DMSSC 大明

DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2019
Annual Report

Stock code : 1090

Contents

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Lin Changchun
Mr. Lu Jian

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Leung Man Fai

AUTHORISED REPRESENTATIVES

Mr. Zou Xiaoping
Mr. Leung Man Fai

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong Law

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

As to Cayman Islands Law

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

HONG KONG SHARE REGISTRAR

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

AUDITOR

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

PRINCIPAL BANKERS

In Hong Kong

Bank of China (Hong Kong) Limited

In China

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

STOCK CODE

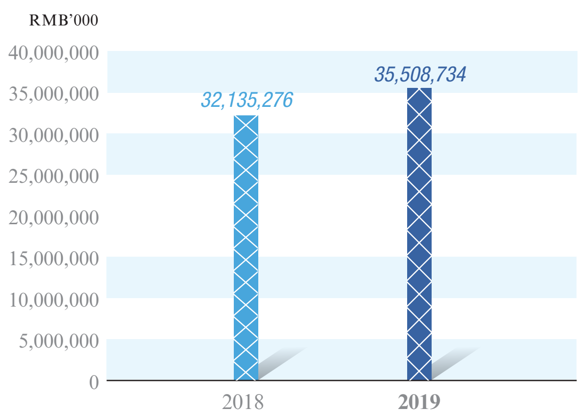
SEHK: 1090

WEBSITE

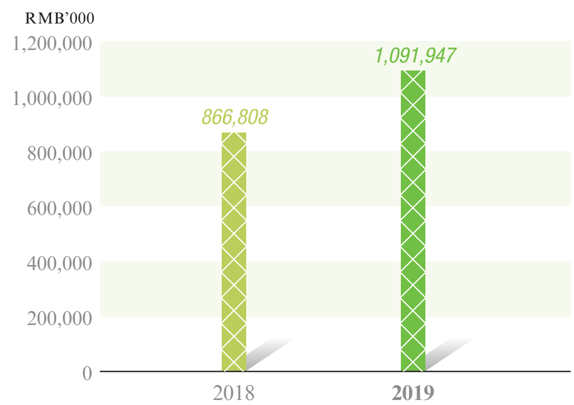
http://www.dmssc.net

	Year ended 31 December		
	2019	2018	
	RMB'000	*RMB'000*	% change
FINANCIAL HIGHLIGHTS			
Revenue	**35,508,734**	32,135,276	+10.5%
Gross profit	**1,091,947**	866,808	+26.0%
Profit and total comprehensive income for the year	**195,574**	132,664	+47.4%

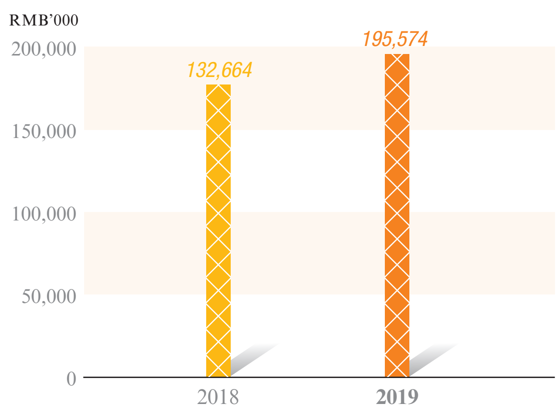
Revenue



Gross Profit



Total comprehensive income for the year

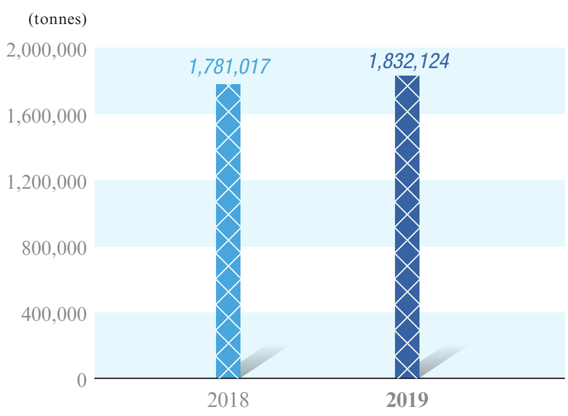


FINANCIAL AND OPERATING HIGHLIGHTS

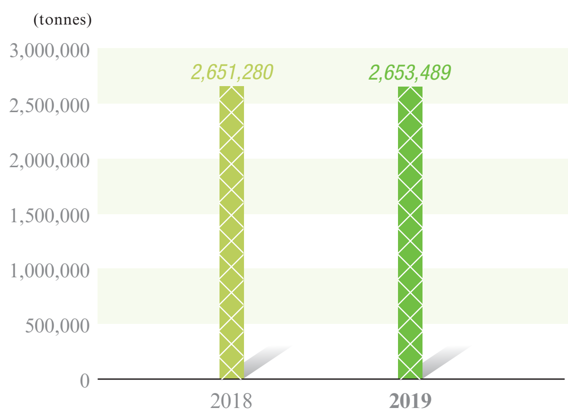
	Year ended 31 December		
	2019	2018	% change
OPERATING HIGHLIGHTS			
Stainless steel			
Sales volume (tonnes)	**1,832,124**	1,781,017	+2.9%
Processing volume (tonnes)	**2,653,489**	2,651,280	+0.1%
Processing multiple *(note)*	**1.45**	1.49	
Carbon steel			
Sales volume (tonnes)	**2,707,923**	2,040,593	+32.7%
Processing volume (tonnes)	**3,015,562**	2,098,505	+43.7%
Processing multiple *(note)*	**1.11**	1.03	

Note: Processing multiple = Processing volume/Sales volume

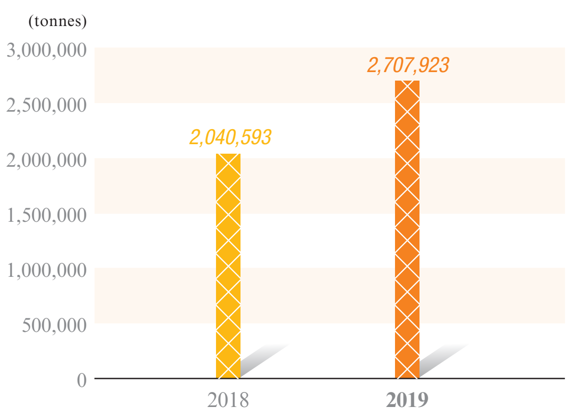
Sales volume of stainless steel



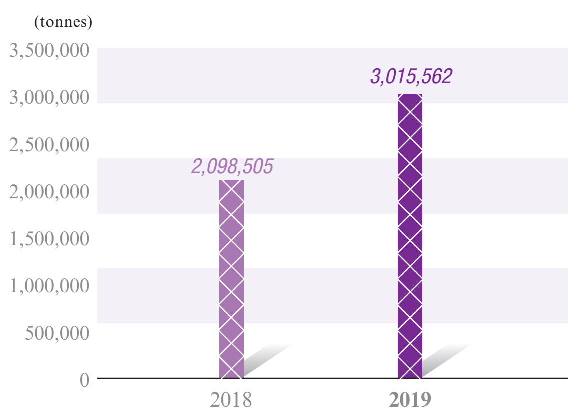
Processing volume of stainless steel



Sales volume of carbon steel



Processing volume of carbon steel



The sales volume and processing volume of our processing centres for the year ended 31 December 2019 and the corresponding period in 2018 are as follows:

Stainless steel	Year ended 31 December 2019 tonnes	2018 tonnes	% change
Sales volume			
Wuxi	**619,172**	618,934	+0.0%
Wuhan	**96,978**	95,904	+1.1%
Hangzhou	**289,633**	291,149	-0.5%
Tianjin	**246,094**	240,306	+2.4%
Taiyuan	**144,357**	134,754	+7.1%
Jingjiang	**266,027**	246,300	+8.0%
Shandong	**125,750**	109,073	+15.3%
Qianzhou	**44,113**	44,597	-1.1%
Total	**1,832,124**	1,781,017	+2.9%
Processing volume			
Wuxi	**1,159,318**	1,165,628	-0.5%
Wuhan	**122,764**	119,133	+3.0%
Hangzhou	**372,049**	376,111	-1.1%
Tianjin	**269,620**	284,787	-5.3%
Taiyuan	**330,646**	277,443	+19.2%
Jingjiang	**282,510**	322,506	-12.4%
Shandong	**116,582**	105,672	+10.3%
Total	**2,653,489**	2,651,280	+0.1%

Carbon steel	Year ended 31 December 2019 tonnes	2018 tonnes	% change
Sales volume			
Wuxi	**34,789**	11,440	+204.1%
Wuhan	**498,377**	396,712	+25.6%
Hangzhou	**184,316**	199,811	-7.8%
Tianjin	**277,476**	167,134	+66.0%
Taiyuan	**229,548**	251,916	-8.9%
Jingjiang	**593,829**	488,308	+21.6%
Qianzhou	**533,004**	423,825	+25.8%
Shandong	**277,954**	101,447	+174.0%
Jiaxing	**78,630**	–	n/a
	2,707,923	2,040,593	+32.7%
Processing volume			
Wuxi	**8,264**	38,338	-78.4%
Wuhan	**569,468**	431,801	+31.9%
Hangzhou	**202,880**	204,993	-1.0%
Tianjin	**412,467**	221,393	+86.3%
Taiyuan	**322,340**	347,041	-7.1%
Jingjiang	**729,893**	530,940	+37.5%
Qianzhou	**400,723**	224,161	+78.8%
Shandong	**292,307**	99,838	+192.8%
Jiaxing	**77,220**	–	n/a
	3,015,562	2,098,505	+43.7%

DEAR SHAREHOLDERS:

On behalf of the board of directors of Da Ming International Holdings Limited (the "Company", together with its subsidiaries as the "Group"), I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2019.

BUSINESS REVIEW

Processing centres

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

The Group's tenth processing centre in Jiaxing, Zhejiang province commenced operation on 8 November 2019.

Business highlights

1. *First vessel-used scrubbing column project supported by Jingjiang Daming Heavy Industry delivered*

   The first offshore vessel-used scrubbing column supported by Jingjiang Daming Heavy Industry for Yara Marine Technologies ("YMT") has been successfully delivered. This project represents a significant milestone for Jingjiang Daming Heavy Industry in vessel-used scrubbing column processing services.

   YMT is a global company engaged in providing integrated desulfurisation and denitrification services. It provides in aggregate over one million hours of reliable operation time for desulfurisation and denitrification equipment of more than 100 shipowners around the world. In the area of vessel-used desulfurisation scrubbing column, YMT has always been the market leader with technology advantages. As the main environmental protection equipment of marine navigation, vessel-used desulfurisation scrubbing columns are made of nickel-based high-end alloy material, which associated with a higher level of difficulties and risks in terms of manufacturing. Jingjiang Daming Heavy Industry has overcome many technical problems in the production process, such as welding deformation and thin-walled tube joint deformation. With the efforts and hardworking of all of our project members, the first set of scrubbing column was delivered one month ahead of schedule.

2. *Large-scale mining trucks supported by Jingjiang Daming Heavy Industry for Xuzhou Construction Machinery Group ("XCMG") exported in bulk to Australia*

   A large number of cargo compartments of XCMG's DE120 large-scale mining trucks supported by Jingjiang Daming Heavy Industry have been successfully shipped to Australia. This was another large-scale project completed after the previous export of 64 110-ton cargo compartments to the Middle East. It also laid a solid foundation for the forthcoming production project of 300-ton mining cargo compartments.

The 12 completed large-scale mining truck cargo compartments, each has a load-bearing capacity of over 150 tons, were designed by XCMG and produced and processed by Daming Heavy Industry. From steel plate customisation, cutting, assembling, welding, machinery processing turning and milling, spraying to packaging, all processes were strictly controlled in accordance with ISO and AWC standards. Daming Heavy Industry project team strictly followed the project plan and, working closely with all departments, we gave full play to the advantages of welding, machinery processing and spraying, and pursued excellence while ensuring meeting the delivery date, which was highly praised by the customer.

3. *Jingjiang Daming Heavy Industry supported pumped-storage power station with magnetic yoke steel processing*

Jingjiang Daming Heavy Industry has completed processing of magnetic yoke steel for a pumped-storage power station project. The processing project has overcome a series of technical difficulties and ensured the quality of products.

As magnetic yoke steels are valuable, the product quality requirements are correspondingly higher. Staff from sales department of Jingjiang Daming Heavy Industry, together with the project managers of technology and production departments, negotiated with customers and finally determined the technical requirements and technics for processing. Every step of the processing process has been tested and reviewed thoroughly, and risks identified that may resulted in product defects were basically avoided. Jingjiang Daming Heavy Industry's technology department has discussed numerous times in the process of determining technics. Through reasonable adjustment of the process, uncontrollable deformation were controlled before the rough milling process. Jingjiang Daming Heavy Industry managed the key factors affecting the product quality from five aspects of "personnel, machine, material, method and condition" and made specific improvements so as to avoid the problems regarding product quality to the greatest extent.

4. *First air separation project supported by Jingjiang Daming Heavy Industry for Air Liquide exported to the United States of America*

The air purifier equipment supported by Jingjiang Daming Heavy Industry for Air Liquide's air separation project has been successfully delivered. This was the first project exported to the United States of America between the two parties following the first shipping of the Baosteel Gases/Weihua project.

The project was designed by Air Liquide, while Jingjiang Daming Heavy Industry has provided the "one-stop" processing services of high standard cutting, grooving, rolling, welding and seamless inspection. All processes were finished strictly in accordance with customer standards and were finally examined and accepted.

5. *Pressure vessel products manufactured by Jingjiang Daming Heavy Industry for Wanhua Chemical successfully delivered*

All pressure vessel products manufactured by Jingjiang Daming Heavy Industry for Wanhua Chemical have been successfully delivered. Wanhua Chemistry and Jingjiang Daming Heavy Industry have previously entered into five contracts, all regarding large pressure vessel products. Manufacturing of such products involved long period and high difficulties, especially for three reactors and two pyrolysis gas gas phase dryers, which associated with a high degree of difficulties.

The three reactors were stirred tank reactors of 110 tons each. The pyrolysis gas gas phase dryers weighed 250 tons each, with special structures which required exceptional technics.

6. *Hubei Daming processing centre undertook construction of several arenas in the Military World Games*

Hubei Daming processing centre has previously cooperated with renowned steel mould enterprises to provide steel truss and outfitting supporting services for the badminton stadium of the Military World Games located in Wuhan University, and to provide roof ventilation pipes and drainage system supporting services for the main badminton stadium of the Military World Games located in Jiangxia Dahuashan Outdoor Sports Centre. Hubei processing centre received another project of supporting the Military World Games, supporting the stadium located in the Sports College.

In order to meet the delivery date, all departments of Hubei processing centre fully cooperated while the units of slicing, leveling and bending joined forces seamlessly and completed the delivery before the deadline required by customers. The strong processing ability and high quality service of Hubei processing centre truly impressed the customers. This cooperation has strengthened the confidence of the customers and they have already expressed their willingness of further cooperation in the future.

7. *Daming Precision Sheet successfully completed the delivery of its first whole set metro ticket vending and checking machine*

Daming Precision Sheet successfully completed its first processing service for whole set stainless steel ticket vending and checking machine prototype, which was highly praised by the customer. This marks that Daming Precision Sheet formally entered the field of metro station system equipment manufacturing.

The customer was the renowned AFC (metro ticket vending and checking system) equipment manufacturer in China. It won the bid for AGM (metro ticket checking machine) and TVM (metro ticket vending machine) projects of Foshan Metro Line 2 in Guangdong Province. Daming Precision Sheet was commissioned to process four ticket checking machines and one ticket vending machine prototype. There were more than 2,000 parts and components in the five prototype machines, and the delivery deadline was extremely tight, which was a huge challenge for the processing service ability of Daming Precision Sheet. With the help of the Group's materials and technology, Daming Precision Sheet production and technology departments worked days and nights, and finally the processing was completed on time with good quality, which fully demonstrated Daming's ability and strength of processing supporting services.

Rail transit industry is Daming's key service sector. Over the years, Daming has provided processing and supporting services for door panels and interior accessories to famous enterprises such as CRRC. This successful supporting for ticket vending and checking equipment has laid a solid foundation for entering related markets such as urban rail transit and airport stations.

8. *Gradual completion of record-setting large-scale vacuum equipment by Jingjiang Daming Heavy Industry Completed for Hangyang*

Jingjiang Daming Heavy Industry has completed the two specifications of vacuum load chamber gate and the first tube section of the gate, both are currently the largest in dimensions in the PRC, for Hangyang, of which the 8-meter vacuum chamber gate has been completed while the 14-meter overall assembly and welding is near completion.

The product of this project has a large overall length and width (the maximum specification is nearly 15.5 meters in length, almost 14 meters in width and 2.68 meters in height), which is currently the largest vacuum chamber project undertaken by Jingjiang Daming Heavy Industry. Due to the considerations of overall rigidity and strength in the manufacturing process, a large number of riveting and soldering, machining and tooling, tooling solutions about lifting and turning, and a series of tooling solutions such as subsequent delivery and transportation tools are required and achieved by the collaboration of various departments of Jingjiang Daming Heavy Industry covering production, technology, safety and environment and equipment manufacturing.

Operating results

The Group recorded a net profit of approximately RMB195.6 million for the year ended 31 December 2019 representing an increase of approximately 47.4% as compared with the net profit of approximately RMB132.7 million for the year ended 31 December 2018.

The annual sales volume of our stainless steel processing business increased from approximately 1,781,000 tonnes for the year ended 31 December 2018 to approximately 1,832,000 tonnes for the year ended 31 December 2019 representing an increase of 2.9% while the processing volume increased from approximately 2,651,000 tonnes for the year ended 31 December 2018 to approximately 2,653,000 tonnes for the year ended 31 December 2019 representing an increase of approximately 0.1%.

The annual sales volume of our carbon steel processing business increased from approximately 2,041,000 tonnes for the year ended 31 December 2018 to approximately 2,708,000 tonnes for the year ended 31 December 2019 representing an increase of approximately 32.7% while the annual processing volume increased from approximately 2,099,000 tonnes for the year ended 31 December 2018 to approximately 3,016,000 tonnes for the year ended 31 December 2019 representing an increase of approximately 43.7%.

FUTURE DEVELOPMENT

The Group will use its best endeavour to resume the operation of its processing centre in Wuhan which had suspended its operation since the outbreak of the Coronavirus disease in January 2020. On the other hand, the Group will launch sales campaigns to improve its processing services to serve our customers better in 2020.

APPRECIATION

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

FINANCIAL REVIEW AND ANALYSIS

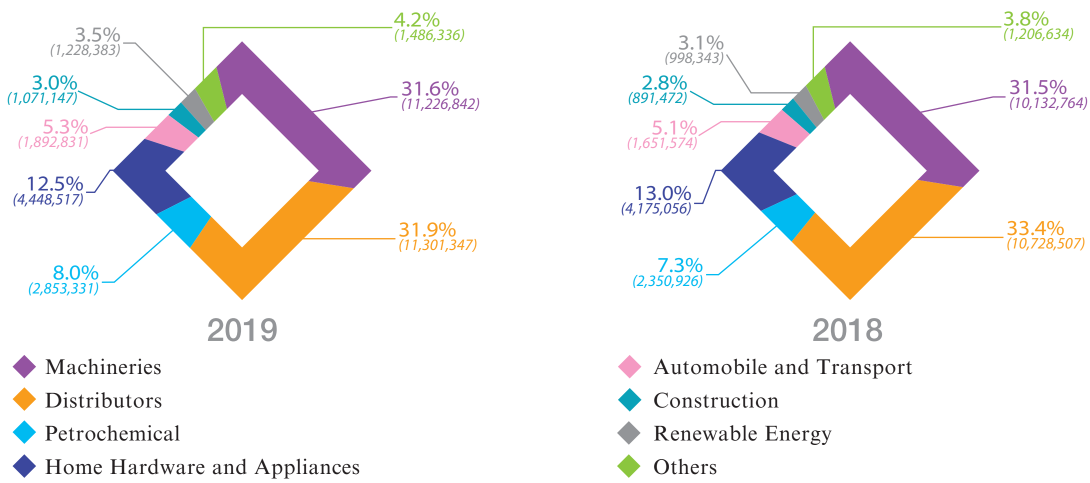
During the year under review, we recorded a revenue of approximately RMB35,509 million, gross profit of approximately RMB1,092 million and the profit attributable to equity holders of the Company of approximately RMB178 million. Total assets of the Group as at 31 December 2019 amounted to approximately RMB10,270 million while equity attributable to equity holders of the Company amounted to approximately RMB2,607 million.

Analysis of revenue by key industry segments

During the years ended 31 December 2019 and 2018, our revenue by key industry segments are shown below:

	Revenue For the year ended 31 December			
	2019		2018	
Industry	***RMB'000***	*%*	*RMB'000*	*%*
Machineries	**11,226,842**	**31.6**	10,132,764	31.5
Distributors	**11,301,347**	**31.9**	10,728,507	33.4
Petrochemical	**2,853,331**	**8.0**	2,350,926	7.3
Home Hardware and Appliances	**4,448,517**	**12.5**	4,175,056	13.0
Automobile and Transport	**1,892,831**	**5.3**	1,651,574	5.1
Construction	**1,071,147**	**3.0**	891,472	2.8
Renewable Energy	**1,228,383**	**3.5**	998,343	3.1
Others	**1,486,336**	**4.2**	1,206,634	3.8
Total	**35,508,734**	**100.0**	32,135,276	100.0

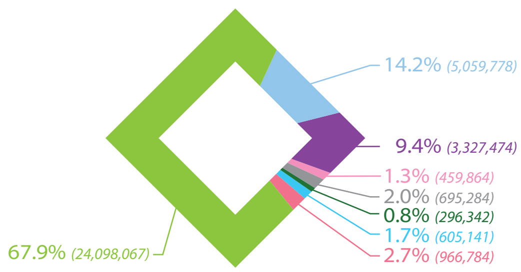
RMB'000 *RMB'000*



Analysis of revenue by geographic regions

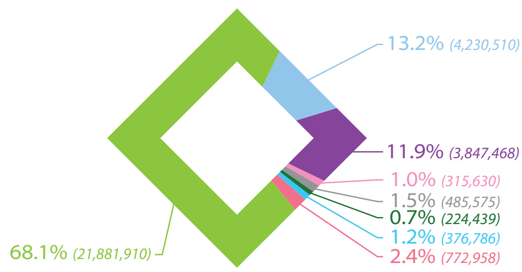
	Revenue For the year ended 31 December			
	2019		2018	
Region	***RMB'000***	*%*	*RMB'000*	*%*
Eastern region, China	**24,098,067**	**67.9**	21,881,910	68.1
Northern region, China	**5,059,778**	**14.2**	4,230,510	13.2
Central region, China	**3,327,474**	**9.4**	3,847,468	11.9
Southwestern region, China	**459,864**	**1.3**	315,630	1.0
Northeastern region, China	**695,284**	**2.0**	485,575	1.5
Northwestern region, China	**296,342**	**0.8**	224,439	0.7
Southern region, China	**605,141**	**1.7**	376,786	1.2
Overseas	**966,784**	**2.7**	772,958	2.4
	35,508,734	**100.0**	32,135,276	100.0

RMB'000



2019

RMB'000



2018

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

Revenue

Our revenue for the year ended 31 December 2019 amounted to approximately RMB35,509 million comprising approximately RMB25,745 million from our stainless steel processing business and approximately RMB9,764 million from our carbon steel processing business. As compared with the revenue for the year ended 31 December 2018 of approximately RMB32,135 million, it represented an increase of approximately 10.5%. Such increase was mainly due to the increase in the sales volume of carbon steel processing services.

Gross profit

Gross profit increased from approximately RMB866.8 million in 2018 to approximately RMB1,091.9 million in 2019 mainly due to the increase in revenue and the increase in profit margin.

Other income

Other income decreased from approximately RMB82.7 million for the year ended 31 December 2018 to approximately RMB44.6 million for the year ended 31 December 2019 mainly due to the decrease in sales of scraps and packaging materials and the decrease in subsidy income.

Other gain – net

The Group recorded a net other gain of approximately RMB4.2 million for the year ended 31 December 2019 as compared with a net other gain of approximately RMB6.5 million for the year ended 31 December 2018.

Distribution costs

Distribution costs increased from approximately RMB277.7 million for the year ended 31 December 2018 to approximately RMB352.2 million for the year ended 31 December 2019. Such increase was mainly due to the increase in staff salaries and transportation costs as a result of the increase in sales volume.

Administrative expenses

Administrative expenses increased from approximately RMB273.3 million for the year ended 31 December 2018 to approximately RMB300.9 million for the year ended 31 December 2019. Such increase was mainly due to the increase in staff costs and entertainment expenses.

Finance costs – net

Net finance costs increased from approximately RMB184.6 million for the year ended 31 December 2018 to approximately RMB202.5 million for the year ended 31 December 2019. The increase in finance costs was mainly due to the increase in interest expenses on borrowings and bank/commercial acceptance notes and letters of credit.

Income tax expense

Income tax expense increased from approximately RMB86.8 million for the year ended 31 December 2018 to approximately RMB89.2 million for the year ended 31 December 2019. Such increase was due to the increase in profit before tax in 2019.

Profit for the year

The Group recorded a profit of approximately RMB195.6 million for the year ended 31 December 2019 as compared with a profit of approximately RMB132.7 million for the year ended 31 December 2018 representing an increase of approximately 47.4%.

Capital Expenditure

In 2019, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB459.1 million (2018: RMB737.7 million).

Foreign Exchange Risk Management

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the borrowings of the Group amounted to approximately RMB5,077.4 million of which approximately RMB4,829.0 million were repayable within one year, notes payables amounted to approximately RMB378.8 million while the bank balances were approximately RMB1,201.4 million of which approximately RMB1,039.7 million were restricted mainly for the issuance of notes payable and letters of credit.

As at 31 December 2019, the Group recorded a net current liabilities of approximately RMB1,696.2 million mainly due to the use of short term borrowings to finance the Group's capital expenditure in the current year. According to our experience, the Group will be able to extend the short term borrowings when due and will not cause any going concern issue. The Group will also review and monitor its financing structure in the coming year.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The gearing ratio as at 31 December 2019 and 2018 calculated on this basis were 62.62% and 58.09% respectively.

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2019. The Company adopted the CG Code as its own code of corporate governance.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS

Composition

The Board of Directors (the "Board") comprises 8 executive directors, 1 non-executive director and 6 independent non-executive directors. As of 31 December 2019, the Directors are as follows:

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

Non-executive director:
Mr. Lin Changchun

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

The biographical details of the Directors are set out on pages 34 to 38 of this Annual Report. Save as Mr. Zhou Keming is the spouse of Ms. Xu Xia, Mr. Zhang Feng is a cousin of Mr. Zhou Keming and the relative of Ms. Xu Xia, none of the members of the Board is related to one another.

BOARD MEETING

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

Seven board meetings had been held in the financial year ended 31 December 2019. The individual attendance record of each director at the meetings of the Board is set out below:

	No. of meeting attended/ No. of meeting held	Attendance rate
Executive Directors		
Mr. Zhou Keming *(Chairman)*	5/7	71%
Mr. Jiang Changhong	7/7	100%
Ms. Xu Xia	6/7	86%
Mr. Zou Xiaoping	7/7	100%
Mr. Lu Ping	7/7	100%
Dr. Fukui Tsutomu	7/7	100%
Mr. Zhang Feng	7/7	100%
Mr. Wang Jian	6/7	86%
Non-executive Director		
Mr. Lin Changchun	3/4[a]	75%
Independent non-executive Directors		
Mr. Cheuk Wa Pang	7/7	100%
Prof. Hua Min	3/7	43%
Mr. Chen Xuedong	4/4[b]	100%
Mr. Lu Daming	6/7	86%
Mr. Liu Fuxing	4/7	57%
Mr. Hu Xuefa	5/7	71%

(a) Mr. Lin Changchun was appointed as a director of the Company with effect from 14 June 2019. Four board meetings were held after his appointment.

(b) Mr. Chen Xuedong resigned as a director of the Company with effect from 12 July 2019. Four board meetings were held before his resignation.

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

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

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

During the year, the Company had organised a training seminar relating to the latest information on compliance matters for listed companies on 14 June 2019. Attendance records of the directors are set out below:

Name of Directors	Attended the training seminar held on 14 June 2019
Executive directors	
Mr. Zhou Keming	✓
Mr. Jiang Changhong	✓
Ms. Xu Xia	✓
Mr. Zou Xiaoping	✓
Mr. Lu Ping[(c)]	
Dr. Fukui Tsutomu[(c)]	
Mr. Zhang Feng[(c)]	
Mr. Wang Jian[(c)]	
Non-executive director	
Mr. Lin Changchun[(d)]	N/A
Independent non-executive directors	
Mr. Cheuk Wa Pang	✓
Prof. Hua Min	✓
Mr. Lu Daming	✓
Mr. Liu Fuxing	✓
Mr. Hu Xuefa	✓

(c) Mr. Lu Ping, Dr Fukui Tsutomu, Mr. Zhang Feng and Mr. Wang Jian attended outside talks or seminars to update knowledge in regulatory updates or their focused professional area.

(d) Mr. Lin Changchun was appointed as a director of the Company after the training seminar was held on 14 June 2019. He attended training relating to continuing responsibilities of a director of a company listed on The Stock Exchange of Hong Kong Limited.

All Directors had provided their training records for the year 2019 to the Company. Furthermore, each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of his responsibilities under the relevant laws, rules, codes and regulations.

MONTHLY MANAGEMENT REPORTS

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

DIRECTORS AND OFFICERS LIABILITY INSURANCE

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

BOARD OPERATIONS

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

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

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

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

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

3. Remuneration should reflect performance, complexity and responsibility.

The Remuneration Committee held four meetings during the financial year ended 31 December 2019.

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

Name of Remuneration Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	4/4	100%
Prof. Hua Min	3/4	75%
Mr. Chen Xuedong	3/3[(e)]	100%
Mr. Lu Daming	3/4	75%
Mr. Liu Fuxing	2/4	50%
Mr. Hu Xuefa	3/4	75%
Mr. Zou Xiaoping	4/4	100%

(e) Mr. Chen Xuedong resigned as a director of the Company with effect from 12 July 2019. Three remuneration committee meetings were held before his resignation.

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

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

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

(3) Reviewed the lists of selected employees for granting award shares on 14 June 2019 and 12 July 2019;

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

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

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

The 2019 annual salary review had been noted and reviewed by the members of the Remuneration Committee.

NOMINATION COMMITTEE

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

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

The Nomination Committee held three meetings during the financial year ended 31 December 2019. The following is an attendance record of the meetings held by the Nomination Committee for the financial year:

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

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

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

(2) Considered the appointment of Mr. Lin Changchun as a non-executive director and the resignation of Mr. Chen Xuedong as an independent non-executive director of the Company;

(3) Reviewed the independence of all INEDs;

(4) Recommended to the Board for endorsement on the re-election of the retiring Directors; and

(5) Discussed succession planning for directors.

AUDIT COMMITTEE

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

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

The Audit Committee held two meetings during the financial year ended 31 December 2019. The following is an attendance record of the meetings held by the Audit Committee for the financial year:

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

(f) Mr. Chen Xuedong resigned as a member of the Audit Committee with effect from 12 July 2019. One Audit Committee meeting was held in 2019 before his resignation.

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

(1) Reviewed the Group's 2019 interim financial results;

(2) Considered and provided comments to the Board on the payment of 2019 interim dividends;

(3) Reviewed the Group's 2019 final results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's auditor (the "Auditor") for the financial year ending 31 December 2020 at the forthcoming AGM of the Company;

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

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

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

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

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

BOARD DIVERSITY POLICY

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

DIVIDEND POLICY

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

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

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the remuneration paid or payable by the Company and its subsidiaries to the Auditor, PricewaterhouseCoopers in respect of their audit and non-audit services were as follows:

Type of services	Fees paid/payable
Audit services	RMB3,150,000
Tax-related services	HK$252,500

The Audit Committee considered that the non-audit services in 2019 did not impair the independence of the Auditor.

COMPANY SECRETARY

Mr. Leung Man Fai has been appointed as company secretary of the Company since 2007. He has complied with Rule 3.29 of the Listing Rules in relation to professional training for the year ended 31 December 2019.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements that give a true and fair view of the Group for the year ended 31 December 2019.

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

SHAREHOLDERS RIGHTS

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

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

The Company Secretary
Da Ming International Holdings Limited

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

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

INVESTORS RELATIONS

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

The 2019 AGM was held on 14 June 2019 at Regal Hongkong Hotel. The related notice and circular have been sent to shareholders in accordance with the applicable rules and regulations. Chairman of the Board, Chairman of the Audit, Remuneration and Nomination Committees and Directors (except Dr. Fukui Tsutomu, Mr. Zhang Feng, Mr. Wang Jian, Mr. Lu Ping and Mr. Chen Xuedong) attended the 2019 AGM. In order to ensure shareholders are familiar with the detailed procedures for conducting a poll, an explanation has been given by the Chairman at the commencement of the meeting. The results of the poll have been published on the websites of the Company and The Stock Exchange of Hong Kong Limited. In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the Chairman of that meeting.

There is no change in the Company's constitutional documents during the year ended 31 December 2019. A consolidation version of the Company's Memorandum and Articles of Association, Shareholder Communication Policy and Procedures for Shareholders to Propose a Person for Election as a Director are available on the Company's website.

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

Board

- Determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;

- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and

- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- Oversees the Group's risk management and internal control systems on an ongoing basis;

- Reviews the effectiveness of the Group's risk management and internal control systems at least annually and such reviews cover all material controls including financial, operational and compliance controls;

- Considers major findings on risk management and internal control matters and then reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;

- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;

- Monitors risks and takes measures to mitigate risks in day-to-day operations;

- Ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;

- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit department; and

- Provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Department

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

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

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

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

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

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

- Develop necessary measures to manage those risks identified

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

Internal Audit Function

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

Handling and dissemination of inside information

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

EXECUTIVE DIRECTORS

Mr. Zhou Keming, aged 50, was appointed as an executive director on 14 February 2007. He is also the chairman of the Board of the Company. Mr. Zhou is one of the founders of the Group and is responsible for the Group's overall business strategy. He has extensive experience in the steel industry. Mr. Zhou was qualified as a senior economist in 2007 by the Appraisal Committee for Senior Economic Technical Qualification of Jiangsu. He currently serves as a director or legal representative of certain subsidiaries of the Company.

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

Mr. Jiang Changhong, aged 56, was appointed as a non-executive director of the Company on 26 July 2010, and re-designated as an executive director of the Company and appointed as the vice president of the Company on 26 September 2016. He was then appointed as the Chief Executive Officer of the Company on 18 April 2018. Mr. Jiang has extensive experience in the steel industry. From October 2011 to July 2016, he was the minister of planning and development department and the minister of new materials business management department of Taiyuan Iron & Steel (Group) Co., Ltd. He has also served as the manager of the sales department of Shanxi Taigang Stainless Steel Co., Ltd., one of the Group's key suppliers from February 2009 to October 2011.

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

Ms. Xu Xia, aged 45, was re-appointed as an executive director on 24 March 2016 and was appointed as a vice-chairman of the Board of the Company on 18 April 2018. Ms. Xu currently serves as a director of certain subsidiaries of the Company. Ms. Xu was an executive director of the Company from February 2007 to December 2015. She is one of the founders of the Group and is responsible for the Group's business operation and administration. Ms. Xu has extensive sales and business development experience in the steel industry. Ms. Xu graduated from China Textile University (currently known as Donghua University) in 1995 with a diploma in Trading Operation. She also completed Advanced Studies for Senior Executives at College of Continuing Education of Fudan University in 2005 on a part-time basis.

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

Mr. Zou Xiaoping, aged 55, was appointed as an executive director on 9 March 2007 and appointed as a vice-chairman of the Board of the Company on 18 April 2018. Mr. Zou is a member of the Nomination Committee and the Remuneration Committee of the Company and the supervisor of Taiyuan Taigang Daming Metal Products Co., Ltd., being a non-wholly owned subsidiary of the Company. He joined the Group in 2002 and is responsible for the Group's overall management, administration and operation. Prior to joining the Group, Mr. Zou worked at Local Tax Bureau, Qianzhou Town, Xishan District from 1986 to 2002 on taxation matters and was granted a certificate for having undergone the in-service taxation training offered to the civil servants in 2000, when serving as the assistant to the head of the Bureau. Mr. Zou has extensive experience in taxation and corporate management. He graduated from Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party with a Bachelor of Laws degree in 2004 and obtained a Master of Business Administration degree from Asia International Open University (Macau) (currently known as City University of Macau) in 2005.

Dr. Fukui Tsutomu (formerly known as Zhang Qinzhong), aged 59, was appointed as an executive director on 15 October 2014. Dr. Fukui currently serves as a director of certain subsidiaries of the Company. Prior to joining the Group, Dr. Fukui was the managing director of Nippon Yakin Shanghai Co., Ltd. He has extensive experience in the steel industry. Dr. Fukui graduated from Nanjing University with a bachelor degree in Catalytic Chemistry in 1982 and obtained a Doctoral degree in Engineering from Tokyo Institute of Technology in 1991, majoring in Materials Science and Engineering.

Mr. Zhang Feng, aged 43, was appointed as an executive director on 15 October 2014. Mr. Zhang is currently the general manager of Jiangsu Daming Metal Products Company Limited, a wholly-owned subsidiaries of the Company. He also serves as a director and legal representative of certain subsidiaries of the Company.

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

Mr. Wang Jian, aged 56, was appointed as an executive director on 25 May 2017. He is currently the general manager of Daming Heavy Industry Co., Ltd., a wholly-owned subsidiary of the Company. Mr. Wang graduated from Tianjin University in 1985 with a bachelor's degree in Welding in the School of Mechanical Engineering. Mr. Wang has extensive experience in the steel industry. He was certified as a senior engineer by Jiangsu Wuxi Mechanical Engineering Senior Professional and Technical Qualification Evaluation Committee in 2004.

NON-EXECUTIVE DIRECTORS

Mr. Lin Changchun, aged 43, was appointed as a non-executive director on 14 June 2019. Mr. Lin has been a certified public accountant of the People's Republic of China since December 2003. He graduated from Wuhan University in June 1998 with a bachelor degree of economics in finance.

Mr. Lin has extensive experience in financial management and trading. He is currently the deputy general manager of Baosteel Stainless Steel Co., Ltd. and Shanghai Baosteel Stainless Steel Co., Ltd. and the financial controller of Shanghai Baodi Shangshi City Development Co., Ltd. and he has been working for these three companies since December 2018.

From July 1998 to December 2018, Mr. Lin worked at Baowu Carbon Material Technology Co., Ltd. (formerly known as Shanghai Baosteel Chemical Co., Ltd.), where his last position was general manager assistant and the secretary of the board of that company. From May 2017 to December 2018, he was the general manager of Ouyeel Chemical Operation Centre and an executive director of Baosteel Chemical (Free Trade Zone) International Trade Co., Ltd. From March 2018 to December 2018, he was the chairman of Shanghai Ouyeel Chemical E-commerce Co., Ltd.

Mr. Lu Jian, aged 45, was appointed as a non-executive director on 27 March 2020. Mr. Lu graduated from Beijing University of Technology in July 1996 with a bachelor's degree of metal press forming.

Mr. Lu has extensive experience in sales and marketing of stainless steel. He is currently the deputy director of the marketing centre and head of the marketing and management department at Shanxi Taigang Stainless Steel Co., Ltd. ("Shanxi Taigang"), a stainless steel producer and a company the shares of which are listed on The Shenzhen Stock Exchange (with stock code 000825).

From July 1996 to April 2002, Mr. Lu was the operations officer at the medium-sized rolled plate section of the sales office of Taiyuan Iron & Steel (Group) Co., Ltd. ("Taiyuan Steel"), a state-owned enterprise incorporated in the People's Republic of China. From April 2002 to January 2005, he was deputy manager of Taiyuan Spot Sales Company. Mr. Lu was the head of the medium-sized rolled plate section of the sales office of Taiyuan Steel and the head of the medium-sized rolled plate section at the operations and sales department of Shanxi Taigang from January 2005 to April 2007. From April 2007 to July 2009, Mr. Lu was the head of the medium-sized rolled plate section of the sales and marketing department of Shanxi Taigang. From July 2009 to January 2010, Mr. Lu was the director of the operations planning office of the sales and marketing department of Shanxi Taigang. From January 2010 to May 2011, he was the assistant to the head of sales and marketing department of Shanxi Taigang and the director of the operations planning office of the sales and marketing department of Shanxi Taigang. Mr. Lu was the deputy head of the sales and marketing department of Shanxi Taigang from May 2011 to September 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Hua Min, aged 69, was appointed as an independent non-executive director since 20 March 2007. He is a professor and doctoral candidates adviser and has taught and conducted research in world economics, China economics and international economics at Fudan University and the chief of the Academic Committee of School of Economics of Fudan University since 1990. He has extensive experience in economics. Professor Hua graduated from Fudan University with a Bachelor degree in Political Economics in 1982 and obtained a Doctoral degree in Economics from Fudan University in 1993. From March 2008 to February 2010, he was the Specially Appointed Policy-Making Advisory Expert of the People's Government of Shanghai City. Since 2004, Professor Hua has also been an independent non-executive director and a member of the audit committee of Shanghai International Shanghai Growth Investment Limited (stock code: 770), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Cheuk Wa Pang, aged 55, was appointed as an independent non-executive director since 20 March 2007. Mr. Cheuk is currently the chief financial officer, the qualified accountants and the company secretary of Lee Kee Holdings Limited (stock code: 637), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Cheuk has extensive experience in accounting and auditing. Mr. Cheuk holds a Bachelor of Science degree in Engineering from the University of Hong Kong, a Master degree in Applied Finance and a Master degree in Business Administration from Macquarie University in Australia. Mr. Cheuk is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants of England and Wales.

Mr. Lu Daming, aged 66, was appointed as an independent non-executive director on 21 August 2014. He was the dean of Hoisting and Conveying Machinery Design Institute Beijing. Mr. Lu obtained his qualification as a research level senior engineer from the People's Republic of China Machinery Industry Department in 1996. He is also a state registered facility supervising engineer and a state registered consulting engineer (investment) of the People's Republic of China. Mr. Lu has also been an independent director of Zhuzhou Tianqiao Crane Co., Ltd. (stock code: 002523, the shares of which are listed on The Shenzhen Stock Exchange), Huadian Heavy Industries Co., Ltd. (stock code: 601226, the shares of which are listed on The Shanghai Stock Exchange), and Noblelift Intelligent Equipment Co., Ltd. (stock code: 603611, the shares of which are listed on The Shanghai Stock Exchange).

Mr. Liu Fuxing, aged 63, was appointed as an independent non-executive director on 25 May 2017. He has been the vice president of Stainless Steel Council of the China Special Steel Enterprises Association since 2015. Mr. Liu obtained a master's degree in applied mathematics from Xi'an Jiaotong University in 2003 and received a senior professional manager qualification certificate from China Association of Construction Enterprise Management in 2005. Mr. Liu has extensive experience in the steel industry. From December 1995 to February 2002, he was the deputy general manager of Taiyuan Iron & Steel (Group) Co., Ltd. and from March 2002 to February 2015, he was a director of Taigang (Group) Limited. During May 2008 to April 2013, Mr. Liu was also the general manager of Shanxi Taigang Stainless Steel Co., Ltd., a company whose shares are listed on The Shenzhen Stock Exchange.

Mr. Hu Xuefa, aged 57, was appointed as an independent non-executive director since 30 May 2018. He has been a qualified senior engineer (professor level) in Shanghai, the People's Republic of China ("PRC") since February 2013. He obtained a master's degree in Executive Master of Business Administration from China Europe International Business School in 2011. In 2008 and 2003, Mr. Hu obtained a doctorate degree in Engineering and a master's degree in Mechanical Engineering, respectively, from Northeastern University, the PRC.

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

SENIOR MANAGEMENT

Mr. Leung Man Fai, aged 55, joined the Group in 2007 as the chief financial officer and company secretary of the Group. Mr. Leung has extensive experience in accounting and finance. Before joining the Group, Mr. Leung served as a financial controller and company secretary of a private company during 2003 to 2006. From 1996 to 2003, he served various roles including financial controller, company secretary and finance manager in several listed companies within the ITC Corporation (stock code: 372), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. He also worked as a senior accountant during 1992 to 1996 in Hopewell Holdings Limited (stock code: 54), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. Mr. Leung received a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

The Directors are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by operating segment is set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated comprehensive income statement on page 58.

DIVIDENDS

The Directors have declared and paid an interim dividend of HK$0.06 (2018: HK$0.05) per share totaling HK$74,711,400 (2018: HK$62,259,500) during the year.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 20 and Note 38 to the consolidated financial statements respectively.

As of 31 December 2019, our reserves available for distribution amounted to RMB1,851.6 million (2018: RMB1,861.4 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2019.

SHARE CAPITAL

Details of the movements in share capital of the Group and the Company are set out in Note 19 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in Note 9 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The five largest suppliers accounted for approximately 67% of the Group's total purchases for the year and the largest supplier accounted for approximately 27% of the Group's total purchases.

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

BORROWINGS

Particulars of borrowings of the Group are set out in Note 24 to the consolidated financial statements.

FIVE-YEAR SUMMARY

A summary of the Group's results, assets, liabilities for the last five years is set out in the section headed "Financial summary" on page 152.

PRE-EMPTIVE RIGHTS

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

SHARE OPTION SCHEME

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

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

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

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

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

As at 31 December 2019, there were a total of 19,220,000 outstanding share options granted to directors and certain employees of the Group. Details of which are as follows:

Name or category of participant	Date of grant	Exercise price (HK$)	Number of share options: As at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2019	Exercise period
Director								
Dr. Fukui Tsutomu	23 December 2014	2.364	500,000[2]	–	–	–	500,000	23 December 2017 to 22 December 2024
Mr. Zhang Feng	21 December 2010	2.452	300,000[1]	–	–	–	300,000	21 December 2013 to 20 December 2020
	23 December 2014	2.364	100,000[2]	–	–	–	100,000	23 December 2017 to 22 December 2024
Mr. Wang Jian	23 December 2014	2.364	400,000[2]	–	–	–	400,000	23 December 2017 to 22 December 2024
Other employees in aggregate	21 December 2010	2.452	4,720,000[1]	–	–	(300,000)	4,420,000	21 December 2013 to 20 December 2020
	23 December 2014	2.364	14,350,000[2]	–	–	(850,000)	13,500,000	23 December 2017 to 22 December 2024
Total			20,370,000	–	–	(1,150,000)	19,220,000	

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

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

Details of the valuation of share options during the year are set out in Note 21 to the consolidated financial statements.

SHARE AWARD SCHEME

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

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

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

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

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

During the year, an aggregate of 3,012,000 shares of the Company's existing ordinary shares have been purchased for the share award scheme, a total of 4,604,000 awarded shares were granted and vested to directors and Selected Employees. Details of the movements in the Share Award Schemes during the year are set out in Note 21 to the consolidated financial statements. As at 31 December 2019, the independent trustee holds 19,888,000 shares of the Company for the share award scheme.

Details of the awarded shares movement for the year ended 31 December 2019 are as follows:

		Number of Awarded Shares				
Name of awardees	Date of grant	As at 1 January 2019	Granted during the year	Vested during the year	As at 31 December 2019	Vesting date/period
Dr. Fukui Tsutomu	14 June 2019	–	88,000	(88,000)	–	21 June 2019
Mr. Zhang Feng	14 June 2019	–	262,000	(262,000)	–	21 June 2019
Mr. Wang Jian	14 June 2019	–	120,000	(120,000)	–	21 June 2019
Other employees in aggregate	14 June 2019	–	3,896,000	(3,896,000)	–	21 June 2019
Other employees in aggregate	12 July 2019	–	238,000	(238,000)	–	19 July 2019
Total		–	4,604,000	(4,604,000)	–	

CONTINUING CONNECTED TRANSACTIONS

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

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

For the year ended 31 December 2019, approximately RMB8,969.96 million of stainless steal and carbon steel were purchased by the Jiangsu Daming Group from STSS and Taiyuan Steel, not exceeding the proposed cap of RMB21,000 million. Details of the above transactions and the connected relationship between Jiangsu Daming and STSS were disclosed in the announcement of the Company dated 22 December 2017.

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

Pursuant to the framework agreement entered into between Jiangsu Daming and STSS on 30 September 2019, (i) STSS Group agrees to purchase, and Jiangsu Daming Group agrees to supply stainless and carbon steel (including processed finished goods or processed semi-finished goods) to STSS Group; and (ii) STSS Group agrees to purchase, and Jiangsu Daming Group agrees to provide stainless steel and carbon steel processing service to STSS Group.

For the year ended 31 December 2019, (i) supply of stainless steel and carbon steel (including processed finished goods or processed semi-finished goods); and (ii) provision of processing service from the Jiangsu Daming Group to STSS Group amounting to approximately RMB81.4 million, not exceeding the proposed cap of RMB469.4 million. Details of the above transactions and the connected relationship between Jiangsu Daming and STSS were disclosed in the announcement of the Company dated 3 October 2018.

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

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

(2) on normal commercial terms or better; and

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

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

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

DIRECTORS

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

Executive Directors
Zhou Keming *(Chairman)*
Jiang Changhong *(Chief Executive Officer)*
Xu Xia *(Vice-chairman of the Board)*
Zou Xiaoping *(Vice-chairman of the Board)*
Fukui Tsutomu (formerly known as Zhang Qinzhong)
Zhang Feng
Wang Jian
Lu Ping (resigned on 27 March 2020)

Non-executive Directors
Lin Changchun (appointed on 14 June 2019)
Lu Jian (appointed on 27 March 2020)

Independent Non-Executive Directors
Cheuk Wa Pang
Hua Min
Lu Daming
Liu Fuxing
Hu Xuefa
Chen Xuedong (resigned on 12 July 2019)

In accordance with Article 84 of the Articles of Association of the Company, Mr. Zhou Keming, Mr. Zou Xiaoping, Dr. Fukui Tsutomu, Mr. Zhang Feng and Mr. Lu Daming retire from office by rotation at the Company's 2020 Annual General Meeting. All the retiring directors, being eligible, offer themselves for re-election.

In accordance with Article 83.(3) of the Company's Articles of Association, Mr. Lin Changchun and Mr. Lu Jian, were appointed as additional directors of the Company by the Board on 14 June 2019 and 27 March 2020 respectively, shall hold office until the date of the next following annual general meeting of the Company and shall then be eligible for e-election.

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

The biographical details of Directors are set out on pages 34 to 38 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 31 December 2019, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interests	Number of shares/underlying shares held	% of issued share capital
Mr. Zhou Keming	Personal, family and corporate	793,551,000[3]	63.73%
Mr. Jiang Changhong *(also Chief Executive Officer)*	Personal	384,000	0.03%
Ms. Xu Xia	Personal, family and corporate	793,551,000[3]	63.73%
Mr. Zou Xiaoping	Personal and family	5,060,000[4]	0.41%
Dr. Fukui Tsutomu	Personal and family	1,864,000[5]	0.15%
Mr. Zhang Feng	Personal	2,086,000[6]	0.17%
Mr. Wang Jian	Personal and family	1,644,000[7]	0.13%
Mr. Lu Ping (resigned on 27 March 2020)	Personal	34,000	0.00%

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

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

(5) The interest comprises 498,000 shares held by Dr. Fukui Tsutomu, 866,000 shares held by Dr. Fukui's spouse, Ms. Mizuho Fukui and 500,000 underlying shares in respect of the share options granted to Dr. Fukui pursuant to the share option scheme as disclosed under section headed share option scheme.

(6) The interest comprises 1,686,000 shares, 400,000 underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed share option scheme.

(7) The interest comprises 396,000 shares held by Mr. Wang Jian, 848,000 shares held by Mr. Wang's spouse, Ms. Zhang Minxian and 400,000 underlying shares in respect of the share options granted to Mr. Wang pursuant to the share option scheme as disclosed under section headed share option scheme.

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

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

(8) As at 31 December 2019, Ally Good Group Limited is the holder of 63.72% of the issued share capital of the Company and is an associated corporation under SFO.

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

Save as disclosed above, as at 31 December 2019, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 31 December 2019, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

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

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2019.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 39 to the consolidated financial statements.

The Group employed a total of 5,265 staffs as at 31 December 2019 (2018: 4,652). There was an approximately 13.18% growth in our workforce in 2019 as compared with 2018. The increase in headcounts was due to the business expansion of our Group. The remuneration of employees was based on their performance, skills, knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis. In addition to basic salaries, employees may be offered with discretionary bonus on individual performance. The Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares as at 27 March 2020.

CORPORATE GOVERNANCE

Details of the compliance by the Company with the Corporate Governance Code are set out on pages 17 to 33 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 and considered that the Group has complied with all applicable accounting standards and requirements.

AUDITORS

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

By Order of the Board

Zhou Keming
Chairman
Hong Kong, 27 March 2020

pwc 羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Da Ming International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 151, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realisable value of inventories *Refer to Note 2.11, Note 4(a), and Note 14 to the consolidated financial statements.* Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. As at 31 December 2019, inventories amounting to RMB2,784,448,000 was stated after provision. We focused on this area due to the volatility in the market price of steel products for which the relevant sales contract not yet signed and that there are significant estimation and judgment required in the determination of selling price used in the net realisable value assessment.	We understood, evaluated and validated management's controls in respect of the Group's assessment of net realisable value of inventories. We assessed management assumption and estimation by checking against market trend of steel production price, historical and subsequent selling prices, and post year end margin of the Group. We tested whether there were any slow-moving, excess, obsolete or damaged items being omitted from management estimation. We compared management's prior year and current year estimations to assess whether the method for making the accounting estimate had been applied consistently. We also evaluated the variance between subsequent selling price and management's assumption to assess the sensitivity of management assumption. Based on our work performed, we found management's judgement and estimation for the net realisable value of inventories were supported by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Land use rights	*6*	**–**	487,286
Property, plant and equipment	*7*	**4,432,495**	4,204,500
Right-of-use assets	*8*	**519,362**	–
Investment properties	*9*	**4,214**	4,597
Intangible assets	*10*	**19,065**	16,453
Deferred income tax assets	*12*	**77,861**	75,500
Trade receivables and contract assets	*15*	**28,523**	27,674
Other non-current assets	*13*	**4,116**	5,881
		5,085,636	4,821,891
Current assets			
Inventories	*14*	**2,784,448**	2,689,628
Trade receivables and contract assets	*15*	**384,010**	506,697
Prepayments, deposits and other receivables	*16*	**814,805**	927,627
Restricted bank deposits	*17*	**1,039,691**	1,076,064
Cash and cash equivalents	*18*	**161,807**	140,004
		5,184,761	5,340,020
Total assets		**10,270,397**	10,161,911
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*19*	**106,607**	106,607
Reserves	*20*	**2,500,710**	2,387,020
		2,607,317	2,493,627
Non-controlling interests		**326,843**	358,975
Total equity		**2,934,160**	2,852,602

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*24*	**248,410**	850,183
Deferred government grants	*25*	**133,130**	87,909
Deferred income tax liabilities	*12*	**40,569**	15,636
Trade payables	*22*	**9,074**	8,959
Long-term payables	*23*	**24,060**	38,750
		455,243	1,001,437
Current liabilities			
Trade payables	*22*	**966,980**	2,153,632
Accruals and other current liabilities	*23*	**383,534**	389,720
Contract liabilities	*5*	**607,539**	439,470
Current income tax liabilities		**49,261**	75,032
Borrowings	*24*	**4,829,012**	3,243,536
Current portion of deferred government grants	*25*	**–**	4,482
Lease liabilities	*8*	**3,618**	–
Dividends payable		**41,050**	2,000
		6,880,994	6,307,872
Total liabilities		**7,336,237**	7,309,309
Total equity and liabilities		**10,270,397**	10,161,911

The notes on page 61 to 151 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

		Year ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**35,508,734**	32,135,276
Cost of sales	*28*	**(34,416,787)**	(31,268,468)
Gross profit		**1,091,947**	866,808
Other income	*26*	**44,637**	82,670
Other expenses	*28*	**(463)**	(889)
Other gain - net	*27*	**4,223**	6,454
Distribution costs	*28*	**(352,162)**	(277,681)
Administrative expenses	*28*	**(300,880)**	(273,324)
Operating profit		**487,302**	404,038
Finance income	*30*	**26,036**	26,915
Finance costs	*30*	**(228,565)**	(211,489)
Finance costs - net	*30*	**(202,529)**	(184,574)
Profit before income tax		**284,773**	219,464
Income tax expense	*31*	**(89,199)**	(86,800)
Profit and total comprehensive income for the year		**195,574**	132,664
Attributable to:			
Equity holders of the Company		**177,536**	109,557
Non-controlling interests		**18,038**	23,107
		195,574	132,664
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic earnings per share	*32*	**0.14**	0.09
– Diluted earnings per share	*32*	**0.14**	0.09

The notes on page 61 to 151 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company			
	Share Capital *(Note 19)* *RMB'000*	**Reserves** *(Note 20)* *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2018	106,607	2,322,971	267,626	2,697,204
Comprehensive income				
Profit for the year	–	109,557	23,107	132,664
Total comprehensive income for the year ended 31 December 2018	–	109,557	23,107	132,664
Transactions with owners				
Employee share options scheme				
– value of employee services *(Note 21(a))*	–	2,100	65	2,165
Share award scheme				
– value of employee services *(Note 21(b))*	–	7,317	–	7,317
Capital injection by a non-controlling shareholder	–	–	72,177	72,177
Dividends	–	(54,925)	(4,000)	(58,925)
Total transactions with owners	–	(45,508)	68,242	22,734
Balance at 31 December 2018	106,607	2,387,020	358,975	2,852,602
Balance at 1 January 2019	106,607	2,387,020	358,975	2,852,602
Comprehensive income				
Profit for the year	–	177,536	18,038	195,574
Total comprehensive income for the year ended 31 December 2019	–	177,536	18,038	195,574
Transactions with owners				
Employee share options scheme				
– value of employee services *(Note 21(a))*	–	952	30	982
Share award scheme				
– value of employee services *(Note 21(b))*	–	8,025	–	8,025
Shares held for share award scheme *(Note 21(b))*	–	(5,273)	–	(5,273)
Dividends	–	(67,550)	(50,200)	(117,750)
Total transactions with owners	–	(63,846)	(50,170)	(114,016)
Balance at 31 December 2019	106,607	2,500,710	326,843	2,934,160

The notes on page 61 to 151 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**382,808**	655,292
Interest received		**44,243**	26,915
Interest paid		**(224,069)**	(204,753)
Income tax paid		**(87,105)**	(76,501)
Income tax return		**2,072**	–
Net cash generated from operating activities		**117,949**	400,953
Cash flows from investing activities			
Purchase of property, plant and equipment		**(561,470)**	(736,825)
Purchase of land use rights		**(38,450)**	(154,484)
Purchase of intangible assets		**(5,713)**	(3,458)
Cash received in relation to asset-related government grants	*25*	**47,680**	27,730
Proceeds from sale of property, plant and equipment	*34(b)*	**564**	747
Capital injection by non-controlling shareholders		**–**	72,177
Net cash used in investing activities		**(557,389)**	(794,113)
Cash flows from financing activities			
Proceeds from borrowings	*34(c)*	**6,143,588**	4,566,110
Repayments of borrowings	*34(c)*	**(4,568,863)**	(3,677,422)
Dividends paid to Company's shareholders	*33*	**(67,550)**	(54,925)
Dividends paid to non-controlling interests in subsidiaries		**(11,150)**	(2,000)
Restricted bank deposits pledged for bank borrowings and used for repayment of borrowings		**(1,227,735)**	(467,247)
Principal elements of lease payments		**(1,674)**	–
Purchase of shares held for share award scheme		**(5,273)**	–
Payment of withholding tax		**(7,700)**	–
Collection of restricted bank deposits pledged for bank borrowings		**206,574**	–
Net cash generated from financing activities		**460,217**	364,516
Net increase/(decrease) in cash and cash equivalents		**20,777**	(28,644)
Cash and cash equivalents at beginning of year	*18*	**140,004**	166,151
Exchange gain on cash and cash equivalents		**1,026**	2,497
Cash and cash equivalents at end of year	*18*	**161,807**	140,004

The notes on page 61 to 151 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION OF THE GROUP

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

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

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited since 1 December 2010. These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.1.1 Going concern

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB1,696,233,000. The Group meets its day-to-day working capital requirements mainly through its short-term borrowings from the banks in mainland China and Hong Kong that are refinanced and/or subjected to renewal every twelve months. In preparing this financial statements, the directors of the Company have considered the Group's available sources of funds as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern (continued)

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

Having considered the above, the directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than twelve months from period end date of these financial statements. The directors, therefore, are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Further information on the Group's borrowings is given in Note 24.

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual financial period commencing 1 January 2019:

		Effective for annual periods beginning on or after
HKFRS 16	Leases (i)	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements 2015-2017 Cycle		1 January 2019

The Group changed its accounting policies as a result of adopting HKFRS 16 and the related impact is disclosed below.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

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

(i) HKFRS 16 Leases

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.9% per annum.

(1) Measurement of lease liabilities and right-of-use assets

	1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**114**
Lease liabilities recognised on extension option estimation	**1,959**
(Less): short-term leases recognised on a straight-line basis as expense	**(114)**
	1,959
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**1,806**
Add: rental prepayments recognised as at 31 December 2018	**479**
	2,285
Add: reclassification of leasehold land and land use rights	**487,286**
Right-of-use assets recognised as at 1 January 2019	**489,571**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

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

(i) HKFRS 16 Leases (continued)

(1) Measurement of lease liabilities and right-of-use assets (continued)

The associated right-of-use assets for property leases were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(2) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Prepayments, deposits and other receivables – decrease by RMB479,000
- Right-of-use assets – increase by RMB489,571,000
- Land use rights – decrease by RMB487,286,000
- Lease liabilities – increase by RMB1,806,000

There was no impact on retained earnings on 1 January 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

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

(i) HKFRS 16 Leases (continued)

(3) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(4) Leasor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

2.2 Subsidiaries

2.2.1 Consolidation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

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

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

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

(c) *Group companies*

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the balance sheet date;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income(OCI).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment properties

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

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

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

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

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

2.7 Intangible assets

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

2.8 Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets – loans and receivables

2.9.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

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

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

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

2.9.2 Recognition and derecognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets – loans and receivables (continued)

2.9.3 Measurement

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

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

Debt instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets – loans and receivables (continued)

2.9.4 Impairment

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

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See Note 15 for further details.

2.10 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

2.11 Inventories

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

2.12 Trade and other receivables

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

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 15 for further information about the Group's accounting for trade receivables and contract assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

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

2.15 Trade and other payables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings

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

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

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

2.17 Borrowing costs

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Pension obligations

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

In accordance with the rules and regulations in the Mainland China, the Group has arranged for its employees from Mainland China to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 29(a) of this section. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

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

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

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (continued)

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

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

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

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

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

(b) Share-based payment transactions among Group entities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions

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

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

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

2.22 Government grants

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

(a) Sales of goods

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

Trade receivables are recognised when the Group has an unconditional right to payment. Contract assets are recognised when the Group's right to consideration is conditional on something other than the passage of time. The Group recognises the loss provision using the expected credit loss model for its trade receivables and contract assets.

2.24 Other income

(a) Rental income

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

(b) Interest income

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

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

2.25 Dividend distribution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases

(a) As a lessee

As explained in Note 2.1.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.1.2.

Until 31 December 2018, Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 35). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (including in-substance fixed payments).

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases (continued)

(a) As a lessee (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities, and
- any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(b) As a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 26). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade receivables and contract assets, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar (USD), EURO (EUR), Hong Kong Dollar (HKD), and Japanese Yen (JPY), which are exposed to foreign currency translation risk. Details of the Group's trade receivables and contract assets, restricted bank deposits, cash and cash equivalents, other receivables, trade payables, other payables and borrowings are disclosed in Notes 15, 17, 18, 16, 22, 23 and 24 respectively.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB5,884,000 (2018: RMB6,802,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables and contract assets, deposits and other receivables, restricted bank deposit, cash and cash equivalents, borrowings, trade payables and other payables.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the EUR with all other variables held constant, profit before income tax for the year would have been approximately RMB4,377,000 (2018: RMB4,908,000) higher/lower, mainly as a result of foreign exchange gains on translation of EUR-denominated cash and cash equivalents, borrowings, trade payables and other payables.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the year would have been approximately RMB178,000 (2018: RMB168,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash and cash equivalents.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, profit before income tax for the year would have been approximately RMB378,000 lower/higher (2018: RMB259,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of JPY-denominated trade receivables and contract assets, cash and cash equivalents, trade payables and other payables.

(ii) Cash flow and fair value interest rate risk

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

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

Details of the Group's restricted bank deposits, cash and cash equivalents and borrowings have been disclosed in Notes 17, 18 and 24, respectively.

As at 31 December 2019, if the interest rates on bank borrowings had been 100 basis-points higher/lower with all other variables held constant, profit before income tax for the year would have been RMB14,034,000 (2018: RMB13,842,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

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

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

Steel raw material, including stainless steel and carbon steel, accounts for 97.68% of the Group's cost of sales (2018: 97.86%). The Group has followed a stainless steel and carbon steel raw material purchase price adjustment practice with the strategic suppliers, Shanxi Taigang Stainless Steel Co., Ltd. and its subsidiaries ("STSS Group"), and some other suppliers. Purchase transaction with STSS Group accounts for 27% of the Group's annual purchase (2018: 27%). Pursuant to such practice, STSS Group shall reimburse the Group if the purchase price of the stainless steel raw materials that the Group paid to STSS Group is higher than the benchmark selling prices decided by STSS Group based on actual selling prices achieved by STSS Group's key customers, including the Group (after adjusting for bulk purchase discounts and processing fee), subject to STSS Group's sole discretion in determining the actual purchase credit amount and the time in which such purchasing credit would be given to the Group.

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

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

(b) Credit risk

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

The Group has policies to place its cash and cash equivalents only with highly reputable financial institutions, and limit the amount of credit exposure to any financial institution. As at 31 December 2019, most of the restricted bank deposits and cash and cash equivalents are placed with highly reputable financial institutions in Mainland China and Hong Kong.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Group 1	**322,579**	488,613
Group 2	**815,593**	653,455
Group 3	**63,224**	73,725
	1,201,396	1,215,793

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

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

	Less than 1 year *RMB'000*	Between 1 year and 2 years *RMB'000*	Between 2 years and 5 years *RMB'000*
At 31 December 2019			
Borrowings	4,829,012	222,564	25,846
Interests payment on borrowings *(a)*	80,819	7,928	381
Trade and other payables *(b)*	1,333,457	33,134	–
	6,243,288	263,626	26,227
At 31 December 2018			
Borrowings	3,243,536	730,183	120,000
Interests payment on borrowings *(a)*	96,522	27,057	5,559
Trade and other payables *(b)*	2,502,020	47,709	–
	5,842,078	804,949	125,559

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2019 and 2018 respectively, without taking into account any subsequent changes in the amount of borrowings. Floating-rate interest is estimated using current interest rate as at 31 December 2019 and 2018 respectively.

(b) Other payables include accruals and other payables as stated in Note 23.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

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

3.3 Capital management

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

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

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

The gearing ratios at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Total borrowings *(Note 24)*	**5,077,422**	4,093,719
Less: cash and cash equivalents *(Note 18)*	**(161,807)**	(140,004)
Net debt	**4,915,615**	3,953,715
Total equity	**2,934,160**	2,852,602
Total capital	**7,849,775**	6,806,317
Gearing ratio	**62.62%**	58.09%

The increase in the gearing ratio during 2019 mainly because of the increase in total borrowings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Net realisable value of inventories

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

(b) Useful lives of property, plant and equipment

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Income taxes and deferred income tax

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

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

(e) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 21 to the consolidated financial statements.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executeive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The decision-maker has determined the operating segments based on these reports.

The decision-maker considers the business from a product perspective. The decision-maker assesses the performance of the operating segments based on a measure of segment profit or loss.

The reportable operating segments derive their revenue primarily from the classification, processing and sales of stainless steel and carbon steel products and manufacturing of stainless steel and carbon steel products.

The Group is domiciled in Mainland China. The revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue. Meanwhile, all of the Group's productions and operating assets are located in Mainland China. As a result, no geographical segment information is presented since Mainland China is considered as one geographic location with similar risks and returns.

During the year ended 31 December 2019, none of the customers of the Group from whom the revenue amounting to 10% or more of the Group's revenue (2018: None).

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. The other income and expenses, other gain, finance costs – net are managed on a group basis and are not allocated to operating segments.

Segment assets comprise operating assets. They exclude restricted bank deposits, cash and cash equivalents and deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude borrowings and deferred income tax liabilities.

5. SEGMENT INFORMATION (CONTINUED)

Revenue

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Mainland China	**34,541,950**	31,370,542
– Hong Kong and other overseas countries and regions *(i)*	**966,784**	764,734
Total sales	**35,508,734**	32,135,276

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

Revenue of the Group consists of the following revenues for the years ended 31 December 2019 and 2018. All revenues are derived from external customers.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Processing and sales of stainless steel and carbon steel products	**34,451,133**	31,579,927
Manufacturing of stainless steel and carbon steel products	**1,057,601**	555,349
	35,508,734	32,135,276

5. SEGMENT INFORMATION (CONTINUED)

Revenue (continued)

The segment results for the year ended 31 December 2019:

	Processing *RMB'000*	**Manufacturing** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Segment revenue	**34,832,383**	**1,193,452**	**(517,101)**	**35,508,734**
Segment results	**408,863**	**35,039**	**(4,997)**	**438,905**
– including depreciation and amortisation	**173,146**	**68,969**	**–**	**242,115**
Other income and expenses				**44,174**
Other gain - net				**4,223**
Finance costs - net				**(202,529)**
Profit before income tax				**284,773**
Income tax expense				**(89,199)**
Profit for the year				**195,574**

The segment results for the year ended 31 December 2018:

	Processing *RMB'000*	Manufacturing *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Segment revenue	31,866,580	707,083	(438,387)	32,135,276
Segment results	362,703	(49,816)	2,916	315,803
– including depreciation and amortisation	144,559	58,165	–	202,724
Other income and expenses				81,781
Other gain - net				6,454
Finance costs - net				(184,574)
Profit before income tax				219,464
Income tax expense				(86,800)
Profit for the year				132,664

5. SEGMENT INFORMATION (CONTINUED)

Revenue (continued)

The segment assets and liabilities as at 31 December 2019 are as follows:

	Processing *RMB'000*	Manufacturing *RMB'000*	Elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	**7,311,763**	**2,193,191**	**(596,522)**	**1,361,965**	**10,270,397**
Segment liabilities	**1,918,394**	**896,152**	**(596,300)**	**5,117,991**	**7,336,237**
Additions to non-current assets	**197,203**	**52,710**	**(4,272)**	**16,659**	**262,300**

The segment assets and liabilities as at 31 December 2018 are as follows:

	Processing *RMB'000*	Manufacturing *RMB'000*	Elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	7,307,602	1,910,158	(413,546)	1,357,697	10,161,911
Segment liabilities	2,926,598	688,516	(415,160)	4,109,355	7,309,309
Additions to non-current assets	488,752	108,158	–	12,752	609,662

5. SEGMENT INFORMATION (CONTINUED)

Revenue (continued)

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

	As at 31 December 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Current contract assets	**67,145**	–
Non-current contract assets	**28,666**	27,674
Loss allowance	**(1,528)**	–
Total contract assets (i)	**94,283**	27,674
Contract liabilities – advances from customers (ii)	**607,539**	439,470

(i) Contract assets relating to sale of goods and rendering of services are mainly related to the undue warranty receivables.

(ii) All the carried-forward contract liabilities satisfied in a prior year is recognised as revenue during the year ended 31 December 2019.

6. LAND USE RIGHTS

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**487,286**	341,950
Change in accounting policy – HKFRS 16 *(Note 2.1.2(a)(i))*	**(487,286)**	–
Additions	**–**	75,047
Transfer from construction in progress *(Note 7)*	**–**	79,437
Amortisation charge *(Note 34(a))*	**–**	(9,148)
At 31 December	**–**	487,286

The Group's land use rights are located in Mainland China and the remaining lease periods were between 31 years to 50 years as at 31 December 2019.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plant *RMB'000*	Machinery *RMB'000*	Vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2018						
Cost	969,215	2,728,371	36,200	56,015	768,259	4,558,060
Accumulated depreciation	(128,297)	(634,426)	(22,045)	(32,404)	–	(817,172)
Net book amount	840,918	2,093,945	14,155	23,611	768,259	3,740,888
Year ended 31 December 2018						
Opening net book amount	840,918	2,093,945	14,155	23,611	768,259	3,740,888
Additions	18,276	73,966	3,314	6,138	635,988	737,682
Transfer	181,649	465,885	541	586	(648,661)	–
Transfer to intangible assets *(Note 10)*		–	–	–	(2,000)	(2,000)
Transfer to land use rights *(Note 6)*	–	–	–	–	(79,437)	(79,437)
Disposals *(Note 34(b))*	–	(829)	(293)	(177)	–	(1,299)
Depreciation *(Note 34(a))*	(30,354)	(148,726)	(4,665)	(7,589)	–	(191,334)
Closing net book amount	1,010,489	2,484,241	13,052	22,569	674,149	4,204,500
At 31 December 2018						
Cost	1,169,140	3,267,110	38,312	61,862	674,149	5,210,573
Accumulated depreciation	(158,651)	(782,869)	(25,260)	(39,293)	–	(1,006,073)
Net book amount	1,010,489	2,484,241	13,052	22,569	674,149	4,204,500
Year ended 31 December 2019						
Opening net book amount	1,010,489	2,484,241	13,052	22,569	674,149	4,204,500
Additions	1,413	11,791	5,319	5,936	433,451	457,910
Transfer	86,257	361,350	1,090	1,997	(450,694)	–
Transfer to intangible assets *(Note 10)*	–	–	–	–	(1,774)	(1,774)
Disposals *(Note 34(b))*	–	(97)	(473)	(395)	–	(965)
Depreciation *(Note 34(a))*	(36,000)	(178,277)	(4,452)	(8,447)	–	(227,176)
Closing net book amount	1,062,159	2,679,008	14,536	21,660	655,132	4,432,495
At 31 December 2019						
Cost	1,256,810	3,639,459	42,346	68,062	655,132	5,661,809
Accumulated depreciation	(194,651)	(960,451)	(27,810)	(46,402)	–	(1,229,314)
Net book amount	1,062,159	2,679,008	14,536	21,660	655,132	4,432,495

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain subsidiaries of the Group entered into sales and lease back agreements with finance leasing companies of which one is owned by a minority shareholder of a subsidiary of the Group, whereby machineries were sold and leased back over one to three years lease term. The Group has the option to reacquire the machineries on completion of the lease at nominated value. During such lease term and before the exercise of the completion repurchase option, such machineries are restricted under the agreements where leaser's consent must be obtained for the pledge and/or disposal of these assets. As at 31 December 2019, assets under this restriction amounting to RMB266,250,000 (2018: RMB349,015,000).

Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming") pledged machineries to Taiyuan Iron & Steel (Group) Co., Ltd. for inventories on consignment. As at 31 December 2019, assets under this restriction amounting to RMB140,734,000 (2018: RMB148,917,000).

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cost of sales	**206,548**	170,872
Distribution costs	**1,733**	2,066
Administrative expenses	**18,895**	18,396
	227,176	191,334

For the year ended 31 December 2019, borrowing costs amounting to approximately RMB19,817,000 (2018: RMB14,789,000) were capitalised into the cost of property, plant and equipment at an average borrowing rate of 5.18% (2018: 5.37%) per annum.

8. LEASES

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	As at 31 December 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Right-of-use assets		
Land use rights	**514,404**	–
Properties	**4,958**	–
	519,362	–
Lease liabilities		
Current	**3,618**	–

Movements in right-of-use assets and land use rights are analysed as follows:

	Properties *RMB'000*	Land-use rights *RMB'000*	Right-of-use assets Total *RMB'000*
At 1 January	2,285	487,286	**489,571**
Additions	3,486	38,450	**41,936**
Depreciation charges *(Note 34(a))*	(813)	(11,332)	**(12,145)**
At 31 December	4,958	514,404	**519,362**

8. LEASES (CONTINUED)

(b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2019
	RMB'000
Depreciation charge of right-of-use assets	
Land use rights	**(11,332)**
Properties	**(813)**
	(12,145)
Interest expense	**(125)**
Expense relating to short-term leases	**(4,514)**

The total cash outflow for leases in 2019 was RMB40,124,000.

9. INVESTMENT PROPERTIES

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Opening net book amount	**4,597**	5,006
Depreciation *(Note 34(a))*	**(383)**	(409)
Closing net book amount	**4,214**	4,597
Cost	**8,505**	8,505
Accumulated depreciation	**(4,291)**	(3,908)
Net book amount	**4,214**	4,597

For the year ended 31 December 2019, the rental income arising from investment properties amounting to approximately RMB362,000 (2018: RMB367,000) (Note 26).

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Not later than 1 year	**362**	362

As at 31 December 2019, the fair values of the investment properties were approximately RMB11,890,000 (2018: RMB11,355,000). These estimates are made by discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

10. INTANGIBLE ASSETS

	Computer software	
	2019	2018
	RMB'000	*RMB'000*
At 1 January		
Cost	**22,386**	19,430
Accumulated amortisation	**(5,933)**	(4,100)
Net book amount	**16,453**	15,330
Opening net book amount	**16,453**	15,330
Additions	**3,249**	956
Transfer from construction in progress *(Note 7)*	**1,774**	2,000
Amortisation *(Note 34(a))*	**(2,411)**	(1,833)
Closing net book amount	**19,065**	16,453
At 31 December		
Cost	**27,409**	22,386
Accumulated amortisation	**(8,344)**	(5,933)
Net book amount	**19,065**	16,453

For the year ended 31 December 2019, amortisation of the Group's intangible assets amounting to RMB2,411,000 (2018: RMB1,833,000) has been charged to administrative expenses in the consolidated statement of comprehensive income.

11. SUBSIDIARIES

(a) The following is a list of the principal subsidiaries at 31 December 2019:

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Allybest Investments Limited ("Allybest")	British Virgin Islands 10 July 2006	Limited liability company	USD20,000	100%	–	Investment holding, in BVI
Fortune Express Industrial Limited ("Fortune Express")	Hong Kong 14 July 2003	Limited liability company	HKD10,000	–	100%	Investment holding and trading of steel products, in Hong Kong
Jiangsu Daming Metal Products Co., Ltd. ("Jiangsu Daming")	Mainland China 21 June 2002	Limited liability company	USD 133,250,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Hangzhou Daming Wanzhou Metal Technology Co., Ltd. ("Hangzhou Wanzhou", formerly known as Hangzhou Wanzhou Metal Products Co., Ltd.)	Mainland China 8 December 2005	Limited liability company	USD 26,000,000	–	95%	Processing, distribution and sales of steel products, in the PRC
Tianjin Taigang Daming Metal Products Co., Ltd. ("Tianjin Taigang Daming")	Mainland China 15 February 2007	Limited liability company	USD 36,500,000	–	91%	Processing, distribution and sales of steel products, in the PRC
Daming Metals (Hong Kong) Company Limited ("Hong Kong Daming")	Hong Kong 30 November 2009	Limited liability company	USD 2,000,000	–	100%	Purchase and sales of metal materials, in Hong Kong
Jiangsu Daming Precision Manufacturing Co., Ltd. ("Daming Precision Sheet")	Mainland China 22 November 2010	Limited liability company	RMB 100,000,000	–	100%	Processing, manufacturing and sales of steel products, in the PRC

11. SUBSIDIARIES (CONTINUED)

(a) The following is a list of the principal subsidiaries at 31 December 2019: (continued)

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming")	Mainland China 26 July 2011	Limited liability company	RMB 500,000,000	–	60%	Processing, distribution and sales of steel products, in the PRC
Daming Heavy Industry Co., Ltd. ("Jingjiang Daming Heavy Industry")	Mainland China 14 March 2012	Limited liability company	USD 155,000,000	–	100%	Processing, manufacturing and sales of steel products, in the PRC
Daming Metal Products Wuxi Co., Ltd. ("Qianzhou Daming")	Mainland China 11 April 2012	Limited liability company	RMB 30,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Hubei Daming Metal Technology Co., Ltd. ("Hubei Daming")	Mainland China 22 October 2012	Limited liability company	RMB 150,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Jiangsu Daming Allybest Trading Co., Ltd. ("Allybest Trading")	Mainland China 23 December 2013	Limited liability company	RMB 10,000,000	–	100%	Sales of steel products, in the PRC
Zibo Daming Fortune Metals Products Co., Ltd. ("Zibo Daming")	Mainland China 13 January 2014	Limited liability company	RMB 30,000,000	–	100%	Distribution and sales of stainless steel products, in the PRC
Daming Metal Technology Co., Ltd. ("Daming Metal Technology")	Mainland China 09 June 2014	Limited liability company	USD 65,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC

11. SUBSIDIARIES (CONTINUED)

(a) The following is a list of the principal subsidiaries at 31 December 2019: (continued)

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Daming International Import & Export Co., Ltd. ("Daming Import & Export")	Mainland China 17 June 2014	Limited liability company	RMB 58,000,000	–	100%	Distribution and sales of steel products and fixed assets, in the PRC
Jiangsu Daming Steel Union logistics Co., Ltd. ("Steel Union Logistics")	Mainland China 30 June 2015	Limited liability company	RMB 10,000,000	–	65%	Distribution service, in the PRC
Shandong Daming Allybest Metal Technology Co., Ltd. ("Shandong Allybest")	Mainland China 22 July 2016	Limited liability company	RMB 78,161,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Zhejiang Daming Hanwa Metal Technology Co., Ltd. ("Zhejiang Daming")	Mainland China 19 March 2019	Limited liability company	USD 51,760,066	–	85%	Processing, distribution and sales of steel products, in the PRC
Jiangsu Daming Specialty Steel Co., Ltd.("Specialty Steel")	Mainland China 28 January 2020	Limited liability company	RMB 10,000,000	–	100%	Sales of steel products, in the PRC

* As at 31 December 2019, Wuhan Fortune Express Metal Products Co., Ltd. has been liquidated.

11. SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests:

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2019 was RMB18,038,000 (2018: RMB23,107,000), of which RMB16,274,000 (2018: RMB19,651,000) was related to the 40% non-controlling equity interest in Taiyuan Taigang Daming. The non-controlling interests in respect of other subsidiaries are not material.

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

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current assets	**589,199**	452,773
Current liabilities	**521,655**	284,610
Total current net assets	**67,544**	168,163
Non-current assets	**498,361**	498,370
Non-current liabilities	**46,681**	78,035
Total non-current net assets	**451,680**	420,335
Net assets	**519,224**	588,498

11. SUBSIDIARIES (CONTINUED)

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

Summarised statement of comprehensive income

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**5,205,641**	4,087,228
Profit before income tax	**53,536**	65,077
Income tax expense	**(12,852)**	(15,950)
Profit after tax and total comprehensive income	**40,684**	49,127
Total comprehensive income allocated to non-controlling interests	**16,274**	19,651
Dividends paid to non-controlling interests	**4,000**	2,000

Summarised cash flows

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**18,970**	31,077
Interest received	**560**	261
Interest paid	**(9,876)**	(7,445)
Income tax paid	**(15,093)**	(15,952)
Income tax return	**2,072**	–
Net cash (used in)/generated from operating activities	**(3,367)**	7,941
Net cash used in investing activities	**(23,573)**	(18,232)
Net cash generated from financing activities	**29,318**	9,571
Net increase/(decrease) in cash and cash equivalents	**2,378**	(720)
Cash and cash equivalents at beginning of year	**229**	949
Exchange gains on cash and cash equivalents	**–**	–
Cash and cash equivalents at end of year	**2,607**	229

12. DEFERRED INCOME TAX

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred income tax assets:		
– deferred tax assets to be recovered after more than 12 months	**26,201**	35,294
– deferred tax assets to be recovered within 12 months	**54,872**	42,748
Total deferred tax assets	**81,073**	78,042
Set-off of deferred tax liabilities	**(3,212)**	(2,542)
Net deferred tax assets	**77,861**	75,500
Deferred income tax liabilities:		
– deferred tax liabilities to be settled after more than 12 months	**34,668**	16,507
– deferred tax liabilities to be settled within 12 months	**9,113**	1,671
Total deferred tax liabilities	**43,781**	18,178
Set-off of deferred tax liabilities	**(3,212)**	(2,542)
Net deferred tax liabilities	**40,569**	15,636

12. DEFERRED INCOME TAX (CONTINUED)

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

	Provision for write-down of inventories *RMB'000*	Deferred income *RMB'000*	Accrued expenses *RMB'000*	Provision for impairment of receivables *RMB'000*	Unrealised gains on inventories *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2018	12,123	9,545	7,411	440	1,790	31,842	63,151
Recognised in the consolidated statement of comprehensive income	8,582	2,181	620	116	(1,790)	5,182	14,891
At 31 December 2018	20,705	11,726	8,031	556	–	37,024	78,042
Recognised in the consolidated statement of comprehensive income	(7,215)	4,897	2,039	1,811	5,236	(3,737)	3,031
At 31 December 2019	13,490	16,623	10,070	2,367	5,236	33,287	81,073

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB2,389,000 (2018: RMB14,348,000) in respect of accumulated losses amounting to RMB14,482,000 (2018: RMB62,007,000) that can be carried forward against future taxable income. As at 31 December 2019, accumulated losses that are not recognised as deferred tax assets amounting to RMB14,482,000 can be carried forward indefinitely. And as at 31 December 2018, accumulated losses that are not recognised as deferred tax assets amounting to RMB48,433,000 can be carried forward in the next three years, and accumulated losses amounting to RMB13,574,000 can be carried forward indefinitely.

12. DEFERRED INCOME TAX (CONTINUED)

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

	Interest expenses on capitalised property, plant and equipment *RMB'000*	Withholding tax (i) *RMB'000*	Accelerated tax depreciation (ii) *RMB'000*	Unrealised losses on inventories *RMB'000*	Total *RMB'000*
At 1 January 2018	13,389	–	49	–	13,438
Recognised in the consolidated comprehensive income statements	3,143	–	(17)	1,614	4,740
At 31 December 2018	16,532	–	32	1,614	18,178
Recognised in the consolidated comprehensive income statements	4,120	7,882	15,215	(1,614)	25,603
At 31 December 2019	20,652	7,882	15,247	–	43,781

(i) According to the CIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside mainland China when their subsidiaries in mainland China declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, including those incorporated in Hong Kong.

(ii) Pursuant to the 'Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances' (Cai Shui [2018] 54) issued by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2020, the cost of newly purchased equipment with the original cost less than RMB5 million can be fully deducted against taxable profit in the next month after the asset is put into use for tax filing, instead of being depreciated annually.

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

Deferred income tax liabilities of RMB7,882,000 (2018: none) has been recognised for the withholding tax that would be payable on the estimate of retained earnings of certain subsidiary incorporated in Mainland China as at 31 December 2019 that are expected to be distributed due to cancellation in the foreseeable future. Unremitted earnings that deferred income tax liabilities have not been recognised totaled RMB626,864,000(2018: RMB716,211,000) as at 31 December 2019.

13. OTHER NON-CURRENT ASSETS

As at 31 December 2019, other non-current assets mainly represent the long-term deposits for land use rights.

14. INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials	**1,971,978**	2,035,769
Finished goods and work-in-progress	**812,470**	653,859
	2,784,448	2,689,628

The cost of materials recognised as cost of sales amounting to approximately RMB33,616,770,000 (2018: RMB30,600,469,000).

The Group had reversed approximately RMB28,860,000, for the previous write-down of inventories to their net realised value as at 31 December 2019 (2018: made a provision of approximately RMB34,328,000). These amounts have been included in the cost of sales in the consolidated statement of comprehensive income (Note 28).

15. TRADE RECEIVABLES AND CONTRACT ASSETS

	As at 31 December					
	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets	**67,145**	**28,666**	**95,811**	–	27,674	27,674
Accounts receivable	**294,897**	**–**	**294,897**	301,403	–	301,403
Notes receivable						
– bank acceptance notes	**27,255**	**–**	**27,255**	196,277	–	196,277
– commercial acceptance notes	**3,682**	**–**	**3,682**	11,126	–	11,126
	392,979	**28,666**	**421,645**	508,806	27,674	536,480
Less: provision for impairment	**(8,969)**	**(143)**	**(9,112)**	(2,109)	–	(2,109)
	384,010	**28,523**	**412,533**	506,697	27,674	534,371

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

As at 31 December 2019, bank acceptance notes of RMB5,366,000 (2018: RMB188,770,000) were pledged as security for notes payable for the Group (Note 22).

As at 31 December 2019, bank acceptance notes of RMB10,545,000 (2018: RMB3,333,000) were pledged as security for letters of guarantee.

15. TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

The majority of the Group's sales are made on (i) cash on delivery, (ii) bank or commercial acceptance notes with maturity within 1 year, and (iii) credit terms within 180 days. As at 31 December 2019 and 2018, the aging analysis of trade receivables was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accounts receivable		
– within 30 days	**210,498**	308,514
– 30 days to 3 months	**37,450**	14,294
– 3 months to 6 months	**23,101**	3,214
– 6 months to 1 year	**21,323**	2,599
– 1 year to 2 years	**2,430**	278
– over 2 years	**95**	178
	294,897	329,077
Notes receivable		
– within 1 year	**30,937**	207,403
	325,834	536,480

As at 31 December 2019, trade receivables of approximately RMB7,584,000 (2018: RMB2,109,000) were impaired and fully provided for. The impairment was assessed individually for individual significant or long aging balances. The aging of these receivables was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accounts receivable		
– within 1 year	**5,765**	2,013
– 1 year to 2 years	**1,724**	2
– over 2 years	**95**	94
	7,584	2,109

15. TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**2,109**	1,632
Provision for trade receivables and contract assets *(Note 28)*	**7,476**	931
Written off as uncollectible	**(473)**	(454)
At 31 December	**9,112**	2,109

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**359,935**	498,601
USD	**61,710**	37,833
JPY	**–**	46
	421,645	536,480

15. TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Group 1	**27,255**	196,277
Group 2	**394,390**	340,203
Group 3	**–**	–
	421,645	536,480

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

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

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Prepayment for purchase of raw materials	**490,343**	542,063
Discounted interest for notes receivable	**35,361**	23,272
Value-added tax recoverable	**258,257**	307,966
Export tax refundable	**9,615**	17,305
Deposits and other receivables	**18,490**	37,021
Loan to Daming Logistics *(Note 36(c))*	**2,739**	–
	814,805	927,627

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

Deposits and other receivables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**18,446**	36,977
USD	**44**	44
	18,490	37,021

17. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Restricted bank deposits denominated in:		
– RMB	**962,591**	822,126
– USD	**77,100**	253,938
	1,039,691	1,076,064

The nature of restricted bank deposits was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deposits for issuing notes payable	**598,054**	966,603
Deposits for issuing letters of credit	**375,585**	79,309
Deposits for issuing letters of guarantee	**65,688**	27,065
Deposits for forward foreign exchange	**364**	–
Deposits for letters of credit facility	**–**	3,087
	1,039,691	1,076,064

As at 31 December 2019, the weighted average interest rate on restricted bank deposits was 1.45% (2018: 2.65%) per annum, and these deposits have an approximate average maturity of 104 days (2018: 124 days).

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

18. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**48,427**	68,060
USD	**84,978**	55,561
HKD	**3,562**	3,514
EUR	**15,890**	8,260
JPY	**8,950**	4,609
	161,807	140,004

As at 31 December 2019, cash at bank was demand deposits and the weighted average interest rate was 0.13% (2018: 0.19%) per annum.

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

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

19. SHARE CAPITAL

	Authorised share capital		
	Number of shares		
	'000	*HKD'000*	*RMB'000*
As at 31 December 2018 and 2019 (ordinary shares of HKD0.10 each)	1,500,000	150,000	128,886

	Issued and fully paid up		
	Number of shares		
	'000	*HKD'000*	*RMB'000*
As at 31 December 2018 and 2019 (ordinary shares of HKD0.10 each)	1,245,190	124,519	106,607

20. RESERVES

	Share premium *RMB'000*	Merger reserves *RMB'000*	Statutory reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	1,006,579	48,611	142,721	(9,037)	1,134,097	2,322,971
Comprehensive income						
Profit for the year	–	–	–	–	109,557	109,557
Total comprehensive Income	–	–	–	–	109,557	109,557
Transaction with owners						
Appropriation to statutory reserves	–	–	25,624	–	(25,624)	–
Employee share options scheme - value of employee services *(Note 21(a))*	–	–	–	2,100	–	2,100
Share award scheme *(Note 21(b))*	7,317	–	–	–	–	7,317
Vesting of award shares *(Note 21(b))*	(8,549)	–	–	8,549	–	–
Dividends	–	–	–	–	(54,925)	(54,925)
Total transaction with owners	(1,232)	–	25,624	10,649	(80,549)	(45,508)
Balance at 31 December 2018	1,005,347	48,611	168,345	1,612	1,163,105	2,387,020

20. RESERVES (CONTINUED)

	Share premium *RMB'000*	Merger reserves *RMB'000*	Statutory reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2019	**1,005,347**	**48,611**	**168,345**	**1,612**	**1,163,105**	**2,387,020**
Comprehensive income						
Profit for the year	–	–	–	–	**177,536**	**177,536**
Total comprehensive Income	–	–	–	–	**177,536**	**177,536**
Transaction with owners						
Appropriation to statutory reserves	–	–	**26,687**	–	**(26,687)**	–
Employee share options scheme - value of employee services *(Note 21(a))*	–	–	–	**952**	–	**952**
Share award scheme *(Note 21(b))*	**8,025**	–	–	–	–	**8,025**
Vesting of award shares *(Note 21(b))*	**(10,277)**	–	–	**10,277**	–	–
Shares held for share award scheme *(Note 21(b))*	–	–	–	**(5,273)**	–	**(5,273)**
Dividends	–	–	–	–	**(67,550)**	**(67,550)**
Total transaction with owners	**(2,252)**	–	**26,687**	**5,956**	**(94,237)**	**(63,846)**
Balance at 31 December 2019	**1,003,095**	**48,611**	**195,032**	**7,568**	**1,246,404**	**2,500,710**

20. RESERVES (CONTINUED)

(a) Merger reserves

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

(b) Statutory reserves

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

(c) Other reserves

Other reserves consist of shareholders' loans waived, employee share option schemes (Note 21(a)) and shares held for Share Award Schemes (Note 21(b)).

(d) Retained earnings

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2019.

The dividends actually paid in 2019 were RMB67,550,000 based on the number of issued shares outstanding at revelant time (Note 33).

21. SHARE-BASED PAYMENTS

(a) Share option schemes

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

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

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

	2019		2018	
	Average exercise price in HKD per share	**Number of options *('000)***	Average exercise price in HKD per share	Number of options *('000)*
At 1 January	**2.386**	**20,370**	2.385	21,320
Exercise	**–**	**–**	–	–
Forfeited	**2.387**	**(1,150)**	2.373	(950)
At 31 December	**2.386**	**19,220**	2.386	20,370

21. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

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

Exercisable from	Expiry date	Exercise price in HKD per share	Number of options ('000) 2019	2018
21 December 2013	20 December 2020	2.452	**1,416**	1,506
21 December 2014	20 December 2020	2.452	**1,416**	1,506
21 December 2015	20 December 2020	2.452	**1,888**	2,008
23 December 2017	22 December 2024	2.364	**5,800**	6,140
23 December 2019	22 December 2024	2.364	**4,350**	4,605
23 December 2019	22 December 2024	2.364	**4,350**	4,605
			19,220	20,370

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

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

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

(b) Share award schemes

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

An aggregate of 3,012,000 shares of the Company's existing ordinary shares have been purchased during year 2019 by an independent trustee in the market out of cash HKD5,998,607 (equivalent to RMB5,314,705) contributed by the Company and held in trust for employees until such shares are vested in the relevant selected employees in accordance with the provisions of the Scheme. As at 31 December 2019, the un-utilised cash balance is HKD2,498,000 (equivalent to RMB2,238,000) (2018: HKD1,626,000 (equivalent to RMB1,425,000)).

21. SHARE-BASED PAYMENTS (CONTINUED)

(b) Share award schemes (continued)

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

Pursuant to a Board of Directors' resolution dated 14 June 2019, 4,366,000 shares were awarded to employees.

Pursuant to a Board of Directors' resolution dated 12 July 2019, 238,000 shares were awarded to employees.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the year ended 31 December 2019 is as follows:

	Number of shares held for the Share Award Schemes	**Number of awarded shares**	**Total**
At 1 January 2019	21,480,000	–	21,480,000
Purchased	3,012,000	–	3,012,000
Granted *(Note 20)*	(4,604,000)	4,604,000	–
Vested and transferred	–	(4,604,000)	(4,604,000)
At 31 December 2019	19,888,000	–	19,888,000
Vested but not transferred as at 31 December 2019			–

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

The weighted average fair value of awarded shares granted during the year ended 31 December 2019 was HKD1.98 per share (equivalent to approximately RMB1.74 per share). The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HKD2.25 per share (equivalent to approximately RMB1.96 per share).

22. TRADE PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accounts payable	**597,214**	773,775
Notes payable	**378,840**	1,388,816
	976,054	2,162,591
Less: non-current portion of accounts payable	**(9,074)**	(8,959)
	966,980	2,153,632

The notes payable as at 31 December 2019 of RMB344,610,000 (2018: RMB942,390,000) was secured by restricted bank deposits of approximately RMB225,822,000 (2018: RMB713,055,000) (Note 17) and bank acceptance notes of RMB5,366,000 (2018: RMB188,770,000) (Note 15).

The aging analysis of the trade payables was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**974,265**	2,162,516
6 months to 1 year	**1,377**	50
1 year to 2 years	**388**	12
More than 2 years	**24**	13
	976,054	2,162,591

22. TRADE PAYABLES (CONTINUED)

Trade payables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**886,738**	2,133,373
USD	**51,134**	29,218
EUR	**38,182**	–
	976,054	2,162,591

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

23. ACCRUALS AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Other payables	**362,227**	343,941
Value-added tax payable	**4,711**	26,686
Other taxes payable	**12,346**	14,646
Accruals	**4,250**	4,447
	383,534	389,720

23. ACCRUALS AND OTHER CURRENT LIABILITIES (CONTINUED)

The breakdown of other payables was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Payables for purchase of property, plant and equipment	**155,683**	198,870
Salaries payable	**100,193**	67,518
Pension and other social welfare payables	**57,173**	47,475
Freight payable	**37,898**	33,185
Loan from Daming Logistic *(Note 36(c))*	**–**	2,000
Others	**35,340**	33,643
	386,287	382,691
Less: non-current portion of payables for purchase of property, plant and equipment and land use rights	**(24,060)**	(38,750)
	362,227	343,941

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**343,095**	399,962
EUR	**57,777**	25,211
USD	**5,333**	2,641
JPY	**1,389**	656
	407,594	428,470

24. BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non – current		
Bank borrowings	**206,000**	800,200
Borrowing under finance lease arrangement	**42,410**	49,983
	248,410	850,183
Current		
Bank borrowings	**4,732,841**	3,008,543
Borrowing under finance lease arrangement	**66,171**	234,993
Other loans	**30,000**	–
	4,829,012	3,243,536
Total borrowings	**5,077,422**	4,093,719
Representing:		
Bank borrowings		
– unsecured	**3,366,931**	3,098,443
– secured *(a)*	**1,531,910**	620,300
– guaranteed *(b)*	**40,000**	90,000
Finance lease arrangement *(c)*	**108,581**	284,976
Other loans *(d)*	**30,000**	–
	5,077,422	4,093,719

24. BORROWINGS (CONTINUED)

(a) The secured bank borrowings as at 31 December 2019 were secured by the pledge of restricted bank deposits amounting to RMB747,816,000 (2018: RMB323,748,000).

(b) As at 31 December 2019, bank borrowings of RMB40,000,000 (2018: RMB90,000,000) were guaranteed by a subsidiary of the Group and a minority share holder of a subsidiary of the Group.

(c) Finance lease arrangements are repayable by instalment and carry interest between 5.21% to 7.53% per annum (Note 7).

(d) Other loans are borrowed from a finance company owned by minority share holders of two subsidiaries of the Group.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
At fixed rates in RMB	**3,444,790**	2,457,965
At fixed rates in USD	**285,045**	451,599
At fixed rates in EUR	**7,487**	27,155
	3,737,322	2,936,719
At floating rates in RMB	**1,340,100**	1,157,000
	5,077,422	4,093,719

24. BORROWINGS (CONTINUED)

The weighted average effective interest rates per annum at 31 December 2019 was 4.35% (2018: 5.05%).

At 31 December, the Group's borrowings were repayable as follows:

	Bank borrowings		Borrowings under finance lease arrangement		Other loan	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**4,732,841**	3,008,543	**66,171**	234,993	**30,000**	–
Between 1 and 2 years	**206,000**	680,200	**16,564**	49,983	**–**	–
Between 2 and 3 years	**–**	120,000	**25,846**	–	**–**	–
	4,938,841	3,808,743	**108,581**	284,976	**30,000**	–

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

25. DEFERRED GOVERNMENT GRANTS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred government grants	**133,130**	92,391
Less: Current portion included in current liabilities	**–**	(4,482)
	133,130	87,909

25. DEFERRED GOVERNMENT GRANTS (CONTINUED)

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Beginning balance of the year	**92,391**	56,881
Granted during the year	**47,680**	40,230
Recognised in the consolidated statement of comprehensive income *(Note 26)*	**(6,941)**	(4,720)
Ending balance of the year	**133,130**	92,391

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

26. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Sales of scraps and packaging materials	**19,324**	41,201
Subsidy income	**10,069**	29,373
Amortisation of deferred government grants *(Note 25)*	**6,941**	4,720
Rental income	**362**	367
Others	**7,941**	7,009
	44,637	82,670

27. OTHER GAIN – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment – net *(Note 34(a))*	**(401)**	(552)
Foreign exchange gain – net	**7,656**	7,953
Others	**(3,032)**	(947)
	4,223	6,454

28. EXPENSES BY NATURE

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Changes in inventories of finished goods	**(265,809)**	(156,778)
Raw materials consumed	**33,882,579**	30,757,247
Outsourced processing cost	**67,360**	52,516
Stamp duty, property tax and other surcharges	**36,592**	35,073
Transportation costs	**186,310**	149,864
Employee benefit expenses, including directors' emoluments *(Note 29)*	**740,054**	584,853
Depreciation and amortisation *(Note 6, 7, 8, 9, 10)*	**242,115**	202,724
Operating lease rental for buildings	**4,514**	4,342
Utilities charges	**68,037**	60,628
(Reversal of provision)/Provision for write-down of inventories *(Note 14, 34(a))*	**(28,860)**	34,328
Auditors' remuneration-audit services	**3,150**	3,050
Provision for impairment of trade receivables and contract assets *(Note 15, 34(a))*	**7,476**	931
Entertainment and travelling expenses	**52,939**	37,876
Professional service expenses	**8,094**	6,713
Bank charges	**13,402**	9,848
Others	**52,339**	37,147
	35,070,292	31,820,362

29. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**690,435**	537,696
Pension – defined contribution plans (a)	**48,637**	44,992
Share options granted to directors and employees	**982**	2,165
	740,054	584,853

(a) Pensions – defined contribution plans

The full time employees of the Mainland China subsidiaries of the Group participate in defined contribution retirement benefit plans organised by the relevant provincial government. For the years ended 31 December 2018 and 2019, the Group is required to make monthly defined contributions to these plans at rates from 14% to 19%, with the base of their total salary subject to a certain ceiling.

The Group has arranged for its Hong Kong employees to join the MPF Scheme, a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the relevant entities within the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HKD1,500 during the year ended 31 December 2019, and thereafter contributions are voluntary.

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

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

30. FINANCE COSTS – NET

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Finance costs:		
Interest expenses on borrowings	**168,165**	152,168
Interest expenses on bank/commercial acceptance notes and letters of credit	**76,146**	49,691
Exchange loss – net	**4,071**	24,419
	248,382	226,278
Less: amounts capitalised on qualifying assets *(Note 7)*	**(19,817)**	(14,789)
Total finance costs	**228,565**	211,489
Finance income:		
Interest income *(Note 34(a))*	**(26,036)**	(26,915)
Finance costs – net	**202,529**	184,574

31. INCOME TAX EXPENSE

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

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Current income tax		
– mainland China corporate income tax	**66,627**	96,951
Deferred income tax *(Note 12)*	**22,572**	(10,151)
	89,199	86,800

31. INCOME TAX EXPENSE (CONTINUED)

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

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

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

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

All of the subsidiaries of the Group in mainland China, except for Steel Union Logistics, are subjected to corporate income tax rate of 25% for the year 2019.

As a small low-profit enterprise, the portion of annual taxable income amount of Steel Union Logistics which does not exceed RMB1 million shall be computed at a reduced rate of 25%, and be subjected to corporate income tax rate of 20%; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 50%, and be subjected to corporate income tax rate of 20%.

31. INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**284,773**	219,464
Tax calculated at tax rates applicable to profits of the respective subsidiaries	**81,577**	67,556
Expenses not deductible for tax purpose	**3,976**	2,968
Effect of withholding tax on certain unremitted profits of subsidiaries in Mainland China	**7,882**	–
Effect of withholding tax on dividends distributed by a subsidiary in Mainland China	**7,700**	6,100
Use/Recognition of tax losses for which no deferred income tax asset was recognised previously	**(12,027)**	484
Reversal of previously recognised deferred income tax asset	**–**	10,277
Difference of prior year tax filing and others	**91**	(585)
Income tax expense	**89,199**	86,800
The weighted average applicable tax rates	**28.65%**	30.78%

32. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**177,536**	109,557
Weighted average number of ordinary shares in issue *(thousands)*	**1,224,614**	1,221,915
Basic earnings per share *(RMB per share)*	**0.14**	0.09

(b) Diluted

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

	Year ended 31 December	
	2019	2018
Earnings		
Profit attributable to equity holders of the Company *(RMB'000)*	**177,536**	109,557
Weighted average number of ordinary shares in issue *(thousands)*	**1,224,614**	1,221,915
Adjustments for share option plan *(thousands)*	**18**	2,046
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,224,632**	1,223,961
Diluted earnings per share *(RMB per share)*	**0.14**	0.09

33. DIVIDENDS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interim dividend	**67,550**	54,925
Proposed final dividend	**–**	–
	67,550	54,925

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

On 23 August 2019, the Company's board of directors recommended payment of an interim dividend of HKD0.06 per share.

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2019 (2018: Nil).

The dividends actually paid in 2019 were HKD74,711,400 (equivalent to approximately RMB67,550,000) (2018: HKD62,259,500, equivalent to approximately RMB54,925,000) based on the number of issued shares outstanding at relevant time.

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**284,773**	219,464
Adjustments for:		
– depreciation of right-of-use assets *(Note 8)*	**12,145**	–
– amortisation of land use rights *(Note 6)*	**–**	9,148
– depreciation of property, plant and equipment *(Note 7)*	**227,176**	191,334
– amortisation of intangible assets *(Note 10)*	**2,411**	1,833
– depreciation of investment properties *(Note 9)*	**383**	409
– amortisation of deferred income *(Note 25)*	**(6,941)**	(4,720)
– losses on disposal of property, plant and equipment *(Note 27)*	**401**	552
– provision for impairment of trade receivables and contract assets *(Note 28)*	**7,476**	931
– (reversal of provision)/provision for write down of inventories *(Note 28)*	**(28,860)**	34,328
– interest income *(Note 30)*	**(26,036)**	(26,915)
– finance costs *(Note 30)*	**227,539**	211,489
– employee share options scheme-value of employee services *(Note 29)*	**982**	2,165
– share award scheme-value of employee services *(Note 21(b))*	**8,025**	7,317
	709,474	647,335
Changes in working capital:		
– decrease in restricted bank deposits	**460,441**	5,272
– decrease/(increase) in trade receivables and contract assets, prepayments, deposits and other receivables	**161,035**	(161,170)
– increase in contract liabilities	**168,069**	439,470
– increase in inventories	**(65,960)**	(34,589)
– decrease in trade payables, accruals and other liabilities	**(1,050,251)**	(241,026)
Cash generated from operations	**382,808**	655,292

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

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net book amount *(Note 7)*	**965**	1,299
Losses on disposal of property, plant and equipment *(Note 27)*	**(401)**	(552)
Proceeds from disposal of property, plant and equipment	**564**	747

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

	Borrowings and other payables	Restricted bank deposits	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	4,095,719	(323,748)	–	3,771,971
Recognised on adoption of HKFRS 16 *(Note 2.1.2(i))*	–	–	1,806	1,806
Cash flows				
– proceeds from borrowings	6,143,588	–	–	6,143,588
– repayment of borrowings	(4,568,863)	–	–	(4,568,863)
– restricted bank deposits used for repayment of borrowings	(597,093)	597,093	–	–
– restricted bank deposits pledged for bank borrowings	–	(1,227,735)	–	(1,227,735)
– restricted bank deposits collected after repayment of bank borrowings	–	206,574	–	206,574
– acquisition of leases	–	–	3,486	3,486
– payment for leases	–	–	(1,674)	(1,674)
Non-cash changes				
– currency translations	4,071	–	–	4,071
As at 31 December 2019	5,077,422	(747,816)	3,618	4,333,224

35. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted but not provided for:		
Acquisition of property, plant and equipment	**278,484**	335,860

(b) Operating lease commitments

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Not later than 1 year	**–**	114

36. RELATED PARTY TRANSACTIONS

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

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

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
(i) Loans received from related party Daming Logistics	**–**	5,000
(ii) Repayment of related party loans Daming Logistics	**2,000**	48,000
(iii) Loan to related party Daming Logistics	**2,739**	–

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

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

The Group has the following balances with its related parties as at 31 December 2019 and 2018:

(i) Other payables

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Daming Logistics		
– Loan borrowed	**–**	2,000
– Others	**–**	750
	–	2,750

(ii) Other receivables

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Daming Logistics		
– Loan provided	**2,739**	–

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensation

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**13,085**	13,333
Pension - defined contribution plans	**176**	216
	13,261	13,549

37. EVENTS AFTER THE BALANCE SHEET DATE

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC and other countries. As a result, the market price of the steel products fluctuated. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was still assessing the impact on the financial statements as a result of the COVID-19 outbreak.

38. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	**942,656**	941,670
Due from subsidiaries	**1,312,802**	1,454,742
	2,255,458	2,396,412
Current assets		
Cash and cash equivalents	**957**	771
	957	771
Total assets	**2,256,415**	2,397,183
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**106,607**	106,607
Reserves *(Note (a))*	**1,873,033**	1,881,754
Total equity	**1,979,640**	1,988,361
LIABILITIES		
Current liabilities		
Borrowings	**276,258**	407,674
Accruals and other payables	**517**	1,148
Total liabilities	**276,775**	408,822
Total equity and liabilities	**2,256,415**	2,397,183

The balance sheet of the Company was approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

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

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

Note (a) Reserve movement of the Company

	Share premium *RMB'000*	Contributed surplus (i) *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (Accumulated losses) *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	1,006,579	921,264	(37,777)	(23,502)	1,866,564
Comprehensive income					
Profit for the year	–	–	–	60,633	60,633
Total comprehensive Income	–	–	–	60,633	60,633
Transaction with owners					
Employee share option scheme – value of employee services *(Note 21(a))*	–	–	2,165	–	2,165
Employee share award scheme – value of employee services *(Note 21(b))*	7,317	–	–	–	7,317
Vesting of award shares *(Note 21(b))*	(8,549)	–	8,549	–	–
Dividends	–	–	–	(54,925)	(54,925)
Total transaction with owners	(1,232)	–	10,714	(54,925)	(45,443)
Balance at 31 December 2018	1,005,347	921,264	(27,063)	(17,794)	1,881,754

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

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

	Share premium *RMB'000*	Contributed surplus [(i)] *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (Accumulated losses) *RMB'000*	Total *RMB'000*
Balance at 1 January 2019	**1,005,347**	**921,264**	**(27,063)**	**(17,794)**	**1,881,754**
Comprehensive income					
Profit for the year	–	–	–	**55,095**	**55,095**
Total comprehensive Income	–	–	–	**55,095**	**55,095**
Transaction with owners					
Employee share option scheme – value of employee services *(Note 21(a))*	–	–	**982**	–	**982**
Employee share award scheme – value of employee services *(Note 21(b))*	**8,025**	–	–	–	**8,025**
Vesting of award shares *(Note 21(b))*	**(10,277)**	–	**10,277**	–	–
Shares held for share award scheme *(Note 21(b))*	–	–	**(5,273)**	–	**(5,273)**
Dividends	–	–	–	**(67,550)**	**(67,550)**
Total transaction with owners	**(2,252)**	–	**5,986**	**(67,550)**	**(63,816)**
Balance at 31 December 2019	**1,003,095**	**921,264**	**(21,077)**	**(30,249)**	**1,873,033**

(i) Contributed surplus

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

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

39. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

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

For the year ended 31 December 2019:

Name of director	Fees	Salaries	Discretionary bonus	Shares	Pension-defined contribution plans	Other benefits [i]	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
– Mr. Zhou Keming	292	840	35	–	24	16	1,207
– Ms. Xu Xia	292	797	66	–	16	–	1,171
– Mr. Zou Xiaoping	292	780	35	–	24	16	1,147
– Mr. Jiang Changhong	292	722	35	–	23	13	1,085
– Dr. Fukui Tsutomu	292	846	35	153	–	–	1,326
– Mr. Zhang Feng	292	851	173	457	24	16	1,813
– Mr. Wang Jian	292	828	115	209	24	16	1,484
– Mr. Lu Ping	292	840	35	–	26	9	1,202
	2,336	6,504	529	819	161	86	10,435
Non-executive directors							
– Mr. Lin Changchun**	–	–	–	–	–	–	–
Independent non-executive directors							
– Mr. Chen Xuedong*	159	–	–	–	–	–	159
– Mr. Cheuk Wa Pang	292	–	–	–	–	–	292
– Mr. Hua Min	292	–	–	–	–	–	292
– Mr. Lu Daming	292	–	–	–	–	–	292
– Mr. Liu Fuxing	292	–	–	–	–	–	292
– Mr. Hu Xuefa	292	–	–	–	–	–	292
	1,619	–	–	–	–	–	1,619
	3,955	6,504	529	819	161	86	12,054

* Pursuant to a board resolution dated 12 July 2019 and with immediate effect, Mr. Chen Xuedong resigned as an independent non-executive director of the Company and a member of each of the audit committee, nomination committee and remuneration committee of the Board.

** Pursuant to a board resolution dated 14 June 2019 and with immediate effect, Mr. Lin Changchun was appointed as a non-executive director of the Company.

39. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

For the year ended 31 December 2018

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

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

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

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

No directors of the Company waived any emolument for the year ended 31 December 2019 and 2018.

39. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 5 (2018: 5) directors, whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2019 and 2018, no emoluments was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office.

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

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

	For the year ended 31 December				
	2019	2018	2017	2016	2015
					(restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**35,508,734**	32,135,276	27,724,286	20,518,140	18,043,138
Gross profit	**1,091,947**	866,808	675,358	1,071,531	126,111
Operating profit/(loss)	**487,302**	404,038	239,494	677,926	(198,606)
Profit/(loss) for the year	**195,574**	132,664	83,342	406,587	(251,036)
Attributable to:					
Equity holders of the Company	**177,536**	109,557	67,466	388,215	(247,210)
Non-controlling interests	**18,038**	23,107	15,876	18,372	(3,826)
	195,574	132,664	83,342	406,587	(251,036)
ASSETS, LIABILITIES AND EQUITY					
Total assets	**10,270,397**	10,161,911	9,155,376	7,760,974	5,767,061
Total liabilities	**(7,336,237)**	(7,309,309)	(6,458,172)	(5,347,127)	(3,723,862)
	2,934,160	2,852,602	2,697,204	2,413,847	2,043,199
Equity attributable to equity holders of the Company	**2,607,317**	2,493,627	2,429,578	2,159,717	1,807,571
Non-controlling interests	**326,843**	358,975	267,626	254,130	235,628
Total equity	**2,934,160**	2,852,602	2,697,204	2,413,847	2,043,199