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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2738

ANNUAL REPORT

2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Xu Jianhong

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Chak Keung

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

2738

WEBSITE

www.huajin-hk.com

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

"Articles of Association"	the articles of association of the Company
"associates"	having the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"China" or "PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company"	Huajin International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
"Controlling Shareholder(s)"	having the meaning ascribed thereto under the Listing Rules
"Deed of Non-competition"	the deed of non-competition dated 23 March 2016 and executed by our Controlling Shareholders in favour of our Company
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Gujing Town Land Use Rights"	three parcels of industrial land with an aggregate site area of approximately 284,860 sq. m. which are situated in Zhoulang Village, Gujing Town, Xinhui District, Jiangmen City, Guangdong Province, the PRC
"Haiyi"	Haiyi Limited (海逸有限公司), a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is owned as to 87.0% by Intrend Ventures and 12.0% by Zhong Cheng, respectively
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hua Jin Holdings"	Hua Jin Holdings Pte. Ltd., a limited liability company incorporated in Singapore and the entire equity interest of which is owned by Mr. Xu
"Huajin Investments"	Huajin Investments Limited (華津投資有限公司), a limited liability company incorporated in BVI, the entire issued share capital of which is owned by our Company and is a direct wholly-owned subsidiary of our Company
"Huajin Singapore"	Huajin (Singapore) Pte. Ltd., a limited liability company incorporated in Singapore and is an indirect wholly-owned subsidiary of our Company
"Identified Long-lived Assets"	Long-lived assets are related to the Group's business of sales of processed steel products and galvanized steel products, comprising certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment

"Independent Third Party(ies)"	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder of our Company or any of its subsidiaries or any of their respective associates
"Inter Consortium"	Inter Consortium Holdings Limited (華滙控股有限公司), a limited liability company incorporated in Hong Kong, the entire issued shares of which is owned by Huajin Investments and is an indirect wholly-owned subsidiary of our Company
"Intrend Ventures"	Intrend Ventures Limited, a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is wholly-owned by Mr. Xu
"Jiangmen Huajin"	江門市華津金屬製品有限公司(Jiangmen Huajin Metal Product Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of our Company
"Jiangmen Huamu"	江門市華睦五金有限公司(Jiangmen Huamu Metals Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of our Company
"Jiangmen Huazhi"	江門市華志金屬製品有限公司(Jiangmen Huazhi Metal Product Company Limited*), a limited liability company established under the laws of PRC, which is owned as to 60% by Mr. Xu Jianhong and 40% by Mr. Chen
"Jiangmen Huihan"	江門市匯涵精密五金製品有限公司(Jiangmen Huihan Precision Metal Products Company Limited*), a limited liability company newly established under the laws of PRC on 19 November 2019 with a registered capital of RMB500,000 of which the registered capital had not been paid up as at 31 December 2019, and an indirect wholly-owned subsidiary of our Company
"Jiangmen Huihao"	江門市匯浩精密五金製品有限公司(Jiangmen Huihao Precision Metal Products Company Limited*), a limited liability company newly established under the laws of PRC on 19 November 2019 with a registered capital of RMB500,000 of which the registered capital had not been paid up as at 31 December 2019, and an indirect wholly-owned subsidiary of our Company
"Jiangmen Huiyang"	江門市匯洋精密五金製品有限公司(Jiangmen Huiyang Precision Metal Products Company Limited*), a limited liability company newly established under the laws of PRC on 19 November 2019 with a registered capital of RMB500,000 of which the registered capital had not been paid up as at 31 December 2019, and an indirect wholly-owned subsidiary of our Company
"Jiangmen Jinyuan"	江門市津源金屬製品有限公司(Jiangmen Jinyuan Metals Company Limited*), previously an indirect wholly-owned subsidiary of the Company, a limited liability company established under the laws of PRC and an indirect associate of our Company
"Listing" or "Listing Date"	the listing of our Shares on the Stock Exchange commenced on 15 April 2016

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Memorandum"	the memorandum of association of our Company
"Mr. Chen"	Mr. Chen Chunniu (陳春牛), our executive Director
"Mr. Luo"	Mr. Luo Canwen (羅燦文), our executive Director and Controlling Shareholder
"Mr. Xu"	Mr. Xu Songqing (許松慶), our executive Director and Controlling Shareholder
"Prospectus"	the prospectus of the Company dated 5 April 2016
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial Shareholder(s)"	having the meaning ascribed thereto under the Listing Rules
"Workshop No. 4"	the fourth production workshop of our Group, with approximately gross floor area of 16,714.7 sq. m., which commenced operation and production of galvanized steel products in mid-2016
"Zhong Cheng"	Zhong Cheng International Limited (中誠有限公司) (formerly known as China Reliance Limited (中誠有限公司)), a business company incorporated under the laws of BVI with limited liability and wholly-owned by Mr. Luo, our Controlling Shareholder
"HK$"or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"S$"or "SGD"	Singapore dollars, the lawful currency of Singapore
"US$"or "USD"	United States dollars, the lawful currency of the United States
"km"	kilometre(s)
"sq. m."	square meter(s)
"%"	per cent

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

FINANCIAL HIGHLIGHTS

	2019	2018	**Change**
Revenue (RMB million)	**2,162.6**	2,909.3	–25.7%
Gross profit (RMB million)	**114.5**	144.7	–20.9%
Gross profit margin (%)	**5.3%**	5%	
Profit attributable to owners of the Company (RMB million)	**18.4**	6.4	187.5%
Basic earnings per Shares (RMB cent)	**3.06**	1.07	186.0%
Dividend per Shares (HK cent)			
— Interim dividend	**3.0**	0.0	N/A
— Special interim dividend	**10.0**	0.0	N/A
	13.0	0.0	N/A
Dividend payout ratio (%)	**382.7%**	0%	N/A
Sales volume (tonne) *(note 1)*	**471,302**	597,056	–21.1%
Average processing fee per tonne (RMB) *(note 2)*	**489**	379	29.0%

	As at 31.12.2019	As at 31.12.2018	**Change**
Net asset value (RMB million)	**534.0**	586.0	–8.9%
Net asset value per Share (RMB)	**0.89**	0.98	–9.2%
Borrowings (RMB million)	**790.8**	848.2	–6.8%
Gearing ratio (%) *(note 3)*	**148.1%**	144.7%	

Notes:

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

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

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

On behalf of the Board, I am pleased to present our annual results of Huajin International Holdings Limited and its subsidiaries for the year ended 31 December 2019 to our Shareholders.

REVIEW

In 2019, our revenue decreased from approximately RMB2,909.3 million in 2018 to approximately RMB2,162.6 million in 2019 by approximately RMB746.7 million, or 25.7%. Our domestic sales in the PRC market contributed over 99% of our revenue while the remaining portion was attributable to sales to our customers located in Southeast Asia during the reporting period under review. Our basic earnings per Share increased from approximately RMB1.07 cents in 2018 to approximately RMB3.06 cents in 2019.

Our total sales volume of processed steel products and galvanized steel products decreased from approximately 597,056 tonnes in 2018 to approximately 471,302 tonnes in 2019 by approximately 125,754 tonnes, or 21.1%.

In 2019, our Group recorded a profit before tax of approximately RMB25.7 million, representing a increase of 176.3% as compared with RMB9.3 million in 2018. Net profit attributable to Shareholders was approximately RMB18.4 million, representing a increase by approximately RMB12.0 million, or 187.5% as compared with RMB6.4 million in 2018.

Same to 2018, our Board decided not to pay any discretionary bonus to our executive Directors and senior management in 2019.

In order to maintain its business growth in the long run, the Group invested substantially in property, plant and equipment to strengthen the scale and processing capacity of the existing production base and facilities. In 2019, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB182.2 million.

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

PROSPECTS AND FUTURE PLAN

China and the United States have been engaged in trade negotiations since 2018. Both countries have been apparent in trying to seek a compromise, resulting in a slight easing of tension between the countries. Furthermore, the social unrest in Hong Kong since the second half of 2019 has caused further economic uncertainty. This economic downswing, together with the recent outbreak of coronavirus disease ("COVID-19"), cumulate in additional uncertainties in the Group's operating environment going forward. Domestic demands and local sentiments are expected to stay sluggish and soften further in the near term. The Group is taking precautions to safeguard its employees and business operations in light of the COVID-19 outbreak and will continue to monitor the development, ensuring appropriate steps are taken to manage the risks.

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

PROPOSED DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

APPRECIATION

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

Xu Songqing
Chairman

Hong Kong, 11 May 2020

DIRECTORS

Executive directors

Mr. Xu Songqing (許松慶), aged 49, is the chairman of our Company and was appointed as an executive Director of our Company on 13 March 2015. Mr. Xu is also the chairman of the nomination committee and a member of remuneration committee of the Company. As a founder of our Group, Mr. Xu is also a director of Huajin Investments, Inter Consortium and Huajin (Singapore) Pte. Ltd.. Mr. Xu founded Jiangmen Huajin in July 2005 and Jiangmen Huamu in November 2006, and previously served as a director of Jiangmen Huajin and Jiangmen Huamu. He has been primarily responsible for overall strategic planning and business development. Prior to joining our Group, Mr. Xu served as a general manager at Zhongshan Guzhen Luhao Street Light Factory* (中山市古鎮路豪路燈廠) from December 2001 to July 2005, responsible for managing and supervising overall production of steel poles of street light. Mr. Xu served as a factory manager at Zhongshan Guzhen Henghua Lighting & Appliances Factory* (中山市古鎮恒華電器燈飾廠) from October 1999 to December 2001, responsible for managing the workshop and familiarising with characteristics and manufacturing requirements of all kinds of lamp poles. Mr. Xu worked in lighting and transportation industry as a self-employed entrepreneur from 1991 to 1999. Mr. Xu is the elder brother of Mr. Xu Songman and the father of Mr. Xu Jianhong.

Mr. Luo Canwen (羅燦文), aged 46 was appointed as an executive Director and chief executive officer of our Company on 18 December 2015. Mr. Luo joined our Group in May 2010 and currently serves as the raw material procurement director of Jiangmen Huajin and Jiangmen Huamu. Mr. Luo has been primarily responsible for the overall operation, management and raw material procurement of our Group. Mr. Luo is also a director of Inter Consortium and the supervisor of Jiangmen Hairun Renewable Resources Recycling Company Limited* (江門市海潤再生資源回收有限公司, "Jiangmen Hairun"), Jiangmen Huihan, Jiangmen Huihao and Jiangmen Huiyang. Prior to joining our Group, Mr. Luo has over 12 years experience in the trading industry. Mr. Luo was the chief executive officer of Foshan Shunde Jinhong Trading Company Limited* (佛山市順德區晉虹貿易有限公司) (formerly known as Foshan Shunde Qianghong Trading Company Limited* (佛山順德區強虹貿易有限公司)) from May 2001 to April 2010. Mr. Luo also worked in the sales department in Foushan Dongying Trading Company Limited* (佛山市東盈貿易有限公司) (formerly known as Foushan Dongsheng Zhilian Trading Company Limited* (佛山市東升志聯貿易有限公司)) from May 1998 to April 2001.

Mr. Chen Chunniu (陳春牛), aged 48, was appointed as an executive Director of our Company on 18 December 2015. Mr. Chen joined our Group in July 2005 and currently serves as the procurement director of ancillary materials of Jiangmen Huajin and Jiangmen Huamu. Mr. Chen is also a director of Jiangmen Huajin, Jiangmen Huamu, Jiangmen Hairun, Inter Consortium, Jiangmen Huihan, Jiangmen Huihao and Jiangmen Huiyang. Mr. Chen is also the supervisor of Jiangmen Jinyuan. Mr. Chen has been primarily responsible for the overall procurement of ancillary materials for our Group. Prior to joining our Group, Mr. Chen worked in an oil pump repairing factory in Jiangmen. Mr. Chen graduated from Jiangmen Advanced Technical Institute* (江門市高級技工學校) in June 1990. Mr. Chen also attained a certificate of junior safety officer in Guangdong Province (廣東省初級安全主任證書) issued by Jiangmen Administration of Work Safety* (江門市安全生產監督管理局) on 26 October 2005.

Mr. Xu Songman, aged 43, was appointed as an executive Director of our Company on 18 December 2015. Mr. Xu Songman joined our Group in July 2005 and currently serves as the sales director of Jiangmen Huajin and Jiangmen Huamu. Mr. Xu Songman has been primarily responsible for the overall domestic and overseas marketing and logistics related services of our Group. Mr. Xu Songman is also a director of Inter Consortium. Prior to joining our Group, Mr. Xu Songman was involved in and managed his steel trading business in the Guangdong Province, the PRC, from 2002 to 2005. Mr. Xu Songman was engaged in the restaurant industry in the United Kingdom from 1997 to 2001. Mr. Xu Songman completed an EMBA course at Sun Yat-sen University (中山大學) located in Guangdong Province, the PRC in April 2014. Mr. Xu Songman is the younger brother of Mr. Xu and the uncle of Mr. Xu Jianhong.

Non-executive Director

Mr. Xu Jianhong (許健鴻), aged 26, was appointed as a non-executive Director of our Company on 21 November 2017. Mr. Xu Jianhong graduated from The Kilmore International School in Australia in 2014 and received his Bachelor of Science degree from The University of Melbourne, Australia in July 2018. Mr. Xu Jianhong is also a director of Inter Consortium. Mr. Xu Jianhong is the son of Mr. Xu and the nephew of Mr. Xu Songman.

Independent non-executive Directors

Mr. Goh Choo Hwee (吳慈飛), aged 48, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Goh is also a member of each of the audit, remuneration and nomination committees of the Company. Mr. Goh is a practising solicitor in Hong Kong and currently a partner at Ma Tang & Co., a law firm in Hong Kong. Mr. Goh graduated from The University of Hong Kong with Postgraduate Certificate in Laws in June 1995.

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

Mr. Tam Yuk Sang Sammy (譚旭生), aged 56, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Tam is also the chairman of the remuneration committee and a member of each of the audit and nomination committees of the Company. Mr. Tam has over 30 years experience in accounting, auditing and finance. Mr. Tam is currently the president of Essentack Limited, a corporate strategy and management advisory company. Mr. Tam graduated from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a professional diploma in accountancy in November 1986, and from the University of London with a Master of Science degree in Professional Accountancy in August 2018. Mr. Tam is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

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

Mr. Wu Chi Keung (胡志強), aged 63, was appointed as an independent non-executive Director of our Company on 23 March 2016. Mr. Wu is also the chairman of the audit committee and a member of each of the remuneration and nomination committees of the Company. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently a director of family-owned private company, Born Best Company Limited, engaging in property and other investment. Mr. Wu obtained a high diploma in accountancy from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1980. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

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

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

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors of the Company during the year ended 31 December 2019 and up to the date of this report are set out below:

Directors	**Details of changes**
Mr. Chen	Appointed as a director of Inter Consortium on 16 October 2019
	Appointed as a director of each of Jiangmen Huihan, Jiangmen Huihao, and Jiangmen Huiyang on 19 November 2019
Mr. Luo	Appointed as a supervisor of each of Jiangmen Huihan, Jiangmen Huihao, and Jiangmen Huiyang on 19 November 2019
Mr. Xu	Entitled to a monthly salary of S$7,500 with regard to his work efforts and contributions as a director of Huajin Singapore with effect from 1 April 2019
Mr. Xu Jianhong	Appointed as a director of Inter Consortium on 16 October 2019
Mr. Xu Songman	Appointed as a director of Inter Consortium on 16 October 2019

SENIOR MANAGEMENT

Mr. Zhu Huaiqing (朱懷清), aged 67, joined our Group on 5 June 2015 and currently serves as a deputy general manager of Jiangmen Huamu. Mr. Zhu has been primarily responsible for the product research and development of our Group. Prior to joining our Group, Mr. Zhu served as general manager at Anshan Tianli Precision Strip Steel Co., Ltd.* (鞍山天力精密帶鋼有限責任公司) from October 2014 to June 2015 and from February 2000 to March 2002, respectively. Mr. Zhu also worked at Guangdong Foshan Gaoming Yunran Strip Steel Industrial Co., Ltd.* (廣東佛山高明允然帶鋼實業有限公司) from March 2010 to September 2014. During 2002 to 2010, Mr. Zhu successively served as general manager of Yongxin Precision Material (Wuxi) Co., Ltd.* (永鑫精密材料(無錫)有限公司), Ningbo Baori Precision Sheet Co., Ltd.* (寧波寶日精密薄板有限公司) and then Beijing Yeke Magnetic Materials Co., Ltd.* (北京冶科金屬有限公司). Mr. Zhu worked as general manager at Qinhuangdao Longteng Precision Strip Steel Co., Ltd.* (秦皇島龍騰精密帶鋼有限公司) from June 1988 to January 2000. Mr. Zhu served as research director, department head and engineer at Anshan Research Institute of Thermo-Energy, Ministry of Metallurgical Industry* (冶金工業部鞍山熱能研究院) from October 1977 to May 1988. Mr. Zhu graduated from Northeastern University of Technology* (東北工學院) (currently known as Northeastern University* (東北大學)) with a bachelor's degree in physical chemistry of metallurgy in September 1977. In 1992, Mr. Zhu attained a diploma for tertiary studies (accounting) from Qinhuangdao branch, Northeastern University of Technology.

Mr. Xie Guanming (謝冠明), aged 49, joined our Group on 1 March 2006 and currently serves as a deputy general manager of Jiangmen Huajin. Mr. Xie has been primarily responsible for the daily operation and management of the workshops of our Group in the PRC. Prior to joining our Group, Mr. Xie worked at Nanhai branch, Industrial and Commercial Bank of China Ltd. for over twelve years. Mr. Xie obtained his certificate of accounting professional in February 2002 and attained a diploma for tertiary studies (administrative management) from Guangzhou Open University (廣州市廣播電視大學) in July 2003.

Mr. Wong Chak Keung (黃澤強), aged 53, was appointed as the company secretary and the chief financial officer of our Company on 18 December 2015 and 10 July 2017, respectively. Mr. Wong has been in the accounting profession for over 15 years. In addition to his working experience in an international accounting firm in Hong Kong, Mr. Wong has also worked for listed and other companies engaged in investment, accounting, educational business, manufacturing and merger and acquisition. Mr. Wong obtained a bachelor degree in business from The University of Southern Queensland in Australia in 1995. Mr. Wong is also a member of the Hong Kong Institute of Certified Public Accountants and certified practising accountant of CPA Australia, respectively.

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2019, except as noted hereunder.

Code provision A.4.1

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

(a) Board composition

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

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

(b) Board process

During the year ended 31 December 2019, three board meetings were held. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary is responsible for keeping minutes for the board meetings.

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

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

The attendance record of each Director at the Board meetings and general meeting during the year ended 31 December 2019 is set out in the table below:

Name of Directors	number of attendance/ number of meeting(s) Board meetings	general meeting
Executive Directors		
Mr. Xu Songqing *(Note 1)*	3/3	0/1
Mr. Luo Canwen	3/3	1/1
Mr. Chen Chunniu *(Note 1)*	3/3	0/1
Mr. Xu Songman	3/3	1/1
Non-executive Director		
Mr. Xu Jianhong *(Note 1)*	3/3	0/1
Independent non-executive Directors		
Mr. Goh Choo Hwee	3/3	1/1
Mr. Tam Yuk Sang Sammy	3/3	1/1
Mr. Wu Chi Keung	3/3	1/1

Notes:

1. Mr. Xu Songqing, Mr. Chen Chunniu and Mr. Xu Jianhong were absent from the annual general meeting of the Company held on 28 June 2019 due to their business engagement.

2. For the year ended 31 December 2019, besides the Board meetings, a number of resolutions were passed by way of written resolutions.

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

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

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

The Directors acknowledge their responsibilities for preparing the consolidated financial statements that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The Directors had conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2019.

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

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

(e) Independence of independent non-executive Directors

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

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

(f) Directors' induction and continuous professional development

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

Pursuant to Code A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. For the year ended 31 December 2019, all Directors had participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

(g) Directors' and officers' insurance

The Company has arranged appropriate Directors' and officers' ("D&O") insurance cover, which gives appropriate cover for any legal action brought against Directors and officers throughout the year ended 31 December 2019. To ensure sufficient cover is provided, we review the Company's D&O insurance policy annually to ensure that the coverage is sufficient and remains appropriate in light of recent trends in the insurance market and other relevant factors.

CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

NON-EXECUTIVE DIRECTORS

All the independent non-executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of our Company and until terminated by not less than three months' notice in writing served by either the Company or the relevant Director. The non-executive Director has entered into a letter of appointment with the Company for an initial term of three years commencing from 27 November 2017 which unless otherwise terminated pursuant to the terms of the appointment is subject to automatic renewal. The appointment of independent non-executive Directors and non-executive Director shall be subject to normal retirement and re-election at the annual general meeting by shareholders of the Company pursuant to the Articles of Association.

Independent non-executive Directors and non-executive director, as equal board members, have provided the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

All the independent non-executive Directors attended general meeting of the Company held on 28 June 2019 to gain and develop a balanced understanding of the views of shareholders.

BOARD COMMITTEES

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

Audit Committee

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

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

During the year ended 31 December 2019, the Audit Committee held two meetings to consider and approve the following:

(a) to review the Group's consolidated financial result for the year ended 31 December 2018 and the six months ended 30 June 2019 before submission to the Board, with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting of the Company;

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

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

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditor during the year ended 31 December 2019.

The Group's audited consolidated results for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee has been satisfied with the review of the audit scope, process and effectiveness, independence of Deloitte Touche Tohmatsu and thus recommended to the Board for the approval of the consolidated financial statements.

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

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

Remuneration Committee

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

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

During the year ended 31 December 2019, the Remuneration Committee held one meeting. The Remuneration Committee determined the policy for the remuneration of executive Directors, assessed the performance of the executive Directors and approved the terms of their service contracts. The Remuneration Committee had also made recommendations to the Board regarding the Company's remuneration policy and the formulation and review of the remuneration package of all Directors and senior management of the Company for determination by the Board. The remuneration committee recommended to the Board and the Board approved the entitlement of monthly salary of S$7,500 to Mr. Xu with regard to his work efforts and contributions as a director of Huajin Singapore with effect from 1 April 2019. Details of the Directors' emolument are set out in note 11 to the consolidated financial statements.

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

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

Nomination Committee

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

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

Board diversity policy

The Board recognizes and embraces the benefits of having a diverse Board to enhance its performance and to achieve a sustainable and balanced development. The Board has adopted a board diversity policy which sets out the approach to achieve and maintain its diversity. The board diversity policy provides that selection of Board candidates should be based on a range of different considerations, including but not limited to professional experience, skills, gender, age, cultural and educational background, ethnicity and length of service. When identifying potential candidates to the Board, the nomination committee and the Board will, among others, consider the criteria that promote diversity on the Board.

The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board. All Board appointments will be based on meritocracy having due regard for the benefits of diversity on the Board. The ultimate selection of Board candidates will be based on merit and potential contribution to the Board with reference to the board diversity policy as a whole.

Nomination policy

The Board has adopted the policy for the nomination of directors in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the nomination committee shall consider the candidates' character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

During the year ended 31 December 2019, the Nomination Committee held one meeting. The Nomination Committee carried out the process of selecting and recommending to the Board candidates for directorship with reference to diversity policy of the Company, including the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition, assessed the independence of independent non-executive Directors and recommended the re-appointment of retiring Directors for Shareholders' approval at the general meeting.

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

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

EXTERNAL AUDITORS

Below is an analysis of remuneration in respect of audit and non-audit services provided by the external auditors for the year ended 31 December 2019 and the amount charged to profit or loss during the year ended 31 December 2019 is shown in note 10 to the consolidated financial statements on page 88 of this annual report.

	Deloitte Touche Tohmatsu *RMB'000*	Other auditors *RMB'000*	Total *RMB'000*
Audit services:			
Annual audit service	1,426	317	1,743
Non-audit services*:			
Other related services	586	191	777
Total	2,012	508	2,520

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

The reporting responsibilities of Deloitte Touche Tohmatsu are stated in the independent auditor's report on pages 49 to 53 of this annual report.

COMPANY SECRETARY

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

The appointment of company secretary is appointed by the Board. The company secretary is an employee of the Group and has day-to-day knowledge of the Company's affairs. Biographical details of the company secretary are set out in the section "Directors and Senior Management" in this annual report. The company secretary confirmed that he undertook no less than 15 hours of relevant professional training and relevant updates during the year ended 31 December 2019.

SHAREHOLDER RIGHTS

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

Pursuant to Article 58 of the Article of Association, the Board may whenever it thinks fit call EGM. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

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

DIVIDEND POLICY

Under Cayman Islands law, dividends may be paid out of the profits of our Company or out of sums standing to the credit of our share premium account. Under the Articles, declaration of dividends is subject to the Shareholders' approval at our general meeting, but no dividend shall exceed the amount recommended by our Directors. In addition, our Directors may also pay interim or special dividends without Shareholders' approval as appear to our Directors to be justified by the financial conditions and the profits of our Company. Future dividends payments will also depend on the availability of dividends we will receive from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of distributable profit according to the PRC accounting principles. Our PRC subsidiaries are also required to set aside part of their net profit as statutory reserves which are not available for distribution as cash dividends in accordance with PRC laws. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or our PRC subsidiaries may enter into in the future.

Subject to the above, our Directors' discretion, and the applicable laws and regulations, the declaration, payment and amount of any dividends, if paid, will depend on our results of operations, operating and capital requirements, cash flows, financial condition, future prospects, and other factors that our Directors may consider relevant.

Our Directors currently intend to recommend, at the relevant shareholders' meetings of our Company, a dividend of around 30% of the net profit available for distribution to our Shareholders for each financial year ending 31 December in the foreseeable future. Shareholders will be entitled to receive the dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The said intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay dividends at all.

INVESTOR RELATIONS

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility to ensure that sound and effective internal controls and risk management are maintained. The internal control system, which is overseen by the executive directors and the management, is designed to provide reasonable assurance on the effectiveness and efficiency of operations to safeguard assets against unauthorized use or disposition and to maintain proper accounting records for producing reliable financial information.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management system. The Audit Committee supports the Board in monitoring the Group's risk exposures and the design and operating effectiveness of the underlying risk management system.

The Group emphasises the importance of sound risk management and internal control systems which are indispensable for mitigating the Group's key risk exposures. The Group's risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

For risk management, the Group has applied risk assessment model to identify, assess and manage different types of risks. The Group is committed to the identification, evaluation, and management of risks associated with its business activities through ongoing assessment of a risk register, by considering the likelihood and impact of each identified risk. For any newly identified significant risks, the Group will evaluate its financial or operational impacts to the Group and adopt mitigating measures to manage such risks. Principal risks and uncertainties facing our Group during the year are set out in the paragraph headed "Principal Risks and Uncertainties" in the Directors' report.

The Group has developed an internal control system, which covers major financial, operational and compliance controls to safeguard its assets against unauthorised use, ensure the maintenance of proper accounting records and ensure compliance with relevant laws and regulations. The internal control system is reviewed on an ongoing basis by the Board and Audit Committee annually. For any identified internal control weaknesses or defects, the Group will enhance control measures to rectify such control weaknesses or defects.

The Board considered that the risk management and internal control systems of the Group were effective during the reporting period under review and the improvement of these systems is an ongoing process. The Board maintains a continuing commitment, including the planning to engage an internal control consultant to conduct independent review on the risk management and internal control systems of the Group, to strengthen the Group's environment control and processes.

BUSINESS REVIEW

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

During the year ended 31 December 2019, the Group recorded revenue of RMB2,162.6 million and a profit attributable to Shareholders of RMB18.4 million, representing a decrease of 25.7% and an increase of 187.5%, respectively, from the corresponding period in 2018.

Our sales volume of processed steel products and galvanized steel products in aggregate was 471,302 tonnes for the year ended 31 December 2019, representing a decrease of 125,754 tonnes or 21.1%, as compared to 597,056 tonnes for the year ended 31 December 2018. The annual processing capacity of our cold-rolling process and zinc coating process was approximately 750,000 tonnes and 250,000 tonnes respectively, with an average utilisation rate of approximately 73.6%, and 29.8%, respectively during the reporting period under review. The low utilisation rate for our zinc coating process during the reporting period under review was partly due to the drop in the average processing fee (being the difference between the selling price and the cost of the raw materials, namely hot-rolled steel coils) we charged for our galvanized steel products, temporary suspension of our production for regular repair and maintenance, and reallocation of our certain production facilities to our new production plant during the reporting period under review. The management considered that it was justified not to accept additional sales order at a lower processing fee to incur additional production costs.

In order to maintain its business growth in the long run, the Group invested substantially in property, plant and equipment to strengthen the scale and processing capacity of the existing production base and facilities. During the year ended 31 December 2019, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB182.2 million. By further investments in property, plant and equipment, the management considers that the Group is able to promote the sales volume when a lower unit production costs will be achieved and benefited from boosted economy of sales in production when the new production plant at Gujing Town is expected to commence commercial productions in the second quarter of 2020.

The net current liabilities position as at 31 December 2019 was primarily attributable to the fact that short-term borrowings were obtained to finance the non-current capital expenditures on property, plant and equipment, and land use rights. The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group, and (ii) the Group's presently available financing facilities and the intended renewal of the existing financing facilities upon maturity, the Group would have sufficient working capital to meet its current liabilities or expand its operations as anticipated.

Our capital commitments towards the acquisition of property, plant and equipment and land use rights, as at 31 December 2019, was approximately RMB189.5 million, which will be financed by the Group's internal resources and borrowings. The Group envisages ongoing growth in demand for its products and an ongoing need to increase its production capacity. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the years ahead.

FINANCIAL REVIEW

Revenue

Our Group primarily generates revenue from the sales of processed steel products and galvanized steel products. Our revenue decreased to approximately RMB2,162.6 million for the year ended 31 December 2019, by approximately RMB746.7 million or 25.7%, as compared with that of approximately RMB2,909.3 million for the year ended 31 December 2018.

Our sales volume of processed steel products decreased to 396,130 tonnes for the year ended 31 December 2019, by 108,997 tonne or 21.6%, as compared with that of 505,127 tonnes for the year ended 31 December 2018. Our sales volume of galvanized steel products decreased to 75,172 tonnes for the year ended 31 December 2019, by 16,757 tonnes or 18.2%, as compared with that of 91,929 tonnes for the year ended 31 December 2018. Thus, our sales volume of processed steel products and galvanized steel products in aggregate was 471,302 tonnes for the year ended 31 December 2019, representing an decrease of 125,754 tonnes or 21.1%, as compared to 597,056 tonnes for the year ended 31 December 2018.

The decrease in revenue was mainly attributable to the decrease in the average selling price and sales volume of our products. The average selling price of our processed steel products decreased to RMB4,357 per tonne for the year ended 31 December 2019 as compared with that of RMB4,462 per tonne for the year ended 31 December 2018. The average selling price of our galvanized steel products decreased to RMB4,348 per tonne for the year ended 31 December 2019 as compared with that of RMB4,751 per tonne for the year ended 31 December 2018. In summary, the average selling price of our processed steel products and galvanized steel products decreased to RMB4,355 per tonne for the year ended 31 December 2019 as compared with that of RMB4,506 per tonne for the year ended 31 December 2018.

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

Other revenue was primarily attributable to the sales net-rolled steel products, sales of scrap steel residual in our manufacturing process to recycling agents and the provision of processing service to the customers who engage us to process hot-rolled steel coils provided by them. Such other revenue accounted for about 5.1% of our revenue for the year ended 31 December 2019.

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

	Year ended 31 December			
	2019		2018	
	RMB'000	**%**	*RMB'000*	%
Sales of processed steel products	**1,725,781**	**79.8**	2,253,719	77.5
— processed steel strips and sheets	**1,538,278**	**71.1**	2,068,096	71.1
— welded steel tubes	**187,503**	**8.7**	185,623	6.4
Sales of galvanized steel products	**326,872**	**15.1**	436,769	15.0
Sales of hot-rolled steel products and others	**109,952**	**5.1**	218,777	7.5
	2,162,605	**100.0**	2,909,265	100.0

Cost of sales

Our cost of sales decreased to approximately RMB2,048.1 million for the year ended 31 December 2019, by approximately RMB716.5 million or 25.9%, as compared with that of approximately RMB2,764.6 million for the year ended 31 December 2018.

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

	Year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Direct materials	1,822,151	89.0	2,463,768	89.2
Utilities	82,979	4.0	94,888	3.4
Depreciation expense	54,631	2.7	46,375	1.7
Direct labour	44,132	2.2	62,064	2.2
Consumables	37,386	1.8	88,204	3.2
Others	6,785	0.3	9,287	0.3
	2,048,064	100.0	2,764,586	100.0

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 89.0% of our cost of sales for the year ended 31 December 2019. The decrease in direct materials was mainly attributable to the decrease in the sales volume of processed steel products and galvanized steel products during the reporting period under review.

Utilities related primarily to electricity, water, and natural gas consumed throughout our production process. Utilities expenses decreased to approximately RMB83.0 million for the year ended 31 December 2019, by approximately RMB11.9 million or 12.5%, as compared with that of approximately RMB94.9 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in sales volume, temporary suspension of our certain production lines for regular repair and maintenance, and reallocation of our certain production facilities to our new production plant during the reporting period under review.

Depreciation expense experienced an increase to approximately RMB54.6 million for the year ended 31 December 2019, by approximately RMB8.2 million or 17.7%, as compared with that of approximately RMB46.4 million for the year ended 31 December 2018. Such increase was mainly due to the increase in depreciation for plant and machinery during the reporting period under review.

Our direct labour decreased to approximately RMB44.1 million for the year ended 31 December 2019, by approximately RMB18.0 million or 29.0%, as compared with that of approximately RMB62.1 million for the year ended 31 December 2018. The decrease in our direct labour was in line with our decreased level of sales volume and hiring of lesser production personnel during the reporting period under review.

Consumables consisted of machinery spare parts, supplies and other direct cost consumed in the production process. Our consumables also decreased to approximately RMB37.4 million for the year ended 31 December 2019, by approximately RMB50.8 million or 57.6%, as compared with that of approximately RMB88.2 million for the year ended 31 December 2018. Such decrease was mainly attributable to the decreased production activity for processed steel products and galvanized steel products during the reporting period under review.

Other costs primarily comprised other taxes and surcharges expenses.

Gross profit

In view of the intensified competition in the industry partly due to the downward trend of steel price volatility, the Group recorded a gross profit of approximately RMB114.5 million for the year ended 31 December 2019, representing a decrease of approximately RMB30.2 million or 20.9%, as compared with that of approximately RMB144.7 million for the year ended 31 December 2018 and a gross profit margin of 5.3%, representing an increase of approximately 0.3 percentage points as compared with that of 5.0% in the corresponding period.

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

	Year ended 31 December	
	2019	2018
Sales volume of processed steel products	**396,130 tonnes**	505,127 tonnes
— processed steel strips and sheets	**353,843 tonnes**	465,235 tonnes
— welded steel tubes	**42,287 tonnes**	39,892 tonnes
Sales volume of galvanized steel products	**75,172 tonnes**	91,929 tonnes
	471,302 tonnes	597,056 tonnes
Average selling price (per tonne)		
— processed steel products	**RMB4,357**	RMB4,462
— galvanized steel products	**RMB4,348**	RMB4,751
— processed steel products and galvanized steel products	**RMB4,355**	RMB4,506
Average cost of direct materials used (per tonne)	**RMB3,866**	RMB4,127
Difference (per tonne) between average selling price and average cost of direct materials used		
— processed steel products	**RMB491**	RMB335
— galvanized steel products	**RMB482**	RMB624
— processed steel products and galvanized steel products	**RMB489**	RMB379

Other income, other gains and losses

Other income, other gains and losses increased to approximately RMB14.0 million for the year ended 31 December 2019, by approximately RMB7.8 million or 125.8%, as compared with that of approximately RMB6.2 million for the year ended 31 December 2018. Such increase was mainly attributable to the gain of approximately RMB7.8 million on disposal of 80% equity interest in a subsidiary in the second half of 2019.

Selling expenses

Our selling expenses decreased to approximately RMB27.4 million for the year ended 31 December 2019, by approximately RMB4.4 million or 13.8%, as compared with that of approximately RMB31.8 million for the year ended 31 December 2018. The decrease in selling expenses during the reporting period under review was mainly attributable to the decrease in salary, delivery costs and other selling related expenses.

Administrative expenses

Our administrative expenses decreased to approximately RMB38.1 million for the year ended 2019, by approximately RMB0.6 million or 1.6%, as compared with that of approximately RMB38.7 million for the year ended 31 December 2018.

Investment gain (loss)

Our investment gain increased to approximately RMB2.1 million for the year ended 31 December 2019 when compared with investment loss of approximately RMB27.3 million for the year ended 31 December 2018. Such investment gain during the reporting period under review was primarily due to the increase in net realised gain on derivative financial instruments in relation to the commodity futures contracts amounting to approximately RMB2.1 million.

Finance costs

The finance costs comprised interest expenses on borrowings which were charged at interest rates ranging from 1.00% to 11.00% (2018: 4.35% to 8.05%) per annum for the year ended 31 December 2019. Finance costs decreased to approximately RMB42.7 million for the year ended 31 December 2019, by approximately RMB2.6 million or 5.7%, as compared with that of approximately RMB45.3 million for the year ended 31 December 2018. Such decrease was primarily resulted from the reduced average borrowing level in the year of 2019 when compared with the year of 2018.

Income tax expenses

Income tax expenses increased to approximately RMB7.3 million for the year ended 31 December 2019, by approximately RMB4.3 million or 143.3%, as compared with that of approximately RMB3.0 million for the year ended 31 December 2018. Such increase was mainly attributable to the increase in PRC enterprise income tax and the charge of PRC withholding tax imposed on dividends declared by our PRC subsidiaries during the reporting period under review.

Profit for the year

Our profit attributable to shareholders of the Company increased to approximately RMB18.4 million for the year ended 31 December 2019, by approximately RMB12.0 million or 187.5%, as compared with that of approximately RMB6.4 million for the year ended 31 December 2018.

Net profit margin increased to approximately 0.9% for the year ended 31 December 2019 by approximately 0.7 percentage points from approximately 0.2% for the year ended 31 December 2018.

Liquidity and financial resources

As at 31 December 2019, the Group's bank balances and cash decreased to approximately RMB38.7 million, by approximately RMB33.8 million or 46.6%, from approximately RMB72.5 million as at 31 December 2018. The Group's restricted bank deposits decreased to approximately RMB72.5 million as at 31 December 2019, by approximately RMB51.4 million or 41.5%, from approximately RMB123.9 million as at 31 December 2018.

As at 31 December 2019, the Group had the net current liabilities and the net assets of approximately RMB104.2 million (2018: RMB234.2 million) and approximately RMB534.0 million (2018: RMB586.0 million), respectively. As at 31 December 2019, the current ratio calculated based on current assets divided by current liabilities of the Group was 83.1% as compared with that of 79.3% as at 31 December 2018.

At 31 December 2019, the Group's total borrowings amounted to approximately RMB790.8 million (2018: RMB848.2 million) and total equity amounted to approximately RMB534.0 million (2018: RMB586.0 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 1.48 times (31 December 2018: 1.45 times) as at 31 December 2019.

As at 31 December 2019, the Group had total financing facilities amounted to approximately RMB701.0 million (2018: RMB958.5 million), of which approximately RMB575.3 million (2018: RMB798.8 million) had been utilised, and the unutilised financing facilities amounted to approximately RMB125.7 million (2018: RMB159.7 million). As at 31 December 2019, certain of the Group's borrowings, which were secured by certain assets of the Group, were also secured by personal guarantees from Mr. Xu, Mr. Luo and Mr. Chen respectively. Mr. Xu and Mr. Luo also agreed to provide necessary financial support to enable the Group to meet its financial obligations as they fall due for a period of twelve months from the date of approval of these consolidated financial statements. The Group believes it has and will have sufficient unutilised financing facilities to meet its business operation, capital expenditures and expansion.

Foreign currency exposure

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

Financial instruments

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

Material acquisitions and disposal

On 24 October 2019, Jiangmen Huamu entered into a sale and purchase agreement with a purchaser, an independent third party, pursuant to which Jiangmen Huamu disposed 80% equity interest in Jiangmen Jinyuan at a cash consideration of RMB30 million. During the reporting period under review, saved as disclosed, the Group had no other material acquisitions or disposal of subsidiaries, associates and joint ventures.

Capital structure

Details of the share capital are set out in note 30 to the consolidated consolidated financial statements.

Capital commitment

Details of the capital commitment are set out in note 32 to the consolidated consolidated financial statements.

Pledge of assets

Details of the pledge of assets are set out in note 34 to the consolidated consolidated financial statements.

Contingent liabilities

During the reporting period under review, the Company provided guarantees to banks as securities for financing facilities granted to certain subsidiaries of the Company in the PRC. The Group did not provide any guarantee to any third parties and did not have contingent liabilities as at 31 December 2019 (2018: nil).

Employees

As at 31 December 2019, the Group had a total of 845 (31 December 2018: 1,044) full-time employees in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) in 2019 amounted to approximately RMB75.2 million (2018: RMB85.6 million). The Group remunerated the employees based on their performance, experience and prevailing market practices. The Company has share option scheme in place as a means to encourage and reward the eligible employees (including the Directors) for their contributions to the Group's results and business development based on their individual performance. No share option was granted during the year ended 31 December 2019.

Pursuant to our discretionary bonus policy, discretionary bonus that may be available to our executive Directors and senior management members for each financial year, if so approved by the remuneration committee of the Board, will not exceed 5% of the audited consolidated profit before taxation and extraordinary items of our Group. Out of such discretionary bonus, it is intended that half of it will be available for awarding bonus to our executive Directors and the remaining half for our senior management. Same to 2018, our Board decided not to pay any discretionary bonus to our executive Directors and senior management for the year ended 31 December 2019.

The Directors are pleased to present this annual report together with audited consolidated financial statements for the year ended 31 December 2019.

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

PRINCIPAL ACTIVITIES

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

A list of the Company's principal subsidiaries as at 31 December 2019 and their particulars are set out in note 42 to the consolidated financial statements.

BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of this financial year, and an indication of likely future development in the Group's business, can be found in this report and the sections headed "Chairman's Statement", "Management Discussion and Analysis", and "Corporate Governance Report" of this annual report. Details about the Group's financial risk management are set out in note 39 to the consolidated financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risks relating to our business and the steel processing industry

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

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

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

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

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

Operational risks

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

Financial risks and estimation uncertainty

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

Past performance and forward looking statements risks

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

(a) Employees

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

(b) Customers

The Group processes hot-rolled carbon steel into cold-rolled carbon steel products and galvanized steel products for our manufacturing customers. We derived most of our revenue from domestic sales which were made mainly to customers located in Guangdong Province, the PRC. Our customers are primarily manufacturers of different industrial products which purchase our processed steel products and galvanized steel products for the manufacture of end products, agents for manufacturers, and steel trading companies. During the year ended 31 December 2019, we served approximately 800 to 900 customers per year across a variety of industries in the PRC, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. With a broad and diversified customer base, we are not dependent on any single customer, group of customers or any particular industry and are able to capture growth in various industries.

(c) Suppliers

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54 of this annual report.

During the reporting period, the Board had resolved to declare an interim dividend of HK3 cents (2018: nil) and a special interim dividend of HK10 cents (2018: nil) per Share in respect of six months ended 30 June 2019, making a total dividend payment of HK$78.0 million (equivalent to approximately RMB70.3 million). The interim dividend and special interim dividend were paid in cash out of share premium account.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

The total dividend for 2019 amounted to a total of HK13 cents (2018: nil) per Share, which represented dividend payout ratio of approximately 382.7% (2018: n/a) of the profit attributable to Shareholders for the year ended 31 December 2019.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2019, the total purchases of raw materials from our five largest suppliers in aggregate accounted for approximately 60.8% (2018: 72.5%) of our total purchases and the total purchases from our largest supplier accounted for approximately 14.8% (2018: 21.0%) of our total purchases of raw materials.

For the year ended 31 December 2019, revenue from our five largest customers in aggregate accounted for approximately 17.7% (2018: 14.3%) of our revenue and revenue from our largest customer accounted for approximately 5.7% (2018: 4.3%) of our revenue.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the section headed "Financial Summary" on page 122 of this annual report.

DONATIONS

During the year ended 31 December 2019, the Group's charitable and other donations amounted to RMB150,000 (2018: RMB60,000).

PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements.

Details of the movements in the Group's right-of-use assets during the year ended 31 December 2019 are set out in note 15 to the consolidated financial statements.

Deposits paid for acquisition of property, plant and equipment amounted to approximately RMB109.1 million (2018: RMB47.6 million) as at 31 December 2019.

As at 31 December 2019, the aggregate carrying amount of the Identified Long-lived Assets was approximately RMB816.3 million, including certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment of approximately RMB705.1 million, RMB2.1 million and RMB109.1 million, respectively. As at 31 December 2019, no impairment loss (2018: nil) of any of the Identified Long-lived Assets has been recognised.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2019 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2019 are set out in note 30 to the consolidated financial statements.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Based on the offer price of HK$2.38 per Share and the actual listing expenses incurred, the net proceeds from the global offering received by the Company amounted to approximately HK$330.7 million (equivalent of approximately RMB276.9 million) in April 2016.

The net proceeds from the global offering (adjusted on a pro rata basis based on the actual net proceeds) are fully utilized in accordance with the purposes set out in the section "Future Plans and Use of Proceeds" of the prospectus of our Company dated 5 April 2016. The below table sets out the planned applications of the net proceeds and usage up to 31 December 2019:

Use of proceeds	Planned applications *(HK$ million)*	% of total net proceeds *(%)*	Actual usage up to 31 December 2019 *(HK$ million)*	Actual usage up to 31 December 2019 *(RMB million)*
To repay working capital loans from PRC commercial banks	150.0	45.4	150.0	126.1
To purchase production machinery and equipment	71.0	21.5	71.0	59.6
To finance the acquisition of two parcels of industrial lands and the operational buildings erected thereon from Mr. Xu	48.6	14.7	48.6	40.5
To finance the construction and operation of Workshop No. 4	27.3	8.2	27.3	22.7
To upgrade our ERP system	4.1	1.2	4.1	3.5
For general working capital and other general corporate purposes	29.7	9.0	29.7	24.5
Total	330.7	100.0	330.7	276.9

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 56 of this annual report and note 41 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to Shareholders, comprising share premium less accumulated losses amounted to approximately RMB180.0 million (2018: RMB252.2 million) calculated in accordance with the Companies Law (as revised) of the Cayman Islands.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors:

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

Non-executive Director:

Mr. Xu Jianhong

Independent non-executive Directors:

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

Pursuant to Article 84 of the Articles of Association of the Company, Mr. Xu Songman, Mr. Goh Choo Hwee and Mr. Tam Yuk Sang Sammy shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group and the changes in information of the Directors are set out on pages 9 to 12 of this annual report.

DIRECTORS' EMOLUMENTS

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

No Director has waiver or has agreed to waive any emoluments and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2019.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

CONFIRMATION FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2019, the Group did not entered into any equity-linked agreement.

SHARE OPTION SCHEME

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

Details of the Scheme are as follows:

a. Purpose

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

b. Eligible Persons

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

c. Total number of Shares available for issue

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

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

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

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

d. Maximum entitlement for each Eligible Person

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

e. Time of exercise of option

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

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

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

g. Acceptance and payment on acceptance

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

h. Exercise price

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

i. Remaining life of the Scheme

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

j. Details of any options granted

No option was granted, exercised, cancelled or lapsed under the Scheme since the date of adoption of the Scheme and there was no outstanding share option as at 31 December 2019.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Directors of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto. The Company has maintained Directors and officers liabilities insurance and such provisions were in force during the year ended 31 December 2019 and remained in force as of the date of this report.

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company and their associates in the Shares and underlying Shares of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares of the Company

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

Notes:

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

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

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

4. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2019.

Long positions in the shares of associated corporations of the Company

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

Note:

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

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the Shares or underlying Shares of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2019, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) who/which had interests and/or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were:

Long positions in Shares of the Company

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

Notes:

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

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

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

4. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Company has not been notified by any person nor corporation (other than Directors or the chief executive of the Company) who/which had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Details of the connected/continuing connected transactions and material related party transactions are set out in this report and note 37 to the consolidated financial statements.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2019 was the Company, its holding company, or any of its subsidiaries or associated corporations, a party to any arrangement which enables the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Company, none of the Directors and Controlling Shareholders of the Company (as defined under the Listing Rules) nor their respective associates were interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the year ended 31 December 2019 to the date of this annual report.

NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders, namely Haiyi, Intrend Ventures, Zhong Cheng, Mr. Xu and Mr. Luo, has provided written confirmation (the "Confirmation") to the Company that, for the year ended 31 December 2019, each of the Controlling Shareholders has complied with the non-competition undertakings (the "Undertakings") given under the Deed of Non-competition.

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

Upon receiving the Confirmation, the independent non-executive Directors of the Company had reviewed the same as part of the annual examination. In determining whether the Controlling Shareholders had fully complied with the Undertakings, the independent non-executive Directors noted that (a) the Controlling Shareholders declared that they had fully complied with the Undertakings; (b) no new competing business was reported by the Controlling Shareholders for the year ended 31 December 2019; and (c) there was no particular situation rendering the full compliance of the Undertakings being questionable. In view of the above, the independent non-executive Directors confirmed that the Controlling Shareholders had fully complied with the Deed of Non-competition for the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

Details of material related party transactions of the Group undertaken in the normal course of business are set out in note 37 to the consolidated financial statements. During the year ended 31 December 2019, certain related party transactions set out in note 37 to the consolidated financial statements are regarded as connected transactions or continuing connected transactions of the Group. Save for those as disclosed below, none of which is required to be disclosed under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had the following continuing connected transactions:

As disclosed in the Prospectus, on 4 January 2016, a lease agreement was entered into between Jiangmen Huazhi, as the landlord, and Jiangmen Huamu, as the tenant, in respect of the warehouses built on a parcel of land situated at Dawei, Niugutian Village Committee, Muzhou Town, Xinhui District, Jiangmen, Guangdong Province, the PRC (中國廣東省江門市新會區睦洲鎮牛古田村民委員會大圍) (the "Warehouses") with an aggregate gross floor area of approximately 5,375 square metres. Under the Lease Agreement A, Jiangmen Huazhi would lease the Warehouses to Jiangmen Huamu for an initial term commencing from the Listing Date to 31 December 2018 at an aggregate monthly rent of RMB 28,000. On 31 December 2018, the Group entered into a lease agreement (the "Lease Agreement A") with Jiangmen Huazhi to renew the lease term of three years from 1 January 2019 for the continual use of the Warehouses at the same aggregate monthly rent of RMB 28,000. The Group is required to make fixed quarterly payments and has the right to renew the Lease Agreement A, for consecutive terms of three years at its own discretion upon serving Jiangmen Huazhi three months' written notice, prior to the expiration of the lease. The monthly rent of the Warehouses for the term of the lease was determined after arm's length negotiation between the parties with reference to the market rent of the Warehouses as assessed by the executive Directors and previous valuation as assessed by Greater China Appraisal Limited, an independent property valuer. Jiangmen Huazhi is owed as to 60% by Mr. Xu Jianhong and 40% by Mr. Chen. As Mr. Xu Jianhong is a non-executive Director and Mr. Chen is an executive Director, Jiangmen Huazhi is a connected person pursuant to the Listing Rules.

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

As the relevant applicable percentage ratios with respect to the transaction contemplated under each of the Lease Agreement A and the Lease Agreement B on an annual basis are less than 0.1%, pursuant to Rule 14A.76(1) of the Listing Rules, such transactions constitute de minimis continuing connected transactions which are fully exempt from the relevant reporting, announcement and Shareholders' approval requirements.

The above continuing connected transactions have been reviewed by our independent non-executive Directors who have confirmed that the transactions have been entered into:

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

(2) on normal commercial terms; and

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

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had the following connected transactions:

Mr. Xu provided unsecured and interest-free loans in an aggregate amount of RMB22.4 million to the Group, of which RMB20.3 million has been repaid during the year under review. The financial assistance from Mr. Xu was utilized by the Group as its general working capital. The Board considers that as the provision of financial assistance from Mr. Xu to the Group was conducted on normal commercial terms or better and was not secured by any assets of the Group, the provision of financial assistance received by the Group from a connected person was fully exempt under Rule 14A.90 of the Listing Rules.

During the year ended 31 December 2019, certain of the Group's borrowings, which were secured by certain assets of the Group, were also secured by personal guarantees from Mr. Xu, Mr. Luo and Mr. Chen respectively.

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

TAX RELIEF

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" on pages 13 to 24 of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 43 to the consolidated financial statement on page 121 of this annual report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu, who will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution to re-appoint Deloitte Touche Tohmatsu and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xu Songqing
Chairman

Hong Kong, 11 May 2020

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Huajin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 121, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the Identified Long-lived Assets (as defined below)	
We identified the impairment assessment of the long-lived assets relating to the Group's business of sales of processed steel products and galvanized steel products, comprising certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment (the "Identified Long-lived Assets"), as a key audit matter as significant judgement by the management is required to assess the amount of impairment of these assets. During the year ended 31 December 2019, the management of the Group performed an impairment assessment of the Identified Long-lived Assets due to the indication for impairment as disclosed in note 5 to the consolidated financial statements. As at 31 December 2019, the aggregate carrying amount of the Identified Long-lived Assets was RMB816,252,000, including certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment of RMB705,082,000, RMB2,070,000 and RMB109,100,000, respectively, as set out in note 5 to the consolidated financial statement. For the purpose of assessing impairment of these assets, the recoverable amounts of these assets have been determined by the management of the Group by value in use calculations using financial budgets based on past performance and expectation for market development, where the key input parameters include growth rates and discount rates. Based on the management's assessment, no impairment loss of the Identified Long-lived Assets has been recognised in profit or loss for the year ended 31 December 2019.	Our procedures in relation to management's impairment assessment of the Identified Long-lived Assets included: • Understanding the Group's impairment assessment process, including impairment assessment model adopted and assumptions used. • Evaluating the independent qualified professional valuer's competence, capabilities and objectivity. • Engaging our internal specialists to review the reasonableness of the impairment assessment model adopted and assumptions used by the management of the Group. • Assessing the reasonableness of the management's estimate of the growth rates with reference to the historical performance and the latest budgets of the Group and market data. • Assessing the reasonableness of the discount rates used by management in determining the value in use, with reference to the current market risk-free rate of interest and the industry specific risk factors. • Evaluating the historical accuracy of the management's cash flow projections by comparing the historical cash flow projections with the actual performance. • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the impairment assessment model.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chung Chi Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
11 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	**2,162,605**	2,909,265
Cost of sales		**(2,048,064)**	(2,764,586)
Gross profit		**114,541**	144,679
Other income, other gains and losses	7	**13,978**	6,227
Selling expenses		**(27,407)**	(31,788)
Administrative expenses		**(38,096)**	(38,651)
Share of loss of an associate	17	**(40)**	–
Profit before investment income and gain, net finance costs and taxation		**62,976**	80,467
Investment gain (loss)		**2,059**	(27,297)
Finance income	8	**3,295**	1,420
Finance costs	8	**(42,654)**	(45,327)
Finance costs, net	8	**(39,359)**	(43,907)
Profit before taxation		**25,676**	9,263
Income tax expense	9	**(7,296)**	(2,968)
Profit for the year	10	**18,380**	6,295
Other comprehensive expense for the year which may be subsequently reclassified to profit or loss			
— exchange differences arising on translation of foreign operations		**–**	(2,751)
Total comprehensive income for the year		**18,380**	3,544
Profit (loss) for the year attributable to:			
Owners of the Company		**18,380**	6,412
Non-controlling interests		**–**	(117)
		18,380	6,295
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**18,380**	3,661
Non-controlling interests		**–**	(117)
		18,380	3,544
Earnings per share for profit attributable to owners of the Company,			
— Basic (RMB cents)	13	**3.06**	1.07

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	741,458	618,733
Right-of-use assets	15	173,803	–
Prepaid lease payments	16	–	189,533
Interests in an associate	17	6,130	–
Deposits paid for acquisition of property, plant and equipment		109,100	47,596
Deferred tax assets	29	5,363	6,188
		1,035,854	862,050
CURRENT ASSETS			
Prepaid lease payments	16	–	4,375
Inventories	18	81,460	234,565
Trade, bills and other receivables	19	316,915	459,027
Tax recoverable		915	5,179
Restricted bank deposits	21	72,484	123,944
Bank balances and cash	22	38,695	72,465
		510,469	899,555
CURRENT LIABILITIES			
Trade, bills and other payables and accrued expenses	23	89,390	202,026
Contract liabilities	24	96,838	66,589
Tax payables		2,596	–
Amounts due to related parties	25	6,217	34,047
Borrowings — due within one year	26	418,290	831,091
Lease liabilities	27	1,313	–
		614,644	1,133,753
NET CURRENT LIABILITIES		(104,175)	(234,198)
TOTAL ASSETS LESS CURRENT LIABILITIES		931,679	627,852
NON-CURRENT LIABILITIES			
Borrowings — due more than one year	26	372,550	17,147
Lease liabilities	27	3,684	–
Deferred income	28	21,450	24,750
		397,684	41,897
NET ASSETS		533,995	585,955
CAPITAL AND RESERVES			
Share capital	30	4,999	4,999
Reserves		528,996	580,956
TOTAL EQUITY		533,995	585,955

The consolidated financial statements on pages 54 to 121 were approved and authorised for issue by the Board of Directors on 11 May 2020 and are signed on its behalf by:

Mr. Xu Songqing
Director

Mr. Luo Canwen
Director

	Attributable to owners of the Company								
	Share capital RMB'000 (note 30)	Share premium RMB'000	Statutory reserve RMB'000 (Note i)	Capital reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	4,999	264,429	38,120	58,696	(2,261)	223,253	587,236	9,370	596,606
Profit (loss) for the year	–	–	–	–	–	6,412	6,412	(117)	6,295
Other comprehensive expense for the year	–	–	–	–	(2,751)	–	(2,751)	–	(2,751)
Total comprehensive (expense) income for the year	–	–	–	–	(2,751)	6,412	3,661	(117)	3,544
Acquisition of additional interest in a subsidiary *(Note ii)*	–	–	–	(885)	–	–	(885)	(9,253)	(10,138)
Transfer	–	–	3,033	–	–	(3,033)	–	–	–
Dividend recognised as distribution *(note 12)*	–	(10,086)	–	–	–	–	(10,086)	–	(10,086)
Deemed contribution from a shareholder *(Note iii)*	–	–	–	6,029	–	–	6,029	–	6,029
At 31 December 2018	**4,999**	**254,343**	**41,153**	**63,840**	**(5,012)**	**226,632**	**585,955**	**–**	**585,955**
Profit and total comprehensive income for the year	–	–	–	–	–	**18,380**	**18,380**	–	**18,380**
Transfer	–	–	**2,455**	–	–	**(2,455)**	–	–	–
Dividend recognised as distribution *(note 12)*	–	**(70,340)**	–	–	–	–	**(70,340)**	–	**(70,340)**
At 31 December 2019	**4,999**	**184,003**	**43,608**	**63,840**	**(5,012)**	**242,557**	**533,995**	**–**	**533,995**

Notes:

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

(ii) During the year ended 31 December 2018, the Group acquired the remaining 40% of the equity interest in its subsidiary, Jiangmen Jinyuan Metals Company Limited ("Jiangmen Jinyuan"), from non-controlling shareholders at a consideration of RMB10,138,000, and the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration to be paid by the Group of RMB885,000 is recognised in capital reserve. Upon the completion of the acquisition, Jiangmen Jinyuan became a wholly owned subsidiary of the Group.

(iii) Pursuant to the request made by the Jiangmen Municipal Office, State Administration of Taxation, and Jiangmen Municipal Local Taxation Bureau to major entities in Xinhui District, Jiangmen, in 2017, Jiangmen Huamu Metals Company Limited ("Jiangmen Huamu"), the Company's PRC subsidiary, was required to conduct self-inspection of tax obligations for previous financial years. Jiangmen Huamu submitted the self-inspection report to the relevant tax authorities in 2017. Based on the self-inspection report, it was assessed that Jiangmen Huamu had to settle tax liabilities of RMB5,642,000 which had been borne and indemnified by Mr. Xu Songqing ("Mr. Xu") in 2018. Such amount was therefore accounted for as deemed contribution from a shareholder.

In addition, during the year ended 31 December 2018, Mr. Xu provided unsecured loans totalling to RMB53,360,000 to the Group at below-market interest rates. The difference of discounting effect based on these rates and the market interest rates amounted to RMB387,000 is accounted for as deemed contribution from a shareholder.

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	25,676	9,263
Adjustments for:		
Depreciation of property, plant and equipment	2,561	3,273
Depreciation of right-of-use assets	3,916	–
Release of prepaid lease payments	–	3,029
(Gain) loss on disposal of property, plant and equipment	(754)	14
Share of loss of an associate *(note 17)*	40	–
Interest income	(3,295)	(1,420)
Interest expense	42,654	45,327
Release of deferred income	(3,300)	(3,300)
Gain on disposal of a subsidiary *(note 36)*	(7,845)	–
Investment (gain) loss on derivative financial instruments	(2,059)	27,297
Operating cash flows before movements in working capital	57,594	83,483
Decrease in inventories	186,067	121,747
Decrease in trade, bills and other receivables	136,090	237,236
(Decrease) increase in trade, bills and other payables and accrued expenses	(191,841)	42,606
Decrease in amounts due to related parties	(905)	–
Increase in contract liabilities	30,249	8,797
Cash generated used in operations	217,254	493,869
Tax refunds received (income tax paid)	387	(10,967)
NET CASH FROM OPERATING ACTIVITIES	217,641	482,902
INVESTING ACTIVITIES		
Placement of restricted bank deposits	(439,858)	(230,684)
Deposit paid for and purchase of property, plant and equipment	(129,248)	(232,525)
Purchase of derivative financial instruments	(33,244)	(112,402)
Proceeds from disposal of property, plant and equipment	1,805	–
Interest received	3,295	1,420
Net cash inflow on disposal of a subsidiary *(note 36)*	29,445	–
Settlements of derivative financial instruments	35,303	98,768
Withdrawal of restricted bank deposits	491,318	205,105
Purchase of prepaid lease payments	–	(91,044)
Repayment from related parties	–	11,016
NET CASH USED IN INVESTING ACTIVITIES	(41,184)	(350,346)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 ***RMB'000***	2018 *RMB'000*
FINANCING ACTIVITIES		
Repayment of borrowings	**(1,230,588)**	(1,840,253)
Dividend paid	**(70,340)**	(10,086)
Repayment to related parties	**(53,197)**	(68,970)
Interest paid	**(53,091)**	(52,345)
Repayment of lease liabilities	**(789)**	–
Advances from related parties	**24,865**	53,360
New borrowings raised	**1,173,190**	1,730,499
NET CASH USED IN FINANCING ACTIVITIES	**(209,950)**	(187,795)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(33,493)**	(55,239)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**72,465**	127,955
EFFECTS OF EXCHANGE RATE CHANGES	**(277)**	(251)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**38,695**	72,465

1. GENERAL

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

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries are set out in note 42. The addresses of the Company's registered office and principal place of business are disclosed in the section "Corporate Information" of this annual report.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by RMB104,175,000 as at 31 December 2019 and had capital commitments contracted for but not provided in the consolidated financial statements of RMB189,451,000 on the same date, of which RMB112,315,000 is due for payment in the next twelve months from 31 December 2019. The Group had also incurred a net cash outflow of RMB33,493,000 for the year ended 31 December 2019.

In the opinion of the directors of the Company, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration the available bank facilities from various banks for the operation requirements of the Group based on the past history of renewal of such facilities, the working capital estimated to be generated from operating activities and taking into account the various matters subsequent to the end of the reporting period as set out in note 43. As at 31 December 2019, the Group had total financing facilities relating to borrowings amounted to approximately RMB701,020,000, of which approximately RMB575,337,000 had been utilised, and the unutilised financing facilities amounted to RMB125,683,000. In addition, based on the best estimation of the directors of the Company, all of the currently utilised financing facilities would be renewed upon expiry.

Mr. Xu and Mr. Luo also agreed to provide necessary financial support to enable the Group to meet its financial obligations as they fall due for a period of twelve months from the date of approval of these consolidated financial statements.

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

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

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

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

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

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

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

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

As a lessee *(Continued)*

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

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

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

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

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

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	6,185
Lease liabilities discounted at relevant incremental borrowing rates	4,131
Less: Practical expedient — leases with lease term ending within 12 months from the date of initial application	(347)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	3,784
Lease liabilities analysed as	
Current	350
Non-current	3,434
	3,784

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

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

As a lessee *(Continued)*

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

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

Notes:

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

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

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

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

As a lessee *(Continued)*

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

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

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of a Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

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

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatory effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards *(Continued)*

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services rendered.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's interests in existing subsidiaries

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Revenue from contracts with customers

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

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

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

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3) *(Continued)*

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3) *(Continued)*

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

The Group as a lessee (prior to 1 January 2019)

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

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

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

Retirement benefit costs

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term employee benefits

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

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Ownership interests in leasehold land and building *(Continued)*

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

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

Impairment on property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment *(Continued)*

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

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

Deposits paid for acquisition of property, plant and equipment

Deposits paid for acquisition of property, plant and equipment are stated in the consolidated statement of financial position at cost less any subsequent accumulated impairment losses, if any. An item of deposit paid for acquisition of property, plant and equipment is transferred to property, plant and equipment upon receipt by the Group and is ready for its intended use.

Inventories

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

Financial instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and interest income

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

Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables, restricted bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Significant increase in credit risk

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

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

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

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECL

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Measurement and recognition of ECL (Continued)

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

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

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

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

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

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

Derecognition of financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of Identified Long-lived Assets (as defined below)

Certain long-lived assets are related to the Group's business of sales of processed steel products and galvanized steel products, comprising certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment (the "Identified Long-lived Assets"). In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the value in use including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

Due to the suspension of certain of the Group's production, the sales volumes of processed steel products and galvanized steel products and the average utilisation rate of the Group's existing production capacity decreased during the year ended 31 December 2019. The management of the Group concluded there were indications for impairment and conducted impairment assessment on the recoverable amounts of the Identified Long-lived Assets. As at 31 December 2019, the aggregate carrying amount of the Identified Long-lived Assets was RMB816,252,000, including certain property, plant and equipment, right-of-use assets other than leasehold lands and deposits paid for acquisition of property, plant and equipment of RMB705,082,000, RMB2,070,000 and RMB109,100,000, respectively.

The recoverable amounts of the Identified Long-lived Assets has been determined by the management of the Group by value in use calculation on the basis of the cash-generating unit to which these assets belong. The value in use calculation uses financial budgets based on past performance and expectation for market development, where the key input parameters include growth rates and discount rates. The Group estimates the recoverable amount of the cash-generating unit as it is not possible to estimate the recoverable amount of each of the Identified Long-lived Assets individually. As at 31 December 2019, no impairment loss (2018: nil) of any of the Identified Long-lived Assets has been recognised.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated provision for inventories

The management of the Group considers, whilst the contracted selling prices of the Group's processed steel products and galvanized steel products are negotiated according to the market conditions with reference to its costs of inventories, the trends of the market prices of steels are out of the control of the Group and thus imposed pressures to the net realisable values of its inventories. The management of the Group reviews the net realisable values of the inventories at the end of the reporting period based primarily on the latest invoice prices and current market conditions, less the estimates costs of completion and costs to make the sale for the products (if any), to determine if any provision to write off or write down inventories to their net realisable values is necessary. Where the actual net realisable values of the inventories are less than expected, a material provision may arise. As at 31 December 2019, the inventories amounted to RMB81,460,000 (2018: RMB234,565,000). No provision for inventories has been recognised as at 31 December 2019 and 2018.

6. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, Mr. Xu and Mr. Luo, being the chief operating decision maker (the "CODM"), in order to allocate resources to segments and to assess their performance. During the years ended 31 December 2019 and 2018, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the production and sales of processed steel products and galvanized steel products. Therefore, the management considers that the Group has one operating segment only. The Group mainly operates in the PRC and the Group's non-current assets are also mainly located in the PRC.

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

The Group's sales of processed steel products and galvanized steel products is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific locations (delivery) or when the goods are collected by customers at the Group's production plants at their choice. The payment terms and credit terms (if any) are set out in note 19. The Group's product warranty typically requires it to produce products free from defects in material and workmanship and in conformity with specifications of the customers. If the Group fails to meet the product requirements, its customers may return such non-conforming products within 15 days and the Group shall repair or replace such products free of charge.

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

	2019 ***RMB'000***	2018 *RMB'000*
Sales of cold-rolled steel products		
— steel strips and sheets	**1,538,278**	2,068,096
— welded steel tubes	**187,503**	185,623
Sales of galvanized steel products	**326,872**	436,769
Sales of hot-rolled steel products and others	**109,952**	218,777
	2,162,605	2,909,265

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

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

	2019 **RMB'000**	2018 *RMB'000*
PRC	**2,151,849**	2,902,258
Southeast Asia	**10,756**	7,007
	2,162,605	2,909,265

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the year ended 31 December 2019 (2018: nil).

7. OTHER INCOME, OTHER GAINS AND LOSSES

	2019 **RMB'000**	2018 *RMB'000*
Government grants *(Notes i and ii)*	**5,586**	7,261
Gain on disposal of a subsidiary *(note 36)*	**7,845**	–
Gain (loss) on disposal of property, plant and equipment	**754**	(14)
Net foreign exchange loss	**(1,231)**	(2,897)
Others	**1,024**	1,877
	13,978	6,227

Notes:

(i) Incentives received from the PRC local authorities by the Group as encouragement of its business development amounting to RMB2,286,000 (2018: RMB3,961,000) are recognised in the profit or loss for the year ended 31 December 2019 for the purpose of giving immediate financial support to the Group with no future related costs expected to be incurred nor related to any assets.

(ii) Grants amounting to RMB33,000,000 were recorded as a deferred income in prior year, of which RMB3,300,000 (2018: RMB3,300,000) has been recognised in the profit or loss for the year ended 31 December 2019.

8. FINANCE INCOME AND COSTS

	2019 *RMB'000*	2018 *RMB'000*
Finance costs:		
— Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB10,437,000 (2018: RMB7,405,000)	**(42,426)**	(44,583)
— Interest expense on advances from Mr. Xu	**–**	(744)
— Interest expense on lease liabilities	**(228)**	–
	(42,654)	(45,327)
Finance income:		
— Interest income from bank deposits	**3,295**	1,420
Finance costs, net	**(39,359)**	(43,907)

Bank borrowing costs capitalised during the year ended 31 December 2019 arose on the borrowing pool and are calculated by applying a comprehensive capitalisation rate of 6.0% (2018: 5.4%) per annum to expenditure on qualifying assets.

9. INCOME TAX EXPENSE

	2019 *RMB'000*	2018 *RMB'000*
Current tax charge:		
— PRC Enterprise Income Tax ("EIT")	**4,437**	2,508
— PRC withholding income tax	**4,253**	2,660
— Hong Kong Profits Tax	**–**	23
	8,690	5,191
(Over) underprovision in prior years:		
— PRC EIT	**(2,219)**	10
Deferred tax charge (credit) *(note 29)*	**825**	(2,233)
Income tax expense for the year	**7,296**	2,968

9. INCOME TAX EXPENSE *(Continued)*

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

	2019 **RMB'000**	2018 RMB'000
Profit before taxation	**25,676**	9,263
Tax at the EIT rate of 25% (2018: 25%)	**6,419**	2,316
Tax effect of expenses not deductible for tax purpose	**1,451**	1,740
Tax effect of tax losses not recognised	**222**	313
Withholding tax on earnings of subsidiaries	**4,253**	2,660
Income tax at concessionary rate	**(3,560)**	(2,431)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**730**	835
Increase in opening deferred tax asset resulting from increase in applicable tax rate	**–**	(2,475)
(Over) underprovision in prior years	**(2,219)**	10
Income tax expense for the year	**7,296**	2,968

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

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

Singapore corporate tax is calculated at 17% of the estimated assessable profit for both years.

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

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

During the current year, the two relevant subsidiaries have renewed and obtained the HNTE Certificates and the concessionary tax rate of 15% continue to be applied for a consecutive three calendar years from 2019 to 2021.

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

10. PROFIT FOR THE YEAR

	2019 **RMB'000**	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
— fee	**660**	602
— salaries, allowances and other benefits	**1,091**	717
— retirement benefit scheme contributions	**74**	27
	1,825	1,346
Other staff salaries, allowances and other benefits	**65,537**	75,196
Retirement benefit scheme contributions, excluding those of directors	**7,846**	9,047
Total employee benefits expenses	**75,208**	85,589
Auditor's remuneration		
— audit services	**1,743**	1,631
— non-audit services	**777**	656
Depreciation of property, plant and equipment	**57,192**	49,648
Less: amount capitalised as cost of inventories manufactured	**(54,631)**	(46,375)
	2,561	3,273
Depreciation of right-of-use assets	**3,916**	–
Release of prepaid lease payments	**–**	3,029
Cost of inventories recognised as an expense	**1,822,151**	2,463,768
Net realised (gain) loss on the derivative financial instruments (included in investment gain (loss))	**(2,059)**	27,297

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

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable by entities now comprising the Group to the directors and the chief executive of the Company during the years ended 31 December 2019 and 2018 are as follows:

For the year ended 31 December 2019

Name of directors	Fee *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:				
Mr. Xu	–	431	56	487
Mr. Luo *(Note i)*	–	220	9	229
Mr. Chen Chunniu ("Mr. Chen")	–	220	9	229
Mr. Xu Songman	–	220	–	220
Non-executive director:				
Mr. Xu Jianhong	132	–	–	132
Independent non-executive directors:				
Mr. Goh Choo Hwee	176	–	–	176
Mr. Tam Yuk Sang Sammy	176	–	–	176
Mr. Wu Chi Keung	176	–	–	176
	660	1,091	74	1,825

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

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

For the year ended 31 December 2018

Name of directors	Fee *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:				
Mr. Xu	–	84	9	93
Mr. Luo *(Note i)*	–	211	9	220
Mr. Chen	–	211	9	220
Mr. Xu Songman	–	211	–	211
Non-executive director:				
Mr. Xu Jianhong	95	–	–	95
Independent non-executive directors:				
Mr. Goh Choo Hwee	169	–	–	169
Mr. Tam Yuk Sang Sammy	169	–	–	169
Mr. Wu Chi Keung	169	–	–	169
	602	717	27	1,346

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

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

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

Notes:

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

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

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

(b) Emoluments of senior management

Of the 12 (2018: 11) senior management of the Company for the year ended 31 December 2019, 8 (2018: 8) of them are directors of the Company and their remuneration has been disclosed in note 11(a) above. The total emoluments of the remaining 4 (2018: 3) senior management are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and other benefits	1,587	1,446
Retirement benefit scheme contributions	26	24
	1,613	1,470

The emoluments fell within the following bands:

	Number of senior management	
	2019	2018
Nil to HK$1,000,000	3	2
HK$1,000,001 to HK$1,500,000	1	1
	4	3

(c) Five highest paid individuals

The five highest paid individuals of the Group include 1 (2018: nil) director of the Company and 2 (2018: 1) senior management for the year ended 31 December 2019 whose emoluments have been disclosed in note 11(a) and (b) above. The emoluments of the remaining 2 (2018: 4) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and other benefits	566	1,241
Retirement benefit scheme contributions	60	125
	626	1,366

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

	Number of employees	
	2019	2018
Nil to HK$1,000,000	2	4

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors of the Company, the chief executive of the Group, senior management, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

12. DIVIDENDS

Dividends recognised as distribution during the year:

	2019 *RMB'000*	2018 *RMB'000*
2019 interim dividend of HK3.0 cents (2018: nil) per share	16,232	–
2019 special interim dividend of HK10.0 cents (2018: nil) per share	54,108	–
2018 final dividend of nil (2018: 2017 final dividend of HK2.0 cents) per share	–	10,086
	70,340	10,086

No final dividend for the year ended 31 December 2019 has been proposed since the end of the reporting period (2018: nil).

13. EARNINGS PER SHARE

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

	2019	2018
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share *(in RMB'000)*	18,380	6,412
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share *(in thousands)*	600,000	600,000

No diluted earnings per share is presented for the years ended 31 December 2019 and 2018 as the Group had no potential ordinary shares in issue during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Building	Plant and machinery	Furniture, fixture and equipment	Motor vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2018	241,855	347,632	5,781	7,389	17,398	83,240	703,295
Additions	–	14,708	424	218	4,708	161,075	181,133
Transfer from construction in progress	968	5,121	11	–	–	(6,100)	–
Disposals	–	(116)	(6)	(149)	–	–	(271)
Exchange realignment	–	–	13	61	4	–	78
At 31 December 2018	242,823	367,345	6,223	7,519	22,110	238,215	884,235
Additions	–	5,064	–	–	3,012	174,116	182,192
Transfer from construction in progress	13,073	86,977	–	–	–	(100,050)	–
Disposals	–	(7,183)	–	(884)	–	–	(8,067)
Disposed on disposal of a subsidiary	–	–	–	–	–	(1,229)	(1,229)
Exchange realignment	–	–	3	30	2	–	35
At 31 December 2019	255,896	452,203	6,226	6,665	25,124	311,052	1,057,166
DEPRECIATION							
At 1 January 2018	48,648	150,112	4,038	5,067	8,196	–	216,061
Provided for the year	11,345	32,048	626	792	4,837	–	49,648
Disposals	–	(111)	(5)	(141)	–	–	(257)
Exchange realignment	–	–	7	40	3	–	50
At 31 December 2018	59,993	182,049	4,666	5,758	13,036	–	265,502
Provided for the year	11,433	39,569	470	765	4,955	–	57,192
Disposals	–	(6,177)	–	(839)	–	–	(7,016)
Exchange realignment	–	–	3	25	2	–	30
At 31 December 2019	71,426	215,441	5,139	5,709	17,993	–	315,708
CARRYING VALUES							
At 31 December 2019	184,470	236,762	1,087	956	7,131	311,052	741,458
At 31 December 2018	182,830	185,296	1,557	1,761	9,074	238,215	618,733

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

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

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

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

Details of property, plant and equipment pledged as securities for the Group's borrowings are set out in note 34.

15. RIGHT-OF-USE ASSETS

	Leasehold lands *RMB'000*	Warehouse *RMB'000*	Office premise and equipment *RMB'000*	Total *RMB'000*
At 1 January 2019				
Carrying amount	196,824	934	–	197,758
At 31 December 2019				
Carrying amount	171,733	623	1,447	173,803
For the year ended 31 December 2019				
Depreciation charge	4,230	311	546	5,087
Less: capitalised in qualifying assets	(1,171)	–	–	(1,171)
	3,059	311	546	3,916
Expense relating to other leases with lease terms end within 12 months of the date of initial application of HKFRS 16				289
Total cash outflow for leases				1,306
Additions to right-of-use assets				1,937

15. RIGHT-OF-USE ASSETS *(Continued)*

During the current year, the Group made two lease modifications to two existing leases by extending the lease term for 3 years and 2 years respectively. At the effective dates of the lease modifications, the Group recognised right-of-use asset of RMB1,937,000 and lease liability of the same amount.

During the current year, the Group disposed of right-of use asset of RMB20,861,000 through disposal of Jiangmen Jinyuan, as set out in note 36.

For both years, the Group leases leasehold lands, warehouse and office premise and equipment for its operations. Lease contracts are entered into for initial term of 2 to 50 years, but may have extension option as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2019, the Group has no outstanding lease commitments relating to short-term leases.

The Group has extension option in the leases for warehouse. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the lessor.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension option. The potential exposures to these future lease payments for extension option in which the Group is not reasonably certain not to exercise are summarised below:

	Lease liabilities recognised as at 31 December 2019 *RMB'000*	**Potential future lease payments not included in lease liabilities (undiscounted)** *RMB'000*
Warehouses — PRC	640	1,008

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

The lease agreements entered into by the Group do not impose any covenants other than the security interests in the certain leased assets that are held by the lessor. Except for certain right-of-use assets pledged as securities for the Group's borrowings set out in note 34, the remaining leased assets may not be used as security for borrowing purposes.

16. PREPAID LEASE PAYMENTS

	RMB'000
Prepaid lease payments for land use rights located in the PRC as at 31 December 2018 analysed for reporting purpose as:	
Non-current asset	189,533
Current asset	4,375
	193,908

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

Details of the prepaid lease payments as at 31 December 2018 pledged as securities for the Group's borrowings were set out in note 34.

17. INTERESTS IN AN ASSOCIATE

	2019 **RMB'000**	2018 *RMB'000*
Cost of investment in an associate	**6,170**	–
Share of post-acquisition loss and other comprehensive expense	**(40)**	–
	6,130	–

During the year, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the Group disposed of 80% equity interest of a wholly-owned subsidiary, Jiangmen Jinyuan, which was inactive as of the date of the disposal. The disposal was completed on 24 October 2019, on which date the Group's control of Jiangmen Jinyuan was lost. The fair value of the Group's remaining 20% equity interest in Jiangmen Jianyuan is accounted for as an interest in associate as the directors consider the Group has significant influence over the investee. Further details of the disposal are set out in note 36.

Particulars of the Group's associate as at 31 December 2019 are as follow:

Name of associate	Place of incorporation/ operation	Attributable equity interest and voting rights held by the Group	Principal activity
Jiangmen Jinyuan	PRC	20%	Inactive

Summarised financial information in respect of Jiangmen Jinyuan, which is not individually material, is set out below. These financial information are prepared in accordance with the significant accounting policies of the Group.

	RMB'000
The Group's share of loss and total comprehensive expense for the period from 24 October 2019 to 31 December 2019	(40)
Carrying amount of the Group's interests in Jiangmen Jinyuan as at 31 December 2019	6,130

18. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	14,635	16,736
Work in progress	63,715	212,248
Finished goods	3,110	5,581
	81,460	234,565

19. TRADE, BILLS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables from contracts with customers	102,912	189,756
Bills receivables	54,865	75,494
Prepayments to suppliers	134,926	150,889
Value-added tax recoverable	15,051	21,586
Other prepayments, deposits and other receivables	9,161	21,302
	316,915	459,027

No allowance for credit losses was provided for both years ended 31 December 2019 and 2018 and the balance of provision for credit losses as at the end of each reporting periods was negligible.

Rental deposits paid (included in other prepayments, deposits and other receivables) were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 3.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB268,727,000.

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 90 days (2018: 120 days). For other customers, the Group requires full payment upon delivery of goods.

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

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

	2019 **RMB'000**	2018 RMB'000
Trade receivables:		
Within 30 days	**98,256**	169,292
31 – 60 days	**3,050**	19,832
61 – 90 days	**358**	16
91 – 120 days	**488**	1
121 – 180 days	**416**	2
181 – 365 days	**315**	613
Over 1 year	**29**	–
	102,912	189,756
Bills receivables:		
Within 30 days	**1,267**	9,611
31 – 60 days	**352**	3,368
61 – 90 days	**279**	3,589
91 – 120 days	**827**	3,854
121 – 180 days	**38,803**	46,765
181 – 365 days	**13,337**	8,307
	54,865	75,494

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

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB1,248,000 (2018: RMB615,000) which are past due as at the reporting date. Out of the past due balances, RMB344,000 (2018: nil) has been past due 90 days or more and is not considered as in default as the Group considered such balances could be recovered based on historical experience and taking into consideration of forward-looking information.

Included in the Group's bills receivables are amounts of RMB53,498,000 (2018:RMB64,502,000), as at 31 December 2019, being the discounted bills receivables transferred to certain banks with full recourse. If the issuing banks of bills receivables default payment on maturity, the banks have the right of recourse to request the Group to pay the unsettled balance. As the Group has not transferred substantially all the risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as bank borrowings from factoring of trade receivables with full recourse (note 26). These bills receivables are carried at amortised cost in the consolidated statement of financial position. All the bills receivables are within a maturity period of less than one year.

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

As at 31 December 2019 and 2018, the Group does not hold any collateral as security.

	2019	2018
	RMB'000	*RMB'000*
Carrying amount of transferred asset	**53,498**	64,502
Carrying amount of associated liability	**(53,498)**	(64,502)
	–	–

During the current year, certain transactions between subsidiaries of the Company arising from steel processing services were settled by bank bills. As at 31 December 2019, bills receivables held by two subsidiaries of the Company issued by other members of the Group of RMB72,346,000 (2018: nil) were transferred to certain banks with full recourse similar to the arrangements as set out above. These bills receivables were eliminated in full on consolidation. The Group has recognised the cash received on the transfer of the bills receivables as bank borrowings from factoring of trade receivables with full recourse (note 26).

20. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2019, the Group has no (2018: nil) outstanding hot rolled coils future contracts. Future contracts of hot rolled coils entered into during the years ended 31 December 2019 and 2018 have been fully settled before the end of each reporting period. The resulting gain or loss on the derivative financial instruments during the years ended 31 December 2019 and 2018 were recognised in profit or loss.

21. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent deposits pledged to banks for banking facilities granted to the Group, as set out in note 34.

Restricted bank deposits carry interest at variable interest rates ranging from 0.30% to 4.00% (2018: 0.35% to 2.10%) per annum as quoted by the People's Bank of China as at 31 December 2019.

22. BANK BALANCES AND CASH

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

Bank balances carry interest at variable rates which range from 0.01% to 0.35% (2018: 0.01% to 0.35%) per annum as at 31 December 2019.

23. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

	2019 RMB'000	2018 RMB'000
Trade payables	28,785	23,798
Bills payables	–	112,401
Accrued staff costs	6,599	6,276
Construction payables	26,147	29,917
Transportation fees payable	1,237	2,650
Other tax payables	720	1,524
Consideration payable for acquisition of additional interest in a subsidiary	10,138	10,138
Other payables and accrued expenses	15,764	15,322
	89,390	202,026

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

	2019 RMB'000	2018 RMB'000
Trade payables:		
Within 30 days	15,010	10,950
31 – 60 days	4,386	4,363
61 – 90 days	2,627	1,881
91 – 120 days	455	1,035
121 – 180 days	946	1,623
181 – 365 days	2,296	1,617
Over 1 year	3,065	2,329
	28,785	23,798
Bills payables:		
31 – 60 days	–	28,113
121 – 180 days	–	84,288
	–	112,401

The average credit period granted by suppliers on purchase of goods is no longer than 30 (2018: 30) days from certain of its suppliers. For other suppliers, the Group is required to prepay in advance (see note 19) and make full payment upon receipt of the goods purchased.

24. CONTRACT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
Sales of processed steel products and galvanized steel products and analysed for reporting purpose as current liabilities	**96,838**	66,589

As at 1 January 2018, contract liabilities amounted to RMB57,792,000.

Contract liabilities represent the deposit amount received from certain customers at the requests of the Group when they place confirmed orders. The entire balance of contract liabilities as at 1 January 2019 and 2018 have been recognised as revenue during the respective reporting periods.

25. AMOUNTS DUE TO RELATED PARTIES

	2019 **RMB'000**	2018 RMB'000
Mr. Xu *(Note i)*	**2,047**	33,137
Jiangmen Jinyuan *(Note ii)*	**4,165**	–
Hua Jin Holdings Pte. Ltd. ("Hua Jin Holdings") *(Note iii)*	**5**	–
江門市華志金屬製品有限公司 (Jiangmen Huazhi Metal Product Company Limited) ("Jiangmen Huazhi") *(Note iv)*	**–**	910
	6,217	34,047

Notes:

(i) The amount due to Mr. Xu is non-trade in nature, interest free and unsecured. As at 31 December 2019, the amount is repayable within twelve months from the end of the reporting period. As at 31 December 2018, the amount was repayable on demand and the full amount has been settled by the Group during the year.

(ii) The amount due to the associate is non-trade in nature, interest free, unsecured and repayment on demand.

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

(iv) This is an entity owned as to 60% by Mr. Xu Jianhong and 40% by Mr. Chen. The entire balance as at 31 December 2018 is trade in nature, interest free, unsecured and repayment on demand. The full amount has been settled by the Group during the year.

26. BORROWINGS

	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings:		
Secured bank borrowings	352,100	325,101
Bank borrowings from factoring of bills receivables with full recourse *(note 19)*	125,844	64,502
Unsecured bank borrowings	29,437	–
Secured borrowings from financial institutions independent with the Group	–	25,388
Unsecured borrowings from entities established in the PRC independent with the Group	50,459	–
	557,840	414,991
Variable-rate borrowings:		
Secured bank borrowings	233,000	433,247
	790,840	848,238
The carrying amounts of the above borrowings are repayable based on the scheduled repayment dates set out in the loan agreements as		
— within one year	418,290	831,091
— more than one year, but not more than two years	190,900	6,430
— more than two years, but not more than five years	95,600	10,717
— more than five years	86,050	–
	790,840	848,238
Less: amount due within one year shown under current liabilities	(418,290)	(831,091)
Amount shown under non-current liabilities	372,550	17,147

The ranges of effective interest rates on the Group's borrowings are as follows:

	2019	2018
Fixed-rate borrowings	1.00% to 11.00%	5.22% to 8.00%
Variable-rate borrowings	4.35% to 7.11%	4.35% to 8.05%

The secured portion of the Group's borrowings are secured by certain assets of the Group as detailed in note 34. Certain of the Group's borrowings are also guaranteed personally by certain directors of the Company.

27. LEASE LIABILITIES

	RMB'000
Lease liabilities payable as at 31 December 2019:	
Within one year	1,313
Within a period of more than one year but not more than two years	832
Within a period of more than two years but not more than five years	436
Within a period of more than five years	2,416
	4,997
Less: amount due for settlement with 12 months shown under current liabilities	(1,313)
Amount due for settlement after 12 months shown under non-current liabilities	3,684

Lease liabilities that are denominated in currencies other than the functional currencies of the relevant group entities, being Hong Kong dollars ("HKD") and Singapore dollars ("SGD"), are set out below:

	HKD RMB'000	SGD RMB'000
As at 31 December 2019	687	876

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 39.

28. DEFERRED INCOME

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

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

	2019 RMB'000	2018 RMB'000
Government grants related to assets:		
At the beginning of the year	24,750	28,050
Released to profit or loss	(3,300)	(3,300)
At the end of the year	21,450	24,750

29. DEFERRED TAX ASSETS

The deferred tax assets recognised by the Group as at 31 December 2019 and 2018 and the movements during the current and prior years are as follow:

	Government grants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	4,208	(753)	3,455
(Charge) credit for the year			
— Origination and reversal of temporary difference	(495)	253	(242)
— Effect of change in tax rate	2,475	–	2,475
Settlements of withholding income tax relating to earnings of subsidiaries established in the PRC	–	500	500
At 31 December 2018	6,188	–	6,188
Charge for the year	(825)	–	(825)
At 31 December 2019	5,363	–	5,363

As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB118,247,000 (2018: RMB180,765,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of RMB3,802,000 (2018: RMB3,703,000) available for offset against future profits. No deferred tax asset has been recognised in respect of any of these amounts as at 31 December 2019 and 2018 due to the unpredictability of future profit streams. Out of these unrecognised tax losses, RMB3,739,000 (2018: RMB2,435,000) were incurred by entities overseas and may be carried forward indefinitely. The remaining balance of the unrecognised tax losses will expire in the following years:

	2019 RMB'000	2018 RMB'000
2022	**56**	632
2023	**4**	636
2024	**3**	–
	63	1,268

30. SHARE CAPITAL

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

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

	2019 ***RMB'000***	2018 *RMB'000*
Shown in the consolidated statement of financial position	**4,999**	4,999

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

31. SHARE OPTION

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

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

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

The Share Option Scheme will expire on 22 March 2026.

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

31. SHARE OPTION *(Continued)*

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

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

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

32. CAPITAL COMMITMENTS

	2019 ***RMB'000***	2018 *RMB'000*
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**189,451**	204,350

33. OPERATING LEASES

	RMB'000
Minimum lease payments paid/payable under operating leases during the year ended 31 December 2018	1,377

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	RMB'000
Within one year	901
In the second to fifth year inclusive	1,564
Over five years	3,720
	6,185

34. PLEDGE OF ASSETS

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

	2019 **RMB'000**	2018 RMB'000
Property, plant and equipment	**496,021**	309,917
Right-of-use assets (2018: prepaid lease payments)	**168,972**	143,936
Trade receivables	**–**	5,066
Restricted bank deposits	**72,484**	123,944
	737,477	582,863

Furthermore, bills receivables issued by third parties endorsed with recourse for settlement of payables for purchasing of steel raw materials is disclosed in note 26.

35. RETIREMENT BENEFIT SCHEMES

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

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

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

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the year ended 31 December 2019, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represent contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions made by the Group amounted to RMB7,920,000 (2018: RMB9,074,000) for the year ended 31 December 2019.

36. DISPOSAL OF A SUBSIDIARY

On 24 October 2019, the Group completed the disposal of 80% equity interest in Jiangmen Jinyuan, a then inactive wholly-owned subsidiary of the Group, for a total cash consideration of RMB30,000,000 to an independent third party. Upon completion of the disposal, the Group has lost control of Jiangmen Jinyuan, which ceased to be a subsidiary of the Group. The Group's remaining 20% equity interest of Jiangmen Jinyuan is accounted for as interest in an associate as the directors of the Company consider the Group has significant influence over the investee.

	RMB'000
Analysis of assets and liabilities of Jiangmen Jinyuan over which control was lost:	
Property, plant and equipment	1,229
Right-of-use assets	20,861
Other receivables	4,267
Amount due from the Group	1,689
Bank balances and cash	555
Other payables	(276)
Net assets disposed of	28,325
Gain on disposal:	
Cash consideration received	30,000
Interest in an associate, measured at fair value of the retained interest in Jiangmen Jinyuan *(note 17)*	6,170
Less: net assets disposed of	(28,325)
Gain on disposal *(note 7)*	7,845
Net cash inflow arising on disposal:	
Cash consideration received	30,000
Less: bank balances and cash disposed of	(555)
	29,445

The cash flows arose from Jiangmen Jinyuan in the years ended 31 December 2018 and 2019 prior to the disposal was insignificant.

37. RELATED PARTY DISCLOSURES

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

(a) Related parties balances

Details of the outstanding balances with related parties are set out in the consolidated statement of financial position and in note 25.

(b) Related party transactions

The Group entered into the following transactions with related parties:

Related party	Nature of transactions	**2019** **RMB'000**	2018 RMB'000
Jiangmen Huazhi *(Note i)*	Interest expense on lease liabilities	**42**	–
	Rental expenditure	**–**	336
Hua Jin Holdings *(Note ii)*	Interest expense on lease liabilities	**12**	–
	Short term lease expenditure/rental expenditure	**152**	294
Mr. Xu *(Note iii)*	Interest expense	**–**	744

Notes:

(i) The Group entered into a lease agreement with Jiangmen Huazhi with the remaining lease term of 3 years from 1 January 2019 for the use of warehouse located in Muzhou Town, Xinhui District, Jiangmen City. The Group is required to make fixed quarterly payments. As at 1 January 2019, the Group recognised lease liabilities of RMB934,000 and right-of-use assets of the same amount upon the adoption of HKFRS 16. During the current year, the Group have made repayment of the lease liability of RMB336,000. As at 31 December 2019, the corresponding carrying amount of the lease liabilities is RMB640,000.

(ii) The Group entered into a lease agreement with Hua Jin Holdings Pte. Ltd. with the remaining lease term of 7 months from 1 January 2019 for the use of office premise and furniture located in Tradehub 21, 8 Boon Lay Way, 609964 in District 22, Singapore. The Group is required to make fixed monthly payments. As at 1 January 2019, the Group elected not to recognise right-of-use assets and lease liabilities due to the remaining lease term ends within 12 months of the date of initial application. During the year, the Group made a lease modification of this existing lease by extending the lease term for another three year and recognised the lease liabilities of RMB898,000 and right-of-use assets of the same amount. During the current year, the Group have made repayment of the lease liability of RMB202,000. As at 31 December 2019, the corresponding carrying amount of the lease liabilities is RMB876,000.

(iii) During the year ended 31 December 2019, Mr. Xu provided unsecured and interest free loans in an aggregate amount of RMB22,389,000 to the Group for a term of one year, of which RMB20,342,000 has been repaid during the year.

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

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

37. RELATED PARTY DISCLOSURES *(Continued)*

(c) Guarantees provided by related parties

Certain of the Group's borrowings are secured by guarantees provided by certain directors of the Company as at 31 December 2019 and 2018 as set out in note 26.

(d) Compensation of key management personnel

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

	2019	2018
	RMB'000	*RMB'000*
Directors' fee	**660**	602
Salaries, allowances and other benefits	**2,678**	2,163
Retirement benefit scheme contributions	**100**	51
	3,438	2,816

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

38. CAPITAL RISK MANAGEMENT

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

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

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

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost	269,812	467,211
Financial liabilities		
Amortised cost	855,831	1,053,584
Lease liabilities	4,997	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, derivative financial instruments, restricted bank deposits, bank balances and cash, trade, bills and other payables, amounts due to related parties, lease liabilities and borrowings.

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

Market risk

(i) Currency risk

The functional currencies of the Company and its subsidiaries are RMB and most of their transactions are denominated in RMB.

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

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Monetary assets		
HKD	763	5
USD	2,118	25,849
SGD	67	2,185
Monetary liabilities		
HKD	687	–
SGD	876	–

Sensitivity analysis

The Group mainly exposes foreign currency risk on fluctuation of HKD, USD and SGD during the years ended 31 December 2019 and 2018. The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against HKD, USD or SGD. 5% (2018: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their transaction at the year end for a 5% (2018: 5%) change in foreign currency rates. A positive (negative) number below indicates increase (decrease) in post-tax profit where RMB weakened 5% (2018: 5%) against HKD, USD or SGD. For a 5% (2018: 5%) strengthening of RMB against HKD, USD or SGD, there would be an equal and opposite impact in the profit or loss.

	2019 RMB'000	2018 RMB'000
HKD	3	–
USD	88	1,079
SGD	(34)	91

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

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed-rate borrowings (note 26) and lease liabilities (note 27). The Group is also exposed to cash flow interest rate risk in relation to the restricted bank deposits (note 21), bank balances (note 22) and variable-rate borrowings (note 26).

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for restricted bank deposits, bank balances and variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. 50 (2018: 50) basis points increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would have decreased/increased by RMB518,000 (2018: RMB1,007,000).

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade, bills and other receivables, restricted bank deposits and bank balances and cash. As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is best represented by the carrying amounts of the respective financial assets. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

The directors of the Company consider that the Group's concentration of credit risk from trade receivables as at 31 December 2019 is limited as only 12% of the total balances were due from the Group's five largest customers. As at 31 December 2018, the Group had such risk as 51% of the total trade balance was due from its then five largest customers and the management of the Group considered the credit risk of amounts due to these customers was insignificant after considering those trade receivables' historical settlement record, credit quality and financial positions.

As at 31 December 2019, the Group has concentration of credit risk from bills receivables as 96% (2018: 59%) of the total balances were due from the Group's five largest customers. The management of the Group considers the credit risk of amounts due to these customers is insignificant after considering their historical settlement record, credit quality and financial positions.

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

Other than the concentration of the credit risk on as set out above, the Group does not have any other significant concentration of credit risk.

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Financial assets other than trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays in full after due dates	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

Financial assets at amortised costs	Notes	External credit rating	Internal credit rating	12 m ECL or lifetime ECL	Gross carrying amount 2019 RMB'000	Gross carrying amount 2018 RMB'000
Trade receivables — contract with customers	*19*	N/A	*(Note i)*	Lifetime ECL — not credit impaired	**102,912**	189,756
Other receivables	*19*	N/A	*(Note ii)*	12 m ECL	**856**	5,552
Bills receivables	*19*	A1/Ba3	N/A	12 m ECL	**54,865**	75,494
Restricted bank deposits	*21*	Baa1/Ba3	N/A	12 m ECL	**72,484**	123,944
Bank balances and cash	*22*	A1/Ba3	N/A	12 m ECL	**38,695**	72,465

Notes:

(i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by aging profiles. During the year ended 31 December 2019 and 2018, the Group did not provide impairment allowance for trade receivables, as the past due amount is insignificant.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2019 and 2018, these balances are debtors which are not past due or doesn't have fixed repayment as at the reporting date.

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

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

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, on which the Group can be required to pay. Specifically, Amounts due to related parties with a repayment on demand clause are included in the earliest time band regardless of the probability of the related parties choosing to exercise their rights.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand/ less than 1 month	1–3 months	4 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019									
Non-derivative financial liabilities									
Trade, bills and other payables	–	58,774	–	–	–	–	–	58,774	58,774
Amounts due to related parties	–	4,170	–	2,047	–	–	–	6,217	6,217
Borrowings	5.76	42,280	15,172	390,270	207,995	148,718	96,403	900,838	790,840
		105,224	15,172	392,317	207,995	148,718	96,403	965,829	855,831
Lease liabilities	4.85	471	145	904	997	856	3,376	6,749	4,997
As at 31 December 2018									
Non-derivative financial liabilities									
Trade, bills and other payables	–	112,315	45,763	13,221	–	–	–	171,299	171,299
Amounts due to related parties	–	34,047	–	–	–	–	–	34,047	34,047
Borrowings	5.40	112,272	196,483	540,663	7,253	11,238	–	867,909	848,238
		258,634	242,246	553,884	7,253	11,238	–	1,073,255	1,053,584

(c) Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate to their fair values at the end of the reporting period.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

Reconciliation of liabilities arising from financing activities:

	Borrowings	Amounts due to related parties (non-trade nature)	Lease liabilities	Dividend payable	Interest payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	957,992	50,155	–	–	–	1,008,147
Financing cash flows *(Note)*	(109,754)	(15,610)	–	(10,086)	(52,345)	(187,795)
Non-cash changes:						
Dividend declared	–	–	–	10,086	–	10,086
Interest expenses	–	–	–	–	45,327	45,327
Finance costs capitalised	–	–	–	–	7,405	7,405
Deemed contribution from a shareholder	–	(5,642)	–	–	(387)	(6,029)
Foreign exchange translation	–	4,234	–	–	–	4,234
At 31 December 2018	848,238	33,137	–	–	–	881,375
Adjustment upon application of HKFRS 16	–	–	3,784	–	–	3,784
As at 1 January 2019 (restated)	**848,238**	**33,137**	**3,784**	**–**	**–**	**885,159**
Financing cash flows *(Note)*	**(57,398)**	**(28,332)**	**(1,017)**	**(70,340)**	**(52,863)**	**(209,950)**
Non-cash changes:						
Dividend declared	**–**	**–**	**–**	**70,340**	**–**	**70,340**
Interest expenses	**–**	**–**	**228**	**–**	**42,426**	**42,654**
Finance costs capitalised	**–**	**–**	**–**	**–**	**10,437**	**10,437**
Lease modification	**–**	**–**	**1,937**	**–**	**–**	**1,937**
Foreign exchange translation	**–**	**(282)**	**65**	**–**	**–**	**(217)**
Unpaid capital injection to an associate	**–**	**1,689**	**–**	**–**	**–**	**1,689**
At 31 December 2019	**790,840**	**6,212**	**4,997**	**–**	**–**	**802,049**

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

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSET		
Interests in subsidiaries	191,199	252,539
CURRENT ASSETS		
Other receivables	16	140
Amount due from a subsidiary	377	10,070
Bank balances and cash	162	867
	555	11,077
CURRENT LIABILITIES		
Accrued expenses	436	61
Amount due to a subsidiary	332	324
	768	385
NET CURRENT (LIABILITIES) ASSETS	(213)	10,692
NET ASSETS	190,986	263,231
CAPITAL AND RESERVES		
Share capital	4,999	4,999
Reserves *(Note)*	185,987	258,232
TOTAL EQUITY	190,986	263,231

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	264,429	2	(396)	264,035
Loss and total comprehensive expense for the year	–	–	(1,746)	(1,746)
Dividend recognised as distribution	(10,086)	–	–	(10,086)
Deemed contribution from a shareholder	–	6,029	–	6,029
At 31 December 2018	254,343	6,031	(2,142)	258,232
Loss and total comprehensive expense for the year	–	–	(1,905)	(1,905)
Dividend recognised as distribution	(70,340)	–	–	(70,340)
At 31 December 2019	184,003	6,031	(4,047)	185,987

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiaries	Place of incorporation/ operations	Issued and fully paid share capital	Attributable equity interest held by the Company 2019	2018	Principal activities
Huajin Investments Limited *(Note)*	British Virgin Islands	US$300	100%	100%	Investment holding
Inter Consortium Holdings Limited	Hong Kong	HK$161,534,566	100%	100%	Trading of steel products and residuals
Huajin (Singapore) Pte. Ltd.	Singapore	US$680,000	100%	100%	Trading of steel products and residuals
江門市華津金屬制品有限公司 (Jiangmen Huajin Metal Product Company Limited)	PRC	RMB179,904,000	100%	100%	Production and sales of steel products and residuals
江門市華睦五金有限公司 (Jiangmen Huamu Metals Company Limited)	PRC	RMB181,477,811	100%	100%	Production and sales of steel products and residuals

Note: Directly held by the Company. All other subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

43. SUBSEQUENT EVENTS

The outbreak of a respiratory illness caused by Novel Coronavirus, or known as the COVID-19, in the PRC, has affected the Group's business and operations as its factories are located in the PRC. Since the first case of the COVID-19 has been confirmed in the PRC, the directors of the Company have closely monitored its developments and kept regular communications with its suppliers, customers, and other parties to understand whether there would be any significant impacts on the Group's business. As required by the local government offices in which the Group's factories located, the operations of the Group's factories had been suspended for around two weeks and had resumed their operations in February 2020. The Group understands that its major suppliers have also resumed their operations.

Due to the inherent unpredictable nature and rapid development relating to the Novel Coronavirus and its pervasive impact, the Group has taken actions to negotiate with its major suppliers to confirm continuous and adequate supply of goods. Given the dynamic nature of these circumstances, the impact of COVID-19 on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at the date these financial statements are authorised for issue and will be reflected in the Group's 2020 interim and annual financial statements. The Group will pay close and continuous attention on the situation of the COVID-19 pandemic and react proactively to its impact on the financial position and operating results of the Group.

FINANCIAL SUMMARY

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS					
Revenue	1,875,119	1,919,020	2,863,465	2,909,265	**2,162,605**
Profit before taxation	139,793	118,073	108,394	9,263	**25,676**
Income tax expense	(42,327)	(23,740)	(15,989)	(2,968)	**(7,296)**
Profit for the year	97,466	94,333	92,405	6,295	**18,380**

	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	989,231	1,360,534	1,866,481	1,761,605	**1,546,323**
Total liabilities	765,758	823,242	1,269,875	1,175,650	**1,012,328**
Net assets	223,473	537,292	596,606	585,955	**533,995**
EQUITY					
Equity attributable to owners of the Company	223,473	533,292	587,236	585,955	**533,995**
Non-controlling interests	–	4,000	9,370	–	**–**
Total equity	223,473	537,292	596,606	585,955	**533,995**