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

2019
INTERIM REPORT

Contents

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019 (unaudited)	2018 (unaudited)	Change
Revenue *(RMB million)*	**927.3**	1,426.7	-35.0%
Gross profit *(RMB million)*	**56.4**	76.0	-25.8%
Gross profit margin *(%)*	**6.1%**	5.3%	
EBITDA *(RMB million) (note 1)*	**63.1**	68.2	-7.5%
EBITDA margin *(%)*	**6.8%**	4.8%	
Profit attributable to owners of the Company *(RMB million)*	**10.5**	13.9	-24.5%
Net profit margin *(%)*	**1.1%**	1.0%	
Basic earnings per share *(RMB cent)*	**1.75**	2.32	-24.6%
Sales volume (tonne) *(note 2)*	**197,407**	303,442	-34.9%
Average processing fee per tonne *(RMB)* *(note 3)*	**422**	504	-16.3%
	As at 30.6.2019 (unaudited)	As at 31.12.2018 (audited)	Change
Net asset value *(RMB million)*	**596.4**	586.0	1.8%
Net asset value per share *(RMB)*	**0.99**	0.98	1.0%
Borrowings *(RMB million)*	**728.5**	848.2	-14.1%
Gearing ratio *(%) (note 4)*	**122.1%**	144.7%	

Notes:

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

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

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

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Huajin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six–month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	**927,349**	1,426,651
Cost of sales		**(870,938)**	(1,350,697)
Gross profit		**56,411**	75,954
Other income, other gains and losses		**4,426**	4,518
Selling expenses		**(8,470)**	(14,841)
Administrative expenses		**(19,608)**	(17,653)
Profit before investment gain (loss), net finance costs and taxation		**32,759**	47,978
Investment gain (loss)		**1,695**	(6,555)
Finance income	4	**1,164**	726
Finance costs	4	**(19,351)**	(24,587)
Finance costs, net	4	**(18,187)**	(23,861)
Profit before taxation		**16,267**	17,562
Income tax expenses	5	**(5,791)**	(3,712)
Profit for the period	6	**10,476**	13,850
Other comprehensive (expense) income for the period which may be subsequently reclassified to profit or loss			
— exchange differences arising on translation of foreign operations		**(32)**	485
Total comprehensive income for the period		**10,444**	14,335
Profit (loss) for the period attributable to:			
Owners of the Company		**10,476**	13,945
Non–controlling interests		**–**	(95)
		10,476	13,850
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**10,444**	14,430
Non–controlling interests		**–**	(95)
		10,444	14,335
Earnings per share for profit attributable to owners of the Company, basic (RMB cents)	7	**1.75**	2.32

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	**30.6.2019** **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**668,891**	618,733
Right-of-use assets	9	**197,284**	–
Prepaid lease payments		**–**	189,533
Deposits paid for acquisition of property, plant and equipment		**49,406**	47,596
Deferred tax assets		**5,775**	6,188
		921,356	862,050
CURRENT ASSETS			
Prepaid lease payments		**–**	4,375
Inventories		**98,786**	234,565
Trade, bills and other receivables	10	**458,325**	459,027
Tax recoverable		**4,062**	5,179
Restricted bank deposits		**194,558**	123,944
Bank balances and cash		**31,821**	72,465
		787,552	899,555
CURRENT LIABILITIES			
Trade, bills and other payables and accrued expenses	12	**274,464**	202,026
Contract liabilities		**69,043**	66,589
Amounts due to related parties	13	**7,604**	34,047
Borrowings — due within one year	14	**714,554**	831,091
Lease liabilities		**1,172**	–
		1,066,837	1,133,753
NET CURRENT LIABILITIES		**(279,285)**	(234,198)
TOTAL ASSETS LESS CURRENT LIABILITIES		**642,071**	627,852

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	**30.6.2019 *RMB'000* (Unaudited)**	31.12.2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Borrowings — due more than one year	14	**13,978**	17,147
Lease liabilities		**4,344**	–
Deferred income		**23,100**	24,750
Deferred tax liabilities		**4,250**	–
		45,672	41,897
NET ASSETS		**596,399**	585,955
CAPITAL AND RESERVES			
Share capital	15	**4,999**	4,999
Reserves		**591,400**	580,956
Equity attributable to owners of the Company		**596,399**	585,955
TOTAL EQUITY		**596,399**	585,955

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Equity attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note i)	Capital reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018 (audited)	4,999	264,429	38,120	58,696	(2,261)	223,253	587,236	9,370	596,606
Profit for the period	–	–	–	–	–	13,945	13,945	(95)	13,850
Other comprehensive income for the period	–	–	–	–	485	–	485	–	485
Total comprehensive income for the period	–	–	–	–	485	13,945	14,430	(95)	14,335
Dividend recognised as distribution *(Note 8)*	–	(10,086)	–	–	–	–	(10,086)	–	(10,086)
Deemed contribution from a shareholder *(Note ii)*	–	–	–	5,642	–	–	5,642	–	5,642
At 30 June 2018 (unaudited)	4,999	254,343	38,120	64,338	(1,776)	237,198	597,222	9,275	606,497
At 1 January 2019 (audited)	**4,999**	**254,343**	**41,153**	**63,840**	**(5,012)**	**226,632**	**585,955**	**–**	**585,955**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**10,476**	**10,476**	**–**	**10,476**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**(32)**	**–**	**(32)**	**–**	**(32)**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**(32)**	**10,476**	**10,444**	**–**	**10,444**
At 30 June 2019 (unaudited)	**4,999**	**254,343**	**41,153**	**63,840**	**(5,044)**	**237,108**	**596,399**	**–**	**596,399**

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 can be used to offset the previous years' losses, if any, and is non–distributable other than upon liquidation.

(ii) Pursuant to the request made by the Jiangmen Municipal Office, State Administration of Taxation, and Jiangmen Municipal Local Taxation Bureau to major entities in Xinhui District, Jiangmen, in 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 was therefore accounted for as deemed contribution from a shareholder.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	**16,267**	17,562
Adjustments for:		
Depreciation of property, plant and equipment	**26,821**	24,939
Depreciation of right-of-use assets	**1,853**	–
Interest expense	**19,351**	24,587
Investment (gain) loss on derivative financial instruments	**(1,695)**	6,555
Others	**(3,530)**	(476)
Operating cash flows before movements in working capital	**59,067**	73,167
Decrease in inventories	**114,417**	57,420
Decrease (increase) in trade, bills and other receivables	**2,545**	(131,098)
Decrease (increase) in trade, bills and other payables and accrued expenses	**55,815**	(1,990)
Others	**2,532**	1,878
Cash generated from (used in) operations	**234,376**	(623)
Income tax paid	**(12)**	(4,611)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**234,364**	(5,234)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Placement of restricted bank deposits	**(342,136)**	(119,232)
Deposit paid for acquisition and purchase of property, plant and equipment	**(41,438)**	(98,524)
Purchase of derivative financial instruments at fair value through profit or loss	**(23,787)**	(62,500)
Withdrawal of restricted bank deposits	**271,522**	106,064
Settlement of derivative financial instruments at fair value through profit or loss	**25,482**	41,500
Interest received	**1,164**	725
Payment for land use right	**–**	(91,044)
Repayment from related parties	**–**	11,016
NET CASH USED IN INVESTING ACTIVITIES	**(109,193)**	(211,995)
FINANCING ACTIVITIES		
New borrowings raised	**573,704**	1,238,436
Repayment of borrowings	**(693,410)**	(1,032,756)
Repayment to a related party	**(26,654)**	–
Interest paid	**(19,322)**	(24,355)
Repayment of lease liabilities	**(264)**	–
New borrowing from a related party	**–**	53,360
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(165,946)**	234,685
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(40,775)**	17,456
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**72,465**	127,955
Effect of foreign exchange rate changes	**131**	(1,303)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**31,821**	144,108

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by RMB279,285,000 as at 30 June 2019.

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 30 June 2019, the Group had total financing facilities relating to borrowings amounted to approximately RMB654,010,000, of which approximately RMB513,255,000 had been utilised, and the unutilised financing facilities amounted to RMB140,755,000. Subsequently to the end of the reporting period, the Group obtained further financing facilities relating to borrowings amounted to RMB250,000,000.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Payment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provision of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight- line basis over the lease term.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee *(Continued)*

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee *(Continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee *(Continued)*

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee *(Continued)*

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

At 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.84% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	6,185
Lease liabilities discounted at relevant incremental borrowing rates	4,131
Less: Recognition exemption — short-term leases	347
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	3,784
Lease liabilities analysed as	
Current	350
Non-current	3,434
	3,784

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)*

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16 (Continued)*

<u>As a lessee *(Continued)*</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	**At 1 January 2019** ***RMB'000***
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**3,784**
Reclassified from prepaid lease payments	(i)	**193,908**
Adjustments on rental deposits at 1 January 2019	(ii)	**66**
		197,758
By class:		
Leasehold lands		**196,824**
Warehouse		**934**
		197,758

Notes:

(i) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB4,375,000 and RMB189,533,000 respectively were reclassified to right-of-use assets.

(ii) Before the application of HKFRS 16, the Group considered refundable rental deposits paid (included in trade, bills and other receivables as at 31 December 2018) as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB66,000 was adjusted to refundable rental deposits paid and right-of-use assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under HKFRS 16 at 1 January 2019** ***RMB'000***
Non-current Assets			
Prepaid lease payments	189,533	(189,533)	**–**
Right-of-use assets	–	197,758	**197,758**
Trade, bills and other receivables	459,027	(66)	**458,961**
Current Assets			
Prepaid lease payments	4,375	(4,375)	**–**
Current Liabilities			
Lease liabilities	–	350	**350**
Non-current liabilities			
Lease liabilities	–	3,434	**3,434**

Note: For the purpose of reporting cash flows for the six months ended 30 June 2019, movements have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers (the "CODM"), being Mr. Xu and Mr. Luo Canwen, in order to allocate resources to segments and to assess their performance. During the period ended 30 June 2019 and 2018, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in production and sales of cold-rolled steel products and galvanized steel products. Therefore, the management considers that the Group has one operating segment only. The Group mainly operates in the PRC and the Group's non-current assets are also located in the PRC.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of cold-rolled steel products		
— steel strips and sheets	**643,963**	1,015,358
— welded steel tubes	**92,401**	86,132
Sales of galvanized steel products	**108,184**	258,104
Sales of hot-rolled steel products and others	**82,801**	67,057
	927,349	1,426,651

All revenue of the Group are recognised at a point in time. All products are delivered within a period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC	**921,806**	1,424,055
Southeast Asia	**5,543**	2,596
	927,349	1,426,651

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the six months ended 30 June 2019 (six months ended 30 June 2018: nil (unaudited)).

4. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance costs		
— Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB4,985,000 (six months ended 30 June 2018: RMB2,670,000)	**(19,238)**	(24,587)
— Effective interest expense of lease liabilities	**(113)**	–
	(19,351)	(24,587)
Finance income		
— Interest income from bank deposits	**1,164**	726
Finance costs, net	**(18,187)**	(23,861)

Borrowing costs capitalised during the six months ended 30 June 2019 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.3% (six months ended June 2018: 5.4%) per annum to expenditure on qualifying assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax charge:		
— PRC Enterprise Income Tax ("EIT")	**3,347**	4,083
— Hong Kong Profits Tax	**–**	1
	3,347	4,084
(Over) under provision in prior year:		
— PRC EIT	**(2,219)**	10
Deferred tax charge (credit)	**4,663**	(382)
Income tax expenses for the period	**5,791**	3,712

Hong Kong Profits Tax of the first HK$2 million of profits of the qualifying group entity is taxed at 8.25% and the remaining profits is calculated at 16.5% of the estimated assessable profit for the periods ended 30 June 2019 and 2018.

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

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

The Group has applied for the renewal of the qualification as HNTE upon its expiry in December 2018 with the Jiangmen Municipal Local Taxation Bureau for the two said major subsidiaries established in the PRC. The management of the Group considers that the concessionary tax rate shall continue to apply.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration		
— fees	**324**	274
— other emoluments, salaries, allowances and other benefits	**520**	345
— retirement benefit scheme contributions	**59**	13
	903	632
Other staff salaries, allowances and other benefits	**32,872**	35,962
Retirement benefit scheme contributions, excluding those of directors	**4,100**	4,367
Total employee benefits expenses	**37,875**	40,961
Depreciation of property, plant and equipment	**26,821**	24,939
Depreciation of right-of-use assets	**1,853**	–
Amortisation of prepaid lease payments	**–**	1,886
(Gain) loss on disposal of property, plant and equipment	**(717)**	14
Exchange (gain) loss, net	**(301)**	2,278

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

7. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**10,476**	13,945
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**600,000**	600,000

No diluted earnings per share is presented for the six months ended 30 June 2019 and 30 June 2018 as the Group had no potential dilutive ordinary shares in issue during these periods.

8. DIVIDENDS

No dividend has been paid during the current interim period. During the six months ended 30 June 2018, a final dividend of HK2.0 cents per share in respect of the year ended 31 December 2017 was recognized as distribution to the owners of the Company. The aggregate amount of the final dividend declared in the six months ended 30 June 2018 amounted to HK$12,000,000 (equivalent to RMB10,086,000.)

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK3 cents per share and a special interim dividend of HK10 cents per share amounting to HK$78,000,000 (equivalent to RMB70,463,000) in aggregate (2018: nil) will be paid to the owners of the Company whose names appear in the Register of Members on 4 October 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired property, plant and equipment and incurred construction costs of RMB78,008,000 (unaudited) (six months ended 30 June 2018: RMB90,166,000 (unaudited)).

In addition, during the current interim period, the Group made two lease modification of two existing leases by extending the lease term for three years and two years respectively. At the effective dates of the lease modification, the Group recognised RMB1,937,000 of right-of-use asset and lease liability of the same amount.

10. TRADE, BILLS AND OTHER RECEIVABLES

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Trade receivables from contracts with customers	**163,207**	189,756
Bills receivables	**91,387**	75,494
Prepayments to suppliers	**166,591**	150,889
Value-added tax recoverable	**–**	21,586
Other prepayments, deposits and other receivables	**37,140**	21,302
	458,325	459,027

No allowance of credit losses was provided for the six months ended 30 June 2019 and 30 June 2018.

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

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

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

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Trade receivables:		
Within 30 days	**155,344**	169,292
31–60 days	**2,831**	19,832
61–90 days	**4,038**	16
91–120 days	**410**	1
121–180 days	**540**	2
181–365 days	**–**	613
Over 1 year	**44**	–
	163,207	189,756

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Bills receivables:		
Within 30 days	**5,336**	9,611
31–60 days	**19,710**	3,368
61–90 days	**23,272**	3,589
91–120 days	**5,142**	3,854
121–180 days	**28,858**	46,765
181–365 days	**9,069**	8,307
	91,387	75,494

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

As at 30 June 2019, included in the Group's bills receivables are amounts of RMB87,279,000 (31 December 2018: RMB 64,502,000), being the discounted bills receivables transferred to certain banks with full recourse. If the issuing banks of bills receivables default payment on maturity, the banks have the right of recourse to request the Group to pay the unsettled balance. As the Group has not transferred substantially all the risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as bank borrowings from factoring of trade receivables with full recourse (note 14). The financial asset is carried at amortised cost in the condensed consolidated statement of financial position.

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Carrying amount of transferred asset	**87,279**	64,502
Carrying amount of associated liability	**(87,279)**	(64,502)
	–	–

During the six months ended 30 June 2019, certain transactions between subsidiaries of the Company arising from steel processing services and sale and purchase of steel raw materials were settled by bank bills. As at 30 June 2019, bills receivables held by two subsidiaries of the Company issued by other members of the Group of RMB89,447,000 (31 December 2018: nil) were transferred to certain banks with full recourse similar to the arrangements as set out above. These bills receivables were eliminated in full on consolidation. The Group has recognised the cash received on the transfer of the bills receivables as bank borrowings from factoring of trade receivables with full recourse (note 14).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

As at 30 June 2019, the Group has no outstanding hot rolled coils future contracts (31 December 2018: nil). Future contracts of hot rolled coils entered into during the six-month period ended 30 June 2019 have been fully settled before the end of the reporting period. The resulting gain or loss on the derivative financial instruments during the six-month periods ended 30 June 2019 and 30 June 2018 were recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**18,869**	23,798
Bills payables	**174,039**	112,401
Accrued staff costs	**11,449**	6,276
Construction payables	**43,272**	29,917
Transportation fee payables	**1,861**	2,650
Other tax payables	**5,956**	1,524
Consideration payable for acquisition of additional interest in a subsidiary	**10,138**	10,138
Other payables and accrued expenses	**8,880**	15,322
	274,464	202,026

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

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

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables:		
Within 30 days	**7,986**	10,950
31–60 days	**2,145**	4,363
61–90 days	**1,068**	1,881
91–120 days	**1,170**	1,035
121–180 days	**1,765**	1,623
181–365 days	**2,321**	1,617
Over 1 year	**2,414**	2,329
	18,869	23,798

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bills payables:		
31–60 days	**8,220**	28,113
61–90 days	**20,000**	–
91–120 days	**58,299**	–
121–180 days	**87,520**	84,288
	174,039	112,401

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

13. AMOUNTS DUE TO RELATED PARTIES

	30.6.2019 **RMB'000** **(Unaudited)**	31.12.2018 RMB'000 (Audited)
Mr. Xu *(note i)*	**6,614**	33,137
江門市華志金屬制品有限公司 (Jiangmen Huazhi Metal Product Company Limited) ("Jiangmen Huazhi") *(note ii)*	**910**	910
Hua Jin Holdings Pte Ltd ("Hua Jin Holdings") *(note iii)*	**80**	–
	7,604	34,047

Notes:

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

(ii) This is an entity owned as to 60% by Mr. Xu and 40% by Mr. Chen Chunniu ("Mr. Chen"), a director of the Company. The amount is trade in nature, interest free, unsecured and repayment on demand.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

14. BORROWINGS

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Fixed-rate borrowings:		
Secured bank borrowings	**310,720**	325,101
Bank borrowings from factoring of bills receivables with full recourse *(note 10)*	**176,726**	64,502
Secured borrowings from a financial institution independent with the Group	**35,860**	25,388
	523,306	414,991
Variable-rate borrowings:		
Secured bank borrowings	**205,226**	433,247
	728,532	848,238
The carrying amounts of the above borrowings are repayable, based on scheduled repayment dates set out in the loan agreements, as:		
— within one year	**714,554**	831,091
— more than one year, but not more than two years	**6,619**	6,430
— more than two years, but not more than five years	**7,359**	10,717
	728,532	848,238
Less: amounts due within one year shown under current liabilities	**(714,554)**	(831,091)
Amounts shown under non-current liabilities	**13,978**	17,147

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

15. SHARE CAPITAL

	Number of shares	**Share capital** *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 30 June 2019	8,000,000,000	80,000
Issued:		
At 1 January 2018 (audited), 31 December 2018 (audited) and 30 June 2019 (unaudited)	600,000,000	6,000

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Shown in the condensed consolidated statement of financial position	**4,999**	4,999

16. CAPITAL COMMITMENTS

	30.6.2019 ***RMB'000*** **(Unaudited)**	31.12.2018 *RMB'000* (Audited)
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**197,891**	204,350

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

17. PLEDGE OF ASSETS

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

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**291,656**	309,917
Right-of-use assets/prepaid lease payments	**142,812**	143,936
Trade receivables	**–**	5,066
Restricted bank deposits	**194,558**	123,944
	629,026	582,863

18. RELATED PARTY DISCLOSURES

(a) Related party balances

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

(b) Related party transactions

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

Related party	**Nature of transactions**	**Six months ended 30 June**	
		2019	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Jiangmen Huazhi	Rental expenditure	**–**	168
(Note (i))	Effective interest expense of lease liabilities	**23**	–
Hua Jin Holdings *(Note (ii))*	Short term lease expenditure/rental expenditure	**149**	146
Mr. Xu	Interest expense	**–**	224

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

18. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related party transactions *(Continued)*

Notes:

(i) The Group entered into a lease agreement with Jiangmen Huazhi Metal Product Company Limited with the remaining lease term of 3 years from 1 January 2019 for the use of warehouse located in Muzhou Town, Xinhui District, Jiangmen City. The Group is required to make fixed quarterly payments. As at 1 January 2019, the Group recognised lease liabilities of RMB934,000 and right-of use assets of the same amount upon the adoption of HKFRS 16. During the current interim period, no repayment of lease payment has been made. As at 30 June 2019, the corresponding carrying amount of the lease liabilities is RMB957,000.

(ii) The Group entered into a lease agreement with Hua Jin Holdings Pte. Ltd. with the remaining lease term of 7 months from 1 January 2019 for the use of office premise and office equipment located in Tradehub 21, 8 Boon Lay Way, 609964 in District 22, Singapore. The Group is required to make fixed monthly payments. As at 1 January 2019, the Group elected not to recognise right-of-use assets and lease liabilities due to the lease term ends within 12 months of the date of initial application. As at 30 June 2019, the Group made a lease modification of this existing lease by extending the lease term for another three years and recognised the lease liabilities of RMB898,000 and right-of-use assets of the same amount.

(c) Compensation of key management personnel

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Directors' fees	**324**	274
Salaries, allowances and other benefits	**1,406**	1,407
Retirement benefit scheme contributions	**75**	34
	1,805	1,715

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 first half of 2019, the Group recorded revenue of RMB927.3 million and a profit attributable to the owners of the Company of RMB10.5 million, representing a decrease of 35.0% and a decrease of 24.5%, respectively, from the corresponding period in 2018.

The sales volume of processed steel products and galvanized steel products in aggregate was approximately 197,407 tonnes in the first half of 2019, representing a decrease of about 106,035 tonnes or 34.9%, as compared to approximately 303,442 tonnes in the first half of 2018. 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 46.3% (first half of 2018: 66.4%), and 19.1% (first half of 2018: 43.6%), respectively during the reporting period under review. The low utilisation rate for our cold-rolling process and 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 processed steel products and galvanized steel products, temporary suspension of our production for regular repair and maintenance, and reallocation of our certain production facilities to our new production plant 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 starts the trial run by around late 2019. 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 first half of 2019, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB78.0 million.

The Group's current liabilities exceeded its current assets by approximately RMB279.3 million as at 30 June 2019 by the reason that a significant portion of the funding requirements of the Group for capital expenditures was satisfied by short-term borrowings. Subsequent to the reporting period, the Group refinanced certain short-term borrowings in the amount of RMB190.3 million into long-term borrowings and successfully obtained additional long-term financing facilities in the amount of RMB250.0 million for the Group. 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 would have sufficient working capital to meet its current liabilities and expand its operations as anticipated.

Our capital commitments towards the acquisition of property, plant and equipment, as at 30 June 2019, was approximately RMB197.9 million, which will be financed by the Group's internal resources and borrowings. The Group will also consider alternative sources of financing, when applicable. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group primarily generates revenue from the sales of processed steel products and galvanized steel products. The revenue decreased to approximately RMB927.3 million for the first half of 2019, by approximately RMB499.4 million or 35.0%, as compared with that of approximately RMB1,426.7 million in the first half of 2018.

Our sales volume of processed steel products decreased to approximately 173,478 tonnes in the first half of 2019, by approximately 75,499 tonne or 30.3%, as compared with that of approximately 248,977 tonnes in the first half of 2018. Our sales volume of galvanized steel products decreased to approximately 23,929 tonnes in the first half of 2019, by approximately 30,536 tonnes or 56.1%, as compared with that of approximately 54,465 tonnes in the first half of 2018. Thus, our sales volume of processed steel products and galvanized steel products in aggregate was approximately 197,407 tonnes during the first half of 2019, representing a decrease of approximately 106,035 tonnes or 34.9%, as compared to approximately 303,442 tonnes during the first half of 2018.

The decrease in revenue was mainly attributable to the decrease in the average selling price and sales volume of our products. The average selling price of our processed steel products decreased to approximately RMB4,245 per tonne in the first half of 2019 as compared with that of approximately RMB4,424 per tonne in the first half of 2018. The average selling price of our galvanized steel products decreased to approximately RMB4,521 per tonne in the first half of 2019 as compared with that of approximately RMB4,739 per tonne in the first half of 2018. On average, the average selling price of our processed steel products and galvanized steel products decreased to approximately RMB4,278 per tonne in the first half of 2019 as compared with that of approximately RMB4,481 per tonne in the first half of 2018.

Our domestic sales in the PRC market contributed over 99% (first half of 2018: 99%) of our revenue while the remaining portion was attributable to sales to our customers located in Southeast Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue was primarily attributable to the sales of hot-rolled steel products, sales of scrap steel residual in our manufacturing process to recycling agents and others. Such other revenue accounted for about 8.9% (first half of 2018: 4.7%) of our revenue during the first half of 2019.

The following table sets out the summary of our revenue by products during the reporting period:

	Six months ended 30 June			
	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
	(Unauidited)		(Unaudited)	
Sales of processed steel products	**736,364**	**79.4**	1,101,490	77.2
— processed steel strips and sheets	**643,963**	**69.4**	1,015,358	71.2
— welded steel tubes	**92,401**	**10.0**	86,132	6.0
Sales of galvanized steel products	**108,184**	**11.7**	258,104	18.1
Sales of hot-rolled steel products and others	**82,801**	**8.9**	67,057	4.7
	927,349	**100.0**	1,426,651	100.0

Cost of sales

Our cost of sales decreased to approximately RMB870.9 million in the first half of 2019, by approximately RMB479.8 million or 35.5%, as compared with that of approximately RMB1,350.7 million in the first half of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Direct materials	761,274	87.4	1,206,749	89.3
Utilities	38,194	4.4	48,889	3.6
Direct labour	23,804	2.7	29,286	2.2
Consumables	21,001	2.4	40,807	3.0
Depreciation expense	20,030	2.3	23,161	1.8
Others	6,635	0.8	1,805	0.1
	870,938	100.0	1,350,697	100.0

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 87% (first half of 2018: 89%) of our cost of sales in the first half of 2019. The decrease in direct materials was mainly attributable to the decrease in the sales volume of processed steel products and galvanized steel products 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 RMB38.2 million in the first half of 2019, by approximately RMB10.7 million or 21.9%, as compared with that of approximately RMB48.9 million in the first half of 2018. Such decrease was mainly due to the decrease in sales volume and temporary suspension of our certain production lines for maintenance during the reporting period under review.

Our direct labour decreased to approximately RMB23.8 million in the first half of 2019, by approximately RMB5.5 million or 18.8%, as compared with that of approximately RMB29.3 million in the first half of 2018. The decrease in our direct labour was in line with our decreased level of sales volume and hiring of lesser production personnel during the reporting period under review.

Consumables consisted of machinery spare parts and supplies consumed in the production process. Our consumables decreased to approximately RMB21.0 million in the first half of 2019, by approximately RMB19.8 million or 48.5%, as compared with that of approximately RMB40.8 million in the first half of 2018. Such decrease was mainly attributable to the decreased production activity for processed steel products and galvanized steel products during the reporting period under review.

Depreciation expense experienced a decrease to approximately RMB20.0 million in the first half of 2019, by approximately RMB3.2 million or 13.8%, as compared with that of approximately RMB23.2 million in the first half of 2018. Such decrease was attributable to the lower amortisation in production during the reporting period under review.

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

Gross profit

The Group recorded a gross profit of approximately RMB56.4 million in the first half of 2019, representing a decrease of approximately RMB19.6 million or 25.8%, as compared with that of approximately RMB76.0 million in the corresponding period in 2018 and a gross profit margin of 6.1%, representing an increase of approximately 0.8 percentage points as compared with that of 5.3% in the corresponding period in 2018.

Other income, other gains and losses

Other income, other gains and losses decreased to approximately RMB4.4 million in the first half of 2019, by approximately RMB0.1 million or 2.2%, as compared with that of approximately RMB4.5 million in the first half of 2018.

Selling expenses

Our selling expenses decreased to approximately RMB8.5 million in the first half of 2019, by approximately RMB6.3 million or 42.6%, as compared with that of approximately RMB14.8 million in the first half of 2018. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Our administrative expenses increased to approximately RMB19.6 million in the first half of 2019, by approximately RMB1.9 million or 10.7%, as compared with that of approximately RMB17.7 million in the first half of 2018.

Investment gain

Our investment gain is approximately RMB1.7 million in the first half of 2019 when compared with investment loss of approximately RMB6.6 million in the first half of 2018. Such investment gain during the reporting period under review was primarily due to the the net realised gain on the derivative financial instruments in relation to the commodity futures contracts.

Finance costs

The finance costs comprised interest expenses on borrowings which were charged at interest rates ranging from 4.35% to 8.05% (first half of 2018: 1.00% to 8.10%) per annum in the first half of 2019. Finance costs decreased to approximately RMB19.4 million in the first half of 2019, by approximately RMB5.2 million or 21.1%, as compared with that of approximately RMB24.6 million in the first half of 2018. Such decrease was primarily resulted from the decrease in borrowings during the reporting period under review.

Income tax expenses

Income tax expenses increased to approximately RMB5.8 million in the first half of 2019, by approximately RMB2.1 million or 56.8%, as compared with that of approximately RMB3.7 million in the first half of 2018. The increase was mainly attributable to the charge of PRC withholding tax imposed on dividends declared by our PRC subsidiaries offset by over-provision of PRC enterprise income tax in prior year during the reporting period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year

The Group's EBITDA decreased to approximately RMB63.1 million in the first half of 2019, by approximately RMB5.1 million or 7.5%, as compared with that of approximately RMB68.2 million in the first half of 2018. 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 RMB10.5 million in the first half of 2019, by approximately RMB3.4 million or 24.5%, as compared with that of approximately RMB13.9 million in the first half of 2018.

Net profit margin increased to approximately 1.1% in the first half of 2019 by approximately 0.1% from approximately 1.0% in the half of 2018.

Liquidity and financial resources

As at 30 June 2019, the Group's bank balances and cash decreased to approximately RMB31.8 million, by approximately RMB40.7 million or 56.1%, from approximately RMB72.5 million as at 31 December 2018. The Group's restricted bank deposits increased to approximately RMB194.6 million as at 30 June 2019, by approximately RMB70.7 million or 57.1%, from approximately RMB123.9 million as at 31 December 2018.

As at 30 June 2019, the Group had the net current liabilities and the net assets of approximately RMB279.3 million (31 December 2018: RMB234.2 million) and approximately RMB596.4 million (31 December 2018: RMB586.0 million), respectively. As at 30 June 2019, the current ratio calculated based on current assets divided by current liabilities of the Group was 73.8% as compared with that of 79.3% as at 31 December 2018.

At 30 June 2019, the Group's total borrowings amounted to approximately RMB728.5 million (31 December 2018: RMB848.2 million) and total equity amounted to approximately RMB596.4 million (31 December 2018: RMB586.0 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 1.22 times (31 December 2018: 1.45 times) as at 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2019, the Group had total financing facilities relating to borrowings amounted to approximately RMB654.0 million (31 December 2018: RMB958.5 million), of which approximately RMB513.3 million (31 December 2018: RMB798.8 million) had been utilized, and the unutilised financing facilities amounted to approximately RMB140.7 million (31 December 2018: RMB159.7 million). As a significant portion of the funding requirements of the Group for capital expenditures was satisfied by short-term borrowings, subsequent to the reporting period, the Group refinanced certain short-term borrowings in the amount of RMB190.3 million into long-term borrowings which are repayable in July 2021 and successfully obtained additional long-term banking facilities in the amount of RMB250.0 million.

Foreign currency exposure

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

Financial instruments

During the 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

During the reporting period under review, the Group had no material acquisitions or disposal of subsidiaries, associates and joint ventures.

Share capital

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

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments

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

Pledge of assets

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

Contingent liabilities

During the 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 30 June 2019 (31 December 2018: nil).

Employees

As at 30 June 2019, the Group had a total of 832 (31 December 2018: 1,044) full-time employees in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) for the period amounted to approximately RMB37.9 million (first half of 2018: RMB41.0 million). The Group remunerated the employees based on their performance, experience and prevailing market practices. The Company has share option scheme in place as a means to encourage and reward the eligible employees (including the Directors) for their contributions to the Group's results and business development based on their individual performance. No share option was granted during the six months ended 30 June 2019.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2019, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the 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)] Interest of controlled corporation[(2)(3)]	450,000,000	75.00%
Mr. Luo Canwen ("Mr. Luo")	Interest held jointly with another person[(1)] 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).

OTHER INFORMATION

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 30 June 2019.

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 30 June 2019, 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.

OTHER INFORMATION

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

As at 30 June 2019, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) who/which had interests and/or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were:

Long positions in Shares of the Company

Name of shareholders	Nature of interest	Number of Shares held	Percentage of the issued share capital of the Company
Haiyi Limited ("Haiyi")	Beneficial owner[(1)(3)]	450,000,000	75.00%
Intrend Ventures Limited ("Intrend Ventures")	Interest held jointly with another person[(1)] Interest of controlled corporation[(2)(3)]	450,000,000	75.00%
Zhong Cheng International Limited ("Zhong Cheng")	Interest held jointly with another person[(1)] 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%

OTHER INFORMATION

Name of shareholders	Nature of interest	Number of Shares held	Percentage of the issued share capital of the Company
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 30 June 2019.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, 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.

SHARE OPTIONS

Pursuant to the written resolution of all the shareholders of the Company passed on 23 March 2016, the Company adopted a share option scheme conditional upon the Listing of the Company's Shares on the Stock Exchange. Since the adoption of the share option scheme on 23 March 2016 and up to 30 June 2019, no option has been granted by the Company.

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) in April 2016.

The net proceeds from the global offering (adjusted on a pro rata basis based on the actual net proceeds) are fully 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 30 June 2019:

Use of proceeds	Planned applications *(HK$ million)*	% of total net proceeds *(%)*	Actual usage up to 30 June 2019 *(HK$ million)*	Actual usage up to 30 June 2019 *(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

Use of proceeds	Planned applications (HK$ million)	% of total net proceeds (%)	Actual usage up to 30 June 2019 (HK$ million)	Actual usage up to 30 June 2019 (RMB million)
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	4.1	3.5
For general working capital and othergeneral corporate purposes	29.7	9.0	29.7	24.5
Total	330.7	100.0	330.7	276.9

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK3 cents (first half of 2018: nil) and a special interim dividend of HK10 cents per ordinary share in respect of six months ended 30 June 2019, making a total dividend payment of HK$78.0 million (equivalent to approximately RMB70.5 million). The interim dividend and special interim dividend will be paid in cash out of share premium account on Monday, 21 October 2019 to shareholders whose names appear on the Register of Members of the Company on Friday, 4 October 2019.

Under section 34(2) of the Cayman Islands Companies Law, the share premium account may be applied by a company in paying dividends to members provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business. The Board confirms that with respect to the payment of the interim dividend and special interim dividend out of the share premium account, the Company shall be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the interim dividend and special interim dividend are proposed to be distributed.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 2 October 2019 to Friday, 4 October 2019, both days inclusive, during which period no transfer of shares will be registered by the Company. In order to qualify for the interim dividend and special interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 30 September 2019. Dividend warrants will be despatched to shareholders on Monday, 21 October 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's Shares during the six months ended 30 June 2019.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2019 was the Company or its subsidiary a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code during the six months ended 30 June 2019, except as noted hereunder.

Code provision A.4.1

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

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

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the Model Code at all applicable times during the six months ended 30 June 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors as at date of this report, the Company has maintained the prescribed public float required by the Listing Rules for the six months ended 30 June 2019 and up to the date of this report.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company (the "Audit Committee") has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019 in conjunction with the Company's external auditor. Based on the review and discussions with the management, the Audit Committee was satisfied that the unaudited condensed consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2019.

APPRECIATION

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

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

Hong Kong, 29 August, 2019

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

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KY1-1111, Cayman Islands

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