234,565,000. No provision for inventories has been recognised as at 31 December 2018.<br><br>As set out in note 5 to the consolidated financial statements, management of the Group reviewed the net realisable values of the inventories at the end of the reporting periods to determine any provision is required to write off or write down inventories to their net realisable values, based primarily on the latest invoice prices and current market conditions, less the estimates for costs of completion and costs necessary to make the sale for the products (if any). | Our procedures in relation to assessing the appropriateness of the provision of inventories included:<br><br>• Understanding the design and implementation of management's assessment in estimating the net realisable values of the inventories.<br><br>• Assessing the accuracy of management's estimates of the net realisable values of the inventories by comparing the latest invoice prices of the inventories, and management's estimates for costs of completion and costs necessary to make the sale for the products.<br><br>• Evaluating, according to the products' stages of completion, the reasonableness of management's estimates for costs of completion and costs necessary to make the sale for the products subsequent to the end of the reporting period, and tracing to the source documents.<br><br>• Tracing, on a sample basis, latest invoice prices of the inventories to the relevant sale invoices and contracts.<br><br>• Evaluating the historical accuracy of the provision assessment of management by comparing the historical estimates to actual selling prices, and costs of completion and costs necessary to make the sale for the products in current year, and tracing, on a sample basis, to the source documents. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 skepticism 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 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.

# INDEPENDENT AUDITOR'S REPORT

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Mr. Chung Chi Man.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

28 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **2,909,265** | 2,863,465 |
| Cost of sales | | **(2,764,586)** | (2,651,159) |
| Gross profit | | **144,679** | 212,306 |
| Other income, other gains and losses | 7 | **6,227** | 9,722 |
| Selling expenses | | **(31,788)** | (46,228) |
| Administrative expenses | | **(38,651)** | (37,042) |
| Profit before investment income and gain, net finance costs and taxation | | **80,467** | 138,758 |
| Investment (loss) gain | | **(27,297)** | 9,353 |
| Finance income | 8 | **1,420** | 2,015 |
| Finance costs | 8 | **(45,327)** | (41,732) |
| Finance costs, net | 8 | **(43,907)** | (39,717) |
| Profit before taxation | | **9,263** | 108,394 |
| Income tax expense | 9 | **(2,968)** | (15,989) |
| Profit for the year | 10 | **6,295** | 92,405 |
| Other comprehensive expense for the year | | | |
| — exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss | | **(2,751)** | (2,822) |
| Total comprehensive income for the year | | **3,544** | 89,583 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **6,412** | 92,635 |
| Non-controlling interests | | **(117)** | (230) |
| | | **6,295** | 92,405 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **3,661** | 89,813 |
| Non-controlling interests | | **(117)** | (230) |
| | | **3,544** | 89,583 |
| Earnings per share for profit attributable to owners of the Company, | | | |
| — Basic (RMB cents) | 13 | **1.07** | 15.44 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 618,733 | 487,234 |
| Prepaid lease payments | 15 | 189,533 | 82,782 |
| Deposits paid for acquisition of property, plant and equipment and land use rights | | 47,596 | 33,054 |
| Deferred tax assets | 26 | 6,188 | 4,208 |
| | | 862,050 | 607,278 |
| CURRENT ASSETS | | | |
| Prepaid lease payments | 15 | 4,375 | 2,116 |
| Inventories | 16 | 234,565 | 309,938 |
| Trade, bills and other receivables | 17 | 459,027 | 707,689 |
| Derivative financial instruments at fair value through profit or loss | 18 | – | 11,490 |
| Tax recoverable | | 5,179 | 1,650 |
| Restricted bank deposits | 19 | 123,944 | 98,365 |
| Bank balances and cash | 20 | 72,465 | 127,955 |
| | | 899,555 | 1,259,203 |
| CURRENT LIABILITIES | | | |
| Trade, bills and other payables and accrued expenses | 21 | 202,026 | 228,871 |
| Contract liabilities | 22 | 66,589 | – |
| Tax payables | | – | 1,738 |
| Amounts due to related parties | 23 | 34,047 | 52,471 |
| Borrowings — due within one year | 24 | 831,091 | 895,242 |
| | | 1,133,753 | 1,178,322 |
| NET CURRENT (LIABILITIES) ASSETS | | (234,198) | 80,881 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 627,852 | 688,159 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings — due more than one year | 24 | 17,147 | 62,750 |
| Deferred income | 25 | 24,750 | 28,050 |
| Deferred tax liabilities | 26 | – | 753 |
| | | 41,897 | 91,553 |
| NET ASSETS | | 585,955 | 596,606 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| CAPITAL AND RESERVES | | | |
| Share capital | 27 | 4,999 | 4,999 |
| Share premium and reserves | | 580,956 | 582,237 |
| Equity attributable to owners of the Company | | 585,955 | 587,236 |
| Non-controlling interests | | – | 9,370 |
| TOTAL EQUITY | | 585,955 | 596,606 |

The consolidated financial statements on pages 51 to 107 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

**Mr. Xu Songqing**
*Director*

**Mr. Luo Canwen**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 27) | Share premium RMB'000 | Statutory reserve RMB'000 (Note i) | Capital reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2017 | 4,999 | 282,623 | 29,287 | 58,696 | 561 | 157,126 | 533,292 | 4,000 | 537,292 |
| Profit (loss) for the year | – | – | – | – | – | 92,635 | 92,635 | (230) | 92,405 |
| Other comprehensive expense for the year | – | – | – | – | (2,822) | – | (2,822) | – | (2,822) |
| Total comprehensive (expense) income for the year | – | – | – | – | (2,822) | 92,635 | 89,813 | (230) | 89,583 |
| Transfer | – | – | 8,833 | – | – | (8,833) | – | – | – |
| Capital contributed by non-controlling interests of a subsidiary | – | – | – | – | – | – | – | 5,600 | 5,600 |
| Dividend recognized as distribution *(note 12)* | – | (18,194) | – | – | – | (17,675) | (35,869) | – | (35,869) |
| At 31 December 2017 | 4,999 | 264,429 | 38,120 | 58,696 | (2,261) | 223,253 | 587,236 | 9,370 | 596,606 |
| Profit (loss) for the year | – | – | – | – | – | 6,412 | 6,412 | (117) | 6,295 |
| Other comprehensive expense for the year | – | – | – | – | (2,751) | – | (2,751) | – | (2,751) |
| Total comprehensive (expense) income for the year | – | – | – | – | (2,751) | 6,412 | 3,661 | (117) | 3,544 |
| Acquisition of additional interest in a subsidiary *(Note ii)* | – | – | – | (885) | – | – | (885) | (9,253) | (10,138) |
| Transfer | – | – | 3,033 | – | – | (3,033) | – | – | – |
| Dividend recognized as distribution *(note 12)* | – | (10,086) | – | – | – | – | (10,086) | – | (10,086) |
| Deemed contribution from a shareholder *(Note iii)* | – | – | – | 6,029 | – | – | 6,029 | – | 6,029 |
| At 31 December 2018 | 4,999 | 254,343 | 41,153 | 63,840 | (5,012) | 226,632 | 585,955 | – | 585,955 |

*Notes:*

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

(ii) During the year ended 31 December 2018, the Group acquired the remaining 40% of the equity interest in its subsidiary, Jiangmen Jinyuan Metals Company ("Jiangmen Jinyuan"), from non-controlling shareholders at a consideration of RMB 10,138,000, and the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration to be paid by the Group of RMB 885,000 is recognised in capital reserve. Upon the completion of the acquisition, Jiangmen Jinyuan became a wholly owned subsidiary of the Group.

(iii) Pursuant to the request made by the Jiangmen Municipal Office, State Administration of Taxation, and Jiangmen Municipal Local Taxation Bureau to major entities in Xinhui District, Jiangmen, in 2017, Jiangmen Huamu Metals Company Limited ("Jiangmen Huamu"), the Company's PRC subsidiary, was required to conduct self–inspection of tax obligations for previous financial years. Jiangmen Huamu submitted the self–inspection report to the relevant tax authorities in 2017. Based on the self–inspection report, it was assessed that Jiangmen Huamu had to settle tax liabilities of RMB5,642,000 which had been borne and indemnified by Mr. Xu Songqing ("Mr. Xu") in 2018. Such amount is therefore accounted for as deemed contribution from a shareholder. During the current year, Mr. Xu provided unsecured loans totalling to RMB53,360,000 to the Group at an interest rate lower than that in the market. The difference between market interest and that in the loan agreements is amounted to RMB 387,000. Such amount is also accounted for as deemed contribution from a shareholder.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | 9,263 | 108,394 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 49,648 | 56,830 |
| Amortisation of prepaid lease payments | 3,029 | 1,854 |
| Loss on disposal of property, plant and equipment | 14 | 321 |
| Interest income | (1,420) | (2,015) |
| Interest expense | 45,327 | 41,732 |
| Release of deferred income | (3,300) | (3,300) |
| Investment loss (gain) on derivative financial instruments | 27,297 | (9,347) |
| Operating cash flows before movements in working capital | 129,858 | 194,469 |
| Decrease (increase) in inventories | 75,372 | (114,723) |
| Decrease (increase) in trade, bills and other receivables | 237,236 | (215,480) |
| Increase in trade, bills and other payables and accrued expenses | 42,606 | 73,964 |
| Increase in contract liabilities | 8,797 | – |
| Cash generated from (used in) operations | 493,869 | (61,770) |
| Income tax paid | (10,967) | (13,538) |
| NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES | 482,902 | (75,308) |
| INVESTING ACTIVITIES | | |
| Placement of restricted bank deposits | (230,684) | (173,144) |
| Deposit paid for and purchase of property, plant and equipment and land use rights | (232,525) | (160,669) |
| Purchase of derivative financial instruments at fair value through profit or loss | (112,402) | (155,837) |
| Purchase of prepaid lease payments | (91,044) | (22,075) |
| Withdrawal of restricted bank deposits | 205,105 | 142,349 |
| Settlements of derivative financial instruments at fair value through profit or loss | 98,768 | 146,030 |
| Repayment from related parties | 11,016 | – |
| Interest received | 1,420 | 2,015 |
| Loan to an independent third party | – | (26,038) |
| Repayment of loan from an independent third party | – | 26,038 |
| Proceeds from disposal of property, plant and equipment | – | 5,836 |
| NET CASH USED IN INVESTING ACTIVITIES | (350,346) | (215,495) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | **2018** <br> ***RMB'000*** | 2017 <br> *RMB'000* |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Repayment of borrowings | **(1,840,253)** | (1,426,613) |
| Repayment to a related party | **(68,970)** | – |
| Interest paid | **(52,345)** | (43,768) |
| Dividend paid | **(10,086)** | (35,869) |
| New borrowings raised | **1,730,499** | 1,750,527 |
| Advance from a related party | **53,360** | 50,155 |
| Capital contributed by non-controlling interests of a subsidiary | **–** | 5,600 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(187,795)** | 300,032 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(55,239)** | 9,229 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **127,955** | 119,328 |
| EFFECTS OF EXCHANGE RATE CHANGES | **(251)** | (602) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **72,465** | 127,955 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL

Huajin International Holdings Limited (the "Company", together with its subsidiaries, the "Group") is a public limited company incorporated in the Cayman Islands as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Haiyi Limited, a company incorporated in the British Virgin Islands and ultimately controlled by two individuals, namely Mr. Xu Songqing ("Mr. Xu") and Mr. Luo Canwen ("Mr. Luo") who have been acting in concert.

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries are set out in note 38. The addresses of the Company's registered office and principal place of business are disclosed in the section "Corporate Information" of this annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

In preparing the consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by RMB234,198,000 as at 31 December 2018.

In the opinion of the directors of the Company, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration that the available bank facilities from various banks for the operation requirements of the Group based on the past history of renewal of such facilities and the working capital estimated to be generated from operating activities. As at 31 December 2018, the Group had total financing facilities relating to borrowings amounted to approximately RMB 958,490,000, of which approximately RMB798,786,000 had been utilised, and the unutilised financing facilities amounted to RMB159,704,000.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year.

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years or on the disclosures set out in these consolidated financial statements.

***HKFRS 15 Revenue from Contracts with Customers***

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

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

The Group recognises revenue from the following major sources:

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

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

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

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

***HKFRS 15 Revenue from Contracts with Customers*** *(Continued)*

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the Group's consolidated statement of cash flows for the year ended 31 December 2018. Line items that were not affected by the changes have not been included.

| | As report<br>*RMB'000* | Reclassification<br>*RMB'000* | Amounts without application of HKFRS 15<br>*RMB'000* |
|---|---|---|---|
| **Current liabilities** | | | |
| Receipts in advance from customers (included in trade, bills and other payables and accrued expense) | – | 66,589 | 66,589 |
| Contract liabilities | 66,589 | (66,589) | – |
| | | | |
| **Operating Activities** | | | |
| Increase in trade, bills and other payables accrued expense | 42,606 | 8,797 | 51,403 |
| Increase in contract liabilities | 8,797 | (8,797) | – |

The directors of the Company assessed that the application of HKFRS 15 have no material impact on the timing and amounts of revenue recognised and had no impact on the Group's consolidated statement of profit or loss and other comprehensive income for the current year.

***HKFRS 9 Financial Instruments and the related amendments***

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

***HKFRS 9 Financial Instruments and the related amendments*** *(Continued)*

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4. There is no material impacts on adoption of HKFRS 9 in ECL and Classification and measurements on the Group's financial assets.

### New and revised HKFRSs in issue but not yet effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) -Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 1 and HKAS 8 | Definition of a Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for as mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

***HKFRS 16 Leases***

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### New and revised HKFRSs in issue but not yet effective *(Continued)*

***HKFRS 16 Leases*** *(Continued)*

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operation lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB6,185,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of RMB100,000 (included in trade, bills and other receivables) under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services rendered.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect the returns of the investee.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

Consolidation of a subsidiary begins with the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

***Changes in the Group's interests in existing subsidiaries***

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

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

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

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

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

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

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

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

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognised when the goods are delivered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

***Leasehold land and building***

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefit costs

Payments to the retirement contribution scheme including Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, and leave and sick leave) after deducting any account already paid.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life if the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

***Financial assets***

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)*

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

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

The Group always recognises lifetime ECL for trade and bills receivables without significant financing component. The ECL on these assets are assessed collectively with similar credit risk characteristics based primarily on the debtors' aging profiles.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Significant increase in credit risk*

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped by considering the following factors:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, trade, bills and other receivables, restricted bank deposits and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets(before application of HKFRS 9 on 1 January 2018)*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Derecognition of financial assets*

The Group derecognised a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises the collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

*Classification as debt or equity*

Debt and equity instruments issued by the Group are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities at amortised cost*

Financial liabilities, including trade, bills and other payables, amounts due to related parties and borrowings, are subsequently measured at amortised cost, using the effective interest method.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Inventories

Inventories are stated at the lower of costs and net realisable value. Costs of inventories are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

### Impairment losses on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash- generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimates of provision for inventories

The management of the Group considers, whilst the contracted selling prices of the Group's cold-rolled steel products and galvanized steel products are negotiated according to the market conditions with reference to its costs of inventories, the trends of the market prices of steels are out of the control of the Group and thus imposed pressures to the net realisable values of its inventories. The management of the Group reviews the net realisable values of the inventories at the end of the reporting period based primarily on the latest invoice prices and current market conditions, less the estimates costs of completion and costs to make the sale for the products (if any), to determine if any provision to write off or write down inventories to their net realisable values is necessary. Where the actual net realisable values of the inventories are less than expected, a material provision may arise. As at 31 December 2018, the inventories amounted to RMB234,565,000 (2017: RMB309,938,000). No provision for inventories has been recognised as at 31 December 2018 and 2017.

## 6. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being Mr. Xu and Mr. Luo (the "CODM"), in order to allocate resources to segments and to assess their performance. During the years ended 31 December 2018 and 2017, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the production and sales of its steel products and the residuals. Therefore, the management considers that the Group has one operating segment only. The Group mainly operates in the PRC and the Group's non-current assets are also mainly located in the PRC.

The CODM reviews the overall results and financial position of the Group as a whole based on the same accounting policies set out in note 4 and no further segment information is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

The Group's sales of steel products and the residuals is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific locations (delivery) or when the goods are collected by customers at the Group's production plants at their Choice. The payment terms and credit terms (if any) are set out in note 17. The Group's product warranty typically requires it to produce products free from defects in material and workmanship and in conformity with specifications of the customers. If the Group fails to meet the product requirements, its customers may return such non-conforming products within 15 days and the Group shall repair or replace such products free of charge.

A disaggregation of revenue from contracts with customers by types of goods is as follow:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of cold-rolled steel products | | |
| — cold-rolled steel strips and sheets | **2,068,096** | 2,034,582 |
| — welded steel tubes | **185,623** | 169,233 |
| Sales of galvanized steel products | **436,769** | 546,386 |
| Sales of scrap steels residual in the manufacturing process | **218,777** | 113,264 |
| | **2,909,265** | 2,863,465 |

For the year ended 31 December 2018, all revenue of the Group are recognised at a point in time.

All product are delivered within period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC | **2,902,258** | 2,810,691 |
| Southeast Asia | **7,007** | 52,774 |
| | **2,909,265** | 2,863,465 |

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the year ended 31 December 2018 (2017: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 7. OTHER INCOME, OTHER GAINS AND LOSSES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Government grants *(Notes i and ii)* | **7,261** | 10,995 |
| Net foreign exchange (loss) gains | **(2,897)** | 190 |
| Others | **1,863** | (1,463) |
| | **6,227** | 9,722 |

*Notes:*

(i) Incentives received from the PRC local authorities by the Group as encouragement of its business development amounting to RMB3,961,000 (2017: RMB7,695,000) are recognised in the profit or loss for the year ended 31 December 2018 for the purpose of giving immediate financial support to the Group with no future related costs expected to be incurred nor related to any assets.

(ii) Grants amounting to RMB33,000,000 were recorded as a deferred income in prior year, of which RMB3,300,000 (2017: RMB3,300,000) has been recognised in the profit or loss for the year ended 31 December 2018.

## 8. FINANCE INCOME AND COSTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest income from: | | |
| — bank deposits | **1,420** | 1,383 |
| — an independent third party *(Note i)* | **–** | 632 |
| | **1,420** | 2,015 |
| Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB7,405,000 (2017: RMB2,036,000) *(Note ii)* | **(44,583)** | (41,732) |
| Interest expense on advances from Mr. Xu | **(744)** | – |
| | **(45,327)** | (41,732) |
| Finance costs, net | **(43,907)** | (39,717) |

*Notes:*

(i) The amount represented the interest income arising from a loan to an independent third party of RMB26,038,000 during the year ended 31 December 2017 which was unsecured and interest-bearing at fixed interest rate of 12% per annum. The entire amount of loan had been settled during the year ended 31 December 2017.

(ii) Bank borrowing costs capitalised during the year ended 31 December 2018 arose on the borrowing pool and are calculated by applying a comprehensive capitalisation rate of 5.4% (2017: 5.4%) per annum to expenditure on qualifying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 9. INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax charge: | | |
| — PRC Enterprise Income Tax ("EIT") | **2,508** | 18,266 |
| — PRC withholding income tax | **2,660** | 1,001 |
| — Hong Kong Profits Tax | **23** | 177 |
| | **5,191** | 19,444 |
| Under provision in prior years: | | |
| — PRC EIT | **10** | – |
| Deferred tax credit *(note 26)* | **(2,233)** | (3,455) |
| Income tax expense for the year | **2,968** | 15,989 |

The taxation for this year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **9,263** | 108,394 |
| Tax at the EIT rate of 25% (2017: 25%) | **2,316** | 27,099 |
| Tax effect of expenses not deductible for tax purpose | **236** | 530 |
| Tax effect of tax losses not recognised | **3,348** | – |
| Increase in opening deferred tax asset resulting from increase in applicable tax rate | **(2,475)** | – |
| Under provision in prior years | **10** | – |
| Withholding tax on earnings of subsidiaries | **2,660** | 1,501 |
| Income tax at concessionary rate | **(3,127)** | (13,141) |
| Income tax expense for the year | **2,968** | 15,989 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 9. INCOME TAX EXPENSE *(Continued)*

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

10% withholding income tax is generally imposed on dividends declared in respect of profits earned by the Group's PRC subsidiaries to the subsidiary incorporated in Hong Kong, which entitles a reduced withholding income tax rate of 5% according to the PRC tax regulations when it is qualified as a Hong Kong tax resident.

## 10. PROFIT FOR THE YEAR

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' remuneration | | |
| — fee | 602 | 519 |
| — other emoluments, salaries, allowances and other benefits | 717 | 738 |
| — retirement benefit scheme contributions | 27 | 29 |
| | 1,346 | 1,286 |
| Other staff salaries, allowances and other benefits | 75,196 | 87,293 |
| Retirement benefit scheme contributions, excluding those of directors | 9,047 | 10,192 |
| Total employee benefits expenses | 85,589 | 98,771 |
| Auditor's remuneration | | |
| — audit services | 1,631 | 1,449 |
| — non-audit services | 656 | 608 |
| Depreciation of property, plant and equipment | 49,648 | 56,830 |
| Amortisation of prepaid lease payments | 3,029 | 1,854 |
| Loss on disposal of property, plant and equipment | 14 | 321 |
| Fair value gain of derivative financial instruments at fair value through profit or loss (included in investment (loss) gain) | – | (1,683) |
| Net realised loss (gain) on the derivative financial instruments at fair value through profit or loss (included in investment (loss) gain) | 27,297 | (7,664) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

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

Details of the emoluments paid or payable by entities now comprising the Group to the directors and the chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) during the years ended 31 December 2018 and 2017 are as follows:

*For the year ended 31 December 2018*

| Name of directors | Fee<br>*RMB'000* | Salaries, allowances and other benefits<br>*RMB'000* | Retirement benefit scheme contributions<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| Executive directors: | | | | |
| Mr. Xu | – | 84 | 9 | 93 |
| Mr. Luo *(Note i)* | – | 211 | 9 | 220 |
| Mr. Chen Chunniu ("Mr. Chen") | – | 211 | 9 | 220 |
| Mr. Xu Songman | – | 211 | – | 211 |
| Non-executive director: | | | | |
| Mr. Xu Jianhong *(Note ii)* | 95 | – | – | 95 |
| Independent non-executive directors: | | | | |
| Mr. Goh Choo Hwee | 169 | – | – | 169 |
| Mr. Tam Yuk Sang Sammy | 169 | – | – | 169 |
| Mr. Wu Chi Keung | 169 | – | – | 169 |
| | 602 | 717 | 27 | 1346 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' and chief executive's emoluments *(Continued)*

*For the year ended 31 December 2017*

| Name of directors | Fee | Salaries, allowances and other benefits | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Executive directors: | | | | |
| Mr. Xu | – | 87 | 9 | 96 |
| Mr. Luo *(Note i)* | – | 217 | 10 | 227 |
| Mr. Chen | – | 217 | 10 | 227 |
| Mr. Xu Songman | – | 217 | – | 217 |
| Non-executive director: | | | | |
| Mr. Xu Jianhong *(Note ii)* | – | – | – | – |
| Independent non-executive directors: | | | | |
| Mr. Goh Choo Hwee | 173 | – | – | 173 |
| Mr. Tam Yuk Sang Sammy | 173 | – | – | 173 |
| Mr. Wu Chi Keung | 173 | – | – | 173 |
| | 519 | 738 | 29 | 1,286 |

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emolument shown above was for his services as director of the Company.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

*Notes:*

(i) Mr. Luo is also the chief executive of the Group and his emoluments disclosed above included those for services rendered by him as the chief executive.

(ii) Being appointed as a non-executive director of the Company on 21 November 2017.

(iii) The emoluments for each of the director for both years fell in the band of nil to HK$1,000,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (b) Emoluments of senior management:

Of the 11 (2017: 12) senior management of the Company for the year ended 31 December 2018, 8 (2017: 8) of them are directors of the Company and their remuneration has been disclosed in note 11(a) above. The total emoluments of the remaining 3 (2017: 4) senior management are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits | 1,446 | 2,037 |
| Retirement benefit scheme contributions | 24 | 34 |
| | 1,470 | 2,071 |

The emoluments fell within the following bands:

| | Number of senior management | |
|---|---|---|
| | 2018 | 2017 |
| Nil to HK$1,000,000 | 2 | 3 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |
| | 3 | 4 |

### (c) Five highest paid individuals

The five highest paid individuals of the Group include no (2017: nil) directors of the Company and 1 (2017: 4) senior management for the year ended 31 December 2018 whose emoluments have been disclosed in note 11(a) and (b) above. The emoluments of the remaining 4 (2017: 1) individual are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits | 1,241 | 309 |
| Retirement benefit scheme contributions | 125 | 11 |
| | 1,366 | 320 |

The emoluments of the employee above were within the following band:

| | Number of employee | |
|---|---|---|
| | 2018 | 2017 |
| Nil to HK$1,000,000 | 4 | 1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (c) Five highest paid individuals *(Continued)*

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors of the Company, the chief executive of the Group, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

## 12. DIVIDENDS

Dividends recognised as distribution during the year:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| 2017 final dividend of HK2.0 cents (2017: 2016 final dividend of HK3.4 cents) per share | **10,086** | 17,675 |
| 2018 interim dividend of nil (2017: 2017 interim dividend of HK3.5 cents) per share | **–** | 18,194 |
| | **10,086** | 35,869 |

No final dividend for the year ended 31 December 2018 has been proposed since the end of the reporting period.

## 13. EARNINGS PER SHARE

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

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| **Earnings:** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic earnings per share | **6,412** | 92,635 |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands) | **600,000** | 600,000 |

No diluted earnings per share is presented for the year ended 31 December 2018 and 2017 as the Group had no potential ordinary shares in issue during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Building<br>*RMB'000* | Plant and machinery<br>*RMB'000* | Furniture, fixture and equipment<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Leasehold improvement<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2017 | 241,855 | 315,696 | 5,702 | 12,639 | 7,168 | 6,622 | 589,682 |
| Additions | – | 24,229 | 87 | 1,139 | 7,449 | 89,112 | 122,016 |
| Transfer from construction in progress | – | 9,707 | – | – | 2,787 | (12,494) | – |
| Disposals | – | (2,000) | – | (6,321) | – | – | (8,321) |
| Exchange realignment | – | – | (8) | (68) | (6) | – | (82) |
| At 31 December 2017 | 241,855 | 347,632 | 5,781 | 7,389 | 17,398 | 83,240 | 703,295 |
| Additions | – | 14,708 | 424 | 218 | 4,708 | 161,075 | 181,133 |
| Transfer from construction in progress | 968 | 5,121 | 11 | – | – | (6,100) | – |
| Disposals | – | (116) | (6) | (149) | – | – | (271) |
| Exchange realignment | – | – | 13 | 61 | 4 | – | 78 |
| At 31 December 2018 | 242,823 | 367,345 | 6,223 | 7,519 | 22,110 | 238,215 | 884,235 |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2017 | 36,804 | 113,455 | 3,309 | 5,971 | 1,913 | – | 161,452 |
| Provided for the year | 11,844 | 36,704 | 735 | 1,260 | 6,287 | – | 56,830 |
| Disposals | – | (47) | – | (2,117) | – | – | (2,164) |
| Exchange realignment | – | – | (6) | (47) | (4) | – | (57) |
| At 31 December 2017 | 48,648 | 150,112 | 4,038 | 5,067 | 8,196 | – | 216,061 |
| Provided for the year | 11,345 | 32,048 | 626 | 792 | 4,837 | – | 49,648 |
| Disposals | – | (111) | (5) | (141) | – | – | (257) |
| Exchange realignment | – | – | 7 | 40 | 3 | – | 50 |
| At 31 December 2018 | 59,993 | 182,049 | 4,666 | 5,758 | 13,036 | – | 265,502 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2018 | 182,830 | 185,296 | 1,557 | 1,761 | 9,074 | 238,215 | 618,733 |
| At 31 December 2017 | 193,207 | 197,520 | 1,743 | 2,322 | 9,202 | 83,240 | 487,234 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis as follows:

| | |
|---|---|
| Building | Over the shorter of the term of the lease or 20 years |
| Plant and machinery | 9.5% per annum |
| Furniture, fixture and equipment | 9.5% – 19.5% per annum |
| Motor vehicles | 19% – $33^1/_3$% per annum |
| Leasehold improvement | Over the shorter of the term of the lease or 3 years |

All of the building are situated on land under medium-term lease and located in the PRC.

Details of property, plant and equipment pledged as securities for the Group's borrowings are set out in note 31.

## 15. PREPAID LEASE PAYMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Analysed for reporting purpose as: | | |
| Non-current asset | **189,533** | 82,782 |
| Current asset | **4,375** | 2,116 |
| | **193,908** | 84,898 |

The carrying amount represents prepaid lease payments for medium-term land use rights in the PRC.

Details of the prepaid lease payments pledged as securities for the Group's borrowings are set out in note 31.

## 16. INVENTORIES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **16,736** | 53,662 |
| Work in progress | **212,248** | 221,675 |
| Finished goods | **5,581** | 34,601 |
| | **234,565** | 309,938 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 17. TRADE, BILLS AND OTHER RECEIVABLES

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Trade receivables from contracts with customers | **189,756** | 268,727 |
| Bills receivables | **75,494** | 245,531 |
| Prepayments to suppliers | **150,889** | 129,313 |
| Value-added tax recoverable | **21,586** | 40,461 |
| Deposits paid for acquisition of property, plant and equipment and land use rights *(note 33(a))* | **–** | 11,016 |
| Other prepayments, deposits and other receivables | **21,302** | 12,641 |
| | **459,027** | 707,689 |

No allowance for credit losses was provided for each of the years ended 31 December 2018 and 2017 and no balance of provision for credit losses was recognised as at the end of each reporting periods.

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 120 days (2017: 120 days). For other customers, the Group requires full payment upon delivery of goods.

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

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Trade receivables: | | |
| Within 30 days | **169,292** | 217,827 |
| 31 – 60 days | **19,832** | 44,439 |
| 61 – 90 days | **16** | 108 |
| 91 – 120 days | **1** | 2,410 |
| 121 – 180 days | **2** | 684 |
| 181 – 365 days | **613** | 472 |
| Over 1 year | **–** | 2,787 |
| | **189,756** | 268,727 |
| Bills receivables: | | |
| Within 30 days | **9,611** | 29,535 |
| 31 – 60 days | **3,368** | 30,922 |
| 61 – 90 days | **3,589** | 59,198 |
| 91 – 120 days | **3,854** | 37,287 |
| 121 – 180 days | **46,765** | 81,043 |
| 181 – 365 days | **8,307** | 7,546 |
| | **75,494** | 245,531 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit terms granted to customers are reviewed regularly. All of the trade receivables that are neither past due nor impaired have no history of default.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB615,000 which are past due as at the reporting date. No past due balance has been past due 90 days or more and no amount is considered as in default as the Group considered such balances could be recovered based on historical experience and taking into consideration of forward-looking information. Other than bills received, the Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB 3,943,000 which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considered such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

| | 2017<br>*RMB'000* |
|---|---|
| Days overdue: | |
| 1 – 30 days | 684 |
| 61 – 90 days | 472 |
| Over 1 year | 2,787 |
| | 3,943 |

Included in the Group's bills receivables are amounts of RMB64,502,000 (2017:RMB219,350,000), as at 31 December 2018, being the discounted bills receivables transferred to certain banks with full recourse. If the issuing banks of bills receivables default payment on maturity, the banks have the right of recourse to request the Group to pay the unsettled balance. As the Group has not transferred substantially all the risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as bank borrowings from factoring of trade receivables with full recourse (note 24). The financial asset is carried at amortised cost in the consolidated statement of financial position.

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Carrying amount of transferred asset | **64,502** | 219,350 |
| Carrying amount of associated liability | **(64,502)** | (219,350) |
| | **–** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

As at 31 December 2017, the derivative financial instruments represent the outstanding future contracts of hot rolled coils with total notional amount of approximately RMB11,490,000 with maturity date in May 2018 which are publicly traded in a futures exchange. Future contracts of hot rolled coils entered into during the year ended 31 December 2018 have been fully settled before the end of the reporting period. Net realised gain on the derivative financial instruments was recognised under "investment (loss) gain" in profit or loss.

## 19. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent deposits pledged to banks for banking facilities granted to the Group, as set out in note 31.

Restricted bank deposits carry interest at variable interest rates ranging from 0.35% to 2.10% (2017: 0.35% to 2.10%) per annum as quoted by the People's Bank of China as at 31 December 2018.

## 20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances carry interest at variable rates which range from 0.01% to 0.35% (2017: 0.01% to 0.35%) per annum as at 31 December 2018.

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **23,798** | 32,979 |
| Bills payables | **112,401** | 94,592 |
| Receipts in advance from customers | **–** | 57,792 |
| Accrued staff costs | **6,276** | 6,251 |
| Construction payables | **29,917** | 14,261 |
| Transportation fees payable | **2,650** | 7,020 |
| Other tax payables | **1,524** | 1,144 |
| Consideration payable for acquisition of additional interest in subsidiary | **10,138** | – |
| Other payables and accrued expenses | **15,322** | 14,832 |
| | **202,026** | 228,871 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

The aging analysis of the trade payables and bills payables presented based on the invoice dates at the end of each reporting period is as follows:

| | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|
| Trade payables: | | |
| Within 30 days | **10,950** | 18,875 |
| 31 – 60 days | **4,363** | 5,198 |
| 61 – 90 days | **1,881** | 1,802 |
| 91 – 120 days | **1,035** | 985 |
| 121 – 180 days | **1,623** | 2,025 |
| 181 – 365 days | **1,617** | 1,809 |
| Over 1 year | **2,329** | 2,285 |
| | **23,798** | 32,979 |
| Bills payables: | | |
| Within 30 days | **–** | 22,552 |
| 31 – 60 days | **28,113** | 47,872 |
| 121 – 180 days | **84,288** | 24,168 |
| | **112,401** | 94,592 |

The average credit period granted by suppliers on purchase of goods is no longer than 30 (2017:30) days from certain of its suppliers. For other suppliers, the Group is required to prepay in advance (see note 17) and make full payment upon receipt of the goods purchased.

## 22. CONTRACT LIABILITIES

| | **31.12.2018** **RMB'000** | 1.1.2018* *RMB'000* |
|---|---|---|
| Sales of steal products and residuals and analysed for reporting purpose as current liabilities | **66,589** | 57,792 |

* The amounts in this column are after the adjustments from the application of HKFRS 15.

Contract liabilities represent the deposit amount received from certain customers at the requests of the Group when they place confirmed orders. The entire balance of contract liabilities as at 1 January 2018 has been recognised as revenue during the current year. The entire balance of contract liabilities as at 31 December 2018 is analysed for reporting purpose as current liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 23. AMOUNTS DUE TO RELATED PARTIES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Mr. Xu *(Note i)* | 33,137 | 50,155 |
| 江門市鴻盛建築工程有限公司*(Note ii)* (Jiangmen Hong Sheng Construction Engineering Limited) | – | 1,742 |
| 江門市華志金屬製品有限公司*(Note iii)* (Jiangmen Huazhi Metal Product Company Limited) | 910 | 574 |
| | 34,047 | 52,471 |

*Notes:*

(i) The amount is non-trade in nature, interest free, unsecured and repayment on demand.

(ii) This was an entity owned as to 70% by Mr. Chen. The entire balance as at 31 December 2017 is trade in nature, interest free, unsecured and repayment on demand. The full amount has been settled during the year.

(iii) This is an entity owned as to 60% by Mr. Xu and 40% by Mr. Chen. The amount is trade in nature, interest free, unsecured and repayment on demand.

## 24. BORROWINGS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Fixed-rate borrowings: | | |
| Secured bank borrowings | 325,101 | 464,700 |
| Bank borrowings from factoring of bills receivables with full recourse *(note 17)* | 64,502 | 219,350 |
| Secured other borrowings | 25,388 | 36,483 |
| | 414,991 | 720,533 |
| Variable-rate borrowings: | | |
| Secured bank borrowings | 433,247 | 237,459 |
| | 848,238 | 957,992 |
| The carrying amounts of the above borrowings are repayable, based on scheduled repayment dates set out in the loan agreements, as: | | |
| — within one year | 831,091 | 895,242 |
| — more than one year, but not more than two years | 6,430 | 46,000 |
| — more than two years, but not more than five years | 10,717 | 16,750 |
| | 848,238 | 957,992 |
| Less: amount due within one year shown under current liabilities | (831,091) | (895,242) |
| Amount shown under non-current liabilities | 17,147 | 62,750 |

The secured other borrowings above were borrowings from a financial institution independent with the Group.

The effective interest rate on the Group's borrowings as at 31 December 2018 was ranging from 4.35% to 8.05% (2017: 4.35% to 8.39%) per annum. The Group's borrowings were secured by certain assets of the Group as detailed in note 31.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 25. DEFERRED INCOME

Deferred income represents government grants received by the Group's subsidiaries in the PRC from the People's Government of Jiangmen Municipal Xinhui District Muzhou Town, the PRC for and applied towards the construction of the Group's manufacturing plants in Muzhou Town.

The deferred income is released to income over the expected useful life of the relevant assets. Movements of deferred income during the year are as follows:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Government grants related to assets: | | |
| At the beginning of the year | **28,050** | 31,350 |
| Released to profit or loss | **(3,300)** | (3,300) |
| At the end of the year | **24,750** | 28,050 |

## 26. DEFERRED TAXATION

The following is an analysis of the deferred tax balances for financial reporting purposes:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Deferred tax assets | **6,188** | 4,208 |
| Deferred tax liabilities | **–** | (753) |
| | **6,188** | 3,455 |

The major deferred tax assets and liabilities recognised related to undistributed earnings of the Group's subsidiaries in the PRC, derivative financial instruments and government grants received by the Group. The movements during the current and prior years are as follow:

| | *RMB'000* |
|---|---|
| At 1 January 2017 | (1,000) |
| Credit to profit or loss during the year *(note 9)* | 3,455 |
| Settlements of withholding income tax relating to earnings of subsidiaries established in the PRC | 1,000 |
| At 31 December 2017 | 3,455 |
| Credit to profit or loss during the year *(note 9)* | 2,233 |
| Settlements of withholding income tax relating to earnings of subsidiaries established in the PRC | 500 |
| At 31 December 2018 | 6,188 |

As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB180,765,000 (2017: RMB206,570,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 27. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

| | Number of shares | Share capital<br>*HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| **Authorised:** | | |
| At 1 January 2017, 31 December 2017 and 2018 | 8,000,000,000 | 80,000 |
| **Issued:** | | |
| At 1 January 2017, 31 December 2017 and 2018 | 600,000,000 | 6,000 |

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Shown in the consolidated statement of financial position | **4,999** | 4,999 |

All the shares issued ranked pari passu in all respects with the then existing shares in issue.

## 28. SHARE OPTION

Pursuant to a resolution passed on 23 March 2016 by the board of directors of the Company, a share option scheme (the "Share Option Scheme") was adopted.

The purpose of the Share Option Scheme is to provide incentives or rewards to eligible persons for their contribution or potential contribution to the Group.

The board of directors of the Company may, at its discretion, offer to grant an option to subscribe for such number of new shares as the board of directors of the Company may determine at an exercise price at a price which will not be less than the higher of (i) closing price of the shares on the date of offer of grant and (ii) the average closing price of the shares for the five business days immediately preceding the date of offer of grant to any full-time or part-time employee of the Company or any member of the Group, including any executive director, non-executive director and independent non-executive director, and any supplier, customer, agent, advisor and consultant of the Group who, in the sole opinion of the board of directors of the Company, will contribute or have contributed to the Group.

The Share Option Scheme will expire on 22 March 2026.

An option may be exercised at any time commencing on the date as the board of directors may determine and ending on such date as the board of directors may determine but shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted). The period during which an option may be exercised will be determined by the board of directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. A consideration of HK$1 is payable upon acceptance of the offer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 28. SHARE OPTION *(Continued)*

No option may be granted more than ten years after the date of adoption of the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme established by the Company, if any, is 60,000,000, representing 10% of the issued share capital of the Company at the date of approval of the Share Option Scheme. The total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme, if any, shall not exceed 30% of the issued share capital of the Company from time to time.

No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

## 29. CAPITAL COMMITMENTS

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment and land use rights | **204,350** | 246,935 |

## 30. OPERATING LEASES

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Minimum lease payments paid/payable under operating leases during the year in respect of office premises | **1,377** | 1,178 |

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Within one year | **901** | 1,170 |
| In the second to fifth year inclusive | **1,564** | 306 |
| Over five years | **3,720** | – |
| | **6,185** | 1,476 |

Leases are negotiated for an average term of five (2017: two) years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 31. PLEDGE OF ASSETS

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | 309,917 | 334,000 |
| Prepaid lease payments | 143,936 | 63,227 |
| Trade receivables | 5,066 | 12,122 |
| Restricted bank deposits | 123,944 | 98,365 |
| | 582,863 | 507,714 |

## 32. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The Group also participates in a state-managed defined contribution retirement scheme organised by the relevant local governmental authority in the PRC. The PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme of the eligible employees at specified percentage, ranging from 13% to 15%, of the payroll and the local governmental authority is responsible for the pension liabilities to these employees upon their retirement.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the year ended 31 December 2018, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represent contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions made by the Group amounted to RMB9,074,000 (2017: RMB10,221,000) for the year ended 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 33. RELATED PARTY DISCLOSURES

Except as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions and balances with related parties:

### (a) Related parties balances

As at 31 December 2017, the Group made a deposit of RMB11,016,000 included in deposit paid for acquisition of property, plant and equipment and land use rights to Jiangmen Xinhui District Zhan Cheng Garment Limited (江門市新會區展程製衣有限公司), an entity owned as to 80% by Mr. Xu, regarding the acquisition of a parcel of industrial land and the buildings to be built on such land parcel which are situated in Jiangmen, Guangdong Province, the PRC. As at 31 December 2017, the memorandum of understanding had lapsed and ceased to have any effect and the deposit was fully refunded to the Group during the current year.

Details of other outstanding balances with related parties are set out in the consolidated statement of financial position and in note 23.

### (b) Related party transactions

(i) The Group entered into the following transactions with related parties, which are controlled by Mr. Xu and/or Mr. Chen:

| Related parties | Nature of transactions | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Mr. Xu | Interest expense | 744 | – |
| 江門市鴻盛建築工程有限公司 (Jiangmen Hong Sheng Construction Engineering Limited) | Construction cost | – | 2,762 |
| 江門市華志金屬製品有限公司 (Jiangmen Huazhi Metal Product Company Limited) | Rental expenditure | 336 | 336 |
| Hua Jin Holdings Pte. Ltd. | Rental expenditure | 294 | 302 |
| | | 1,374 | 3,400 |

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

(iii) During the year ended 31 December 2018, Mr. Xu provided unsecured loans in an aggregate amount of RMB53,360,000 at an interest rate below that in the market. The entire amount of the relevant loans above, including the relevant finance costs, has been repaid to Mr. Xu during the current year.

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

### (c) Compensation of key management personnel

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

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Directors' fee | **602** | 519 |
| Salaries, allowances and other benefits | **2,163** | 2,775 |
| Retirement benefit scheme contributions | **51** | 63 |
| | **2,816** | 3,357 |

The remuneration of key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

## 34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings and amounts due to related parties, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payments of dividends, new shares issue as well as issue of new debt and redemption of existing debts, if necessary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Derivative financial instruments at fair value through profit or loss | – | 11,490 |
| Financial assets at amortised cost | 467,211 | – |
| Loans and receivables (including cash and cash equivalents) | – | 752,974 |
| **Financial liabilities** | | |
| Amortised cost | 1,053,584 | 1,162,700 |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, derivative financial instruments at fair value through profit or loss, restricted bank deposits, bank balances and cash, trade, bills and other payables, amounts due to related parties and borrowings.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Currency risk*

The functional currencies of the Company and its subsidiaries are RMB and United States dollars ("USD") and most of their transactions are denominated in RMB and USD.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Currency risk (Continued)*

The Group's exposure to foreign currency risk related primarily to certain bank balances, trade receivables and inter-companies balances that are denominated in RMB, Hong Kong dollars ("HKD"), USD and Singapore dollars ("SGD"). The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group doesn't have monetary liability as at 31 December 2018 and 2017. The carrying amounts of the Group's foreign currency denominated monetary assets at the end of each reporting period are as follows:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Monetary assets | | |
| HKD | **5** | 6 |
| USD | **25,849** | 4,734 |
| SGD | **2,185** | 547 |

*Sensitivity analysis*

The Group exposes foreign currency risk on fluctuation of USD and SGD during the years ended 31 December 2018 and 2017. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD or SGD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their transaction at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB weakened 5% against USD or SGD. For a 5% strengthening of RMB against USD or SGD, there would be an equal and opposite impact in the profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Currency risk (Continued)*

*Sensitivity analysis (Continued)*

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| USD | **1,079** | 198 |
| SGD | **91** | 23 |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to the restricted bank deposits (note 19), bank balances (note 20) and variable-rate borrowings (note 24). It is the Group's policy to keep its balances and at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate borrowings (note 24).

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for restricted bank deposits, bank balances and variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. 50 basis points increase or decrease (2017: 50 basis points increase or decrease) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would have decreased/increased by RMB1,007,000 (2017: RMB47,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Credit risk and impairment assessment***

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is best represented by the carrying amounts of the respective financial assets. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. In general, limits attributed to customers are reviewed every year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables collectively for those with similar credit risk characteristic based primarily on the trade debtor's aging profiles. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2018, the Group has concentration of credit risk from trade receivables as 51% (2017: 51%) of the total balances were due from the Group's five largest customers. The management of the Group considers the credit risk of amounts due to these customers is insignificant after considering their historical settlement record, credit quality and financial positions.

The credit risk associated with bills receivables, which are all bank acceptance drafts, is limited because the accepting bank will cashes it unconditionally when the entity presents these bills receivables. The credit risk on the restricted bank deposits and bank balances is also limited because the counterparties are banks with good reputations. The credit risk on other receivables is also limited because of the natures of these balances, credit quality of the counterparties and the historical settlement record.

Other than the concentration of the credit risk on bills and other receivables, bank balances and restricted bank deposits, the Group does not have any other significant concentration of credit risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Credit risk and impairment assessment*** *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| 2018 | Note | Internal credit rating | 12-month or lifetime ECL | Cross carrying amount *RMB'000* |
|---|---|---|---|---|
| Trade receivables | 17 | *(Note i)* | Lifetime ECL | 189,756 |
| Bills receivables | 17 | *(Note i)* | Lifetime ECL | 75,494 |
| Other receivables | 17 | *(Note ii)* | 12-month ECL | 5,552 |
| Restricted bank deposits | 19 | *(Note ii)* | 12-month ECL | 123,944 |
| Bank balances and cash | 20 | *(Note ii)* | 12-month ECL | 72,465 |

Notes:

(i) For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by aging profiles.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2018, these balances are debtors which are not past due or doesn't have fixed repayment as at the reporting date.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group did not provide impairment allowance for trade receivables, as the past due amount is insignificant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Liquidity risk***

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, on which the Group can be required to pay.

| | Weighted average effective interest rate | Repayable on demand/ less than 1 month | 1–3 months | 4 months to 1 year | 1 year to 2 years | 2 to 3 years | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2018** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade, bills and other payables | – | 112,315 | 45,763 | 13,221 | – | – | 171,299 | 171,299 |
| Amounts due to related parties | – | 34,047 | – | – | – | – | 34,047 | 34,047 |
| Borrowings | 5.40 | 112,272 | 196,483 | 540,663 | 7,253 | 11,238 | 867,909 | 848,238 |
| | | 258,634 | 242,246 | 553,884 | 7,253 | 11,238 | 1,073,255 | 1,053,584 |
| **As at 31 December 2017** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade, bills and other payables | – | 80,348 | 1,465 | 70,424 | – | – | 152,237 | 152,237 |
| Amounts due to related parties | – | 52,471 | – | – | – | – | 52,471 | 52,471 |
| Borrowings | 5.37 | 132,514 | 301,615 | 477,719 | 48,571 | 20,043 | 980,462 | 957,992 |
| | | 265,333 | 303,080 | 548,143 | 48,571 | 20,043 | 1,185,170 | 1,162,700 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Fair value

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1, 2 or 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, as set out in note 4:

| | Fair value as at 31 December | | | |
|---|---|---|---|---|
| | **2018** ***RMB'000*** | 2017 *RMB'000* | **Fair value hierarchy** | **Valuation techniques and key inputs** |
| **Financial asset** | | | | |
| Derivative financial instruments at fair value through profit or loss: | | | | |
| — Future contracts of hot rolled coils | – | 11,490 | Level 1 | Quoted bid prices in an active market |

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

## 36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

Reconciliation of liabilities arising from financing activities:

| | Borrowings *RMB'000* | Amounts due to related parties *RMB'000* | Dividend payable *RMB'000* | Interest payable *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2017 | 634,078 | – | – | – | 634,078 |
| Financing cash flows *(Note)* | 323,914 | 50,155 | (35,869) | (43,768) | 294,432 |
| Non–cash changes: | | | | | |
| Dividend declared | – | – | 35,869 | – | 35,869 |
| Interest expenses | – | – | – | 41,732 | 41,732 |
| Finance costs capitalised | – | – | – | 2,036 | 2,036 |
| Other changes | – | 2,316 | – | – | 2,316 |
| At 31 December 2017 | 957,992 | 52,471 | – | – | 1,010,463 |
| Financing cash flows *(Note)* | (109,754) | (15,610) | (10,086) | (52,345) | (187,795) |
| Non–cash changes: | | | | | |
| Dividend declared | – | – | 10,086 | – | 10,086 |
| Interest expenses | – | – | – | 45,327 | 45,327 |
| Finance costs capitalised | – | – | – | 7,405 | 7,405 |
| Deemed contribution from a shareholder | – | (5,642) | – | (387) | (6,029) |
| Foreign exchange translation | – | 4,234 | – | – | 4,234 |
| Other changes | – | (1,406) | – | – | (1,406) |
| At 31 December 2018 | 848,238 | 34,047 | – | – | 882,285 |

*Note:* The cash flows for borrowings and amounts due to related parties above included the net amount of proceeds from and repayments to the relevant parties in the consolidated statement of cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| NON-CURRENT ASSET | | |
| Interests in subsidiaries | **252,539** | 252,539 |
| CURRENT ASSETS | | |
| Other receivables | **140** | 133 |
| Amount due from a subsidiary | **10,070** | 16,188 |
| Bank balances and cash | **867** | 480 |
| | **11,077** | 16,801 |
| CURRENT LIABILITY | | |
| Accrued expenses | **61** | 306 |
| Amount due to a subsidiary | **324** | – |
| | **385** | 306 |
| NET CURRENT ASSETS | **10,692** | 16,495 |
| TOTAL ASSETS LESS CURRENT LIABILITY | **263,231** | 269,034 |
| NET ASSETS | **263,231** | 269,034 |
| CAPITAL AND RESERVES | | |
| Share capital | **4,999** | 4,999 |
| Reserves *(Note)* | **258,232** | 264,035 |
| TOTAL EQUITY | **263,231** | 269,034 |

*Note:*

The followings are the movements of the Company's reserves:

| | Share premium<br>RMB'000 | Capital reserve<br>RMB'000 | Retained profits (accumulated losses)<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 282,623 | 2 | 1,418 | 284,043 |
| Profit and total comprehensive income for the year | – | – | 15,861 | 15,861 |
| Dividend paid | (18,194) | – | (17,675) | (35,869) |
| At 31 December 2017 | 264,429 | 2 | (396) | 264,035 |
| Loss and total comprehensive income for the year | – | – | (1,746) | (1,746) |
| Dividend paid | (10,086) | – | – | (10,086) |
| Deemed contribution from a shareholder | – | 6,029 | – | 6,029 |
| At 31 December 2018 | 254,343 | 6,031 | (2,142) | 258,232 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

| Name of subsidiaries | Place and date of incorporation/ operations | Issued and fully paid share capital | Attributable equity interest held by the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Huajin Investments Limited *(Note i)* | British Virgin Islands | 10 March 2015<br>US$300 | 100% | 100% | Investment holding |
| Inter Consortium Holdings Limited | Hong Kong | 5 April 2013<br>HK$161,534,566 | 100% | 100% | Trading of steel products and residuals |
| Huajin (Singapore) Pte. Ltd. | Singapore | 9 May 2016<br>US$680,000 | 100% | 100% | Trading of steel products and residuals |
| 江門市華津金屬製品有限公司 (Jiangmen Huajin Metal Product Company Limited) | PRC | 11 July 2005<br>RMB179,904,000 | 100% | 100% | Production and sales of steel products and residuals |
| 江門市華睦五金有限公司 (Jiangmen Huamu Metals Company Limited) | PRC | 27 November 2006<br>RMB181,477,811<br>(2016: RMB131,341,000) | 100% | 100% | Production and sales of steel products and residuals |
| 江門市津源金屬製品有限公司 (Jiangmen Jinyuan Metals Company Limited) *(Note ii)* | PRC | 15 December 2016<br>RMB24,000,000<br>(2016: RMB10,000,000) | 100% | 60% | Inactive |
| 江門市海潤再生資源回收有限公司 (Jiangmen Hairun Renewable Resources Recycling Company Limited) | PRC | 12 May 2017<br>RMB60,000,000 | 100% | 100% | Inactive |

*Notes:*

(i) Directly held by the Company. All other subsidiaries are indirectly held by the Company.

(ii) The Group acquired the remaining 40% of equity interest from non-controlling shareholders during the year ended 31 December 2018.

None of the subsidiaries had issued any debt securities at the end of the year.

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| RESULTS | | | | | |
| Revenue | 1,630,641 | 1,875,119 | 1,919,020 | 2,863,465 | **2,909,265** |
| Profit before taxation | 53,197 | 139,793 | 118,073 | 108,394 | **9,263** |
| Income tax expense | (12,610) | (42,327) | (23,740) | (15,989) | **(2,968)** |
| Profit for the year | 40,587 | 97,466 | 94,333 | 92,405 | **6,295** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 1,420,453 | 989,231 | 1,360,534 | 1,866,481 | **1,761,605** |
| Total liabilities | 1,277,000 | 765,758 | 823,242 | 1,269,875 | **1,175,650** |
| Net assets | 143,453 | 223,473 | 537,292 | 596,606 | **585,955** |
| EQUITY | | | | | |
| Equity attributable to owners of the Company | 141,885 | 223,473 | 533,292 | 587,236 | **585,955** |
| Non-controlling interests | 1,568 | – | 4,000 | 9,370 | **–** |
| Total equity | 143,453 | 223,473 | 537,292 | 596,606 | **585,955** |