



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

2020»

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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

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
“Haiyi”	Haiyi Limited (海逸有限公司), a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is owned as to 87.0% by Intrend Ventures and 12.0% by Zhong Cheng, respectively
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Jin Holdings”	Hua Jin Holdings Pte. Ltd., a limited liability company incorporated in Singapore and the entire equity interest of which is owned by Mr. Xu
“Huajin Investments”	Huajin Investments Limited (華津投資有限公司), a limited liability company incorporated in BVI, the entire issued share capital of which is owned by our Company and is a direct wholly-owned subsidiary of our Company
“Independent Third Party(ies)”	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder of our Company or any of its subsidiaries or any of their respective associates

“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 Hairun”	江門市海潤再生資源回收有限公司(Jiangmen Hairun Renewable Resources Recycling Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of our Company
“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 established under the laws of PRC 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 established under the laws of PRC 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 established under the laws of PRC and an indirect wholly-owned subsidiary 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
“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

	2020	2019	Change
Revenue (RMB million)	2,847.8	2,162.6	+31.7%
Gross profit (RMB million)	150.3	114.5	+31.3%
Gross profit margin (%)	5.3%	5.3%	
Profit attributable to owners of the Company (RMB million)	36.4	18.4	+97.8%
Basic earnings per Shares (RMB cent)	6.07	3.06	+98.4%
Dividend per Shares (HK cent)			
— Interim	0.0	3.0	n/a
— Special interim	0.0	10.0	n/a
	0.0	13.0	n/a
Sales volume (tonne) (note 1)	618,787	471,302	+31.3%
Average processing fee per tonne (RMB) (note 2)	283	489	-42.1%
	As at 31.12.2020	As at 31.12.2019	Change
Net asset value (RMB million)	570.4	534.0	+6.8%
Net asset value per Share (RMB)	0.95	0.89	+6.7%
Borrowings (RMB million)	959.9	790.8	+21.3%
Gearing ratio (%) (note 3)	168.3%	148.1%	

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 2020 to our Shareholders.

REVIEW

In 2020, our revenue increased from approximately RMB2,162.6 million in 2019 to approximately RMB2,847.8 million in 2020 by approximately RMB685.2 million, or 31.7%. 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 RMB3.06 cents in 2019 to approximately RMB6.07 cents in 2020.

Our total sales volume of processed steel products and galvanized steel products increased from approximately 471,302 tonnes in 2019 to approximately 618,787 tonnes in 2020 by approximately 147,485 tonnes, or 31.3%.

In 2020, our Group recorded a profit before tax of approximately RMB40.3 million, representing an increase of approximately RMB14.6 million or 56.8% as compared with RMB25.7 million in 2019. Net profit attributable to Shareholders was approximately RMB36.4 million, representing an increase by approximately RMB18.0 million, or 97.8% as compared with RMB18.4 million in 2019.

Same to 2019, our Board decided not to pay any discretionary bonus to our executive Directors and senior management in 2020.

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 2020, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB300.2 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

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy and business environment which would directly and indirectly affect the operations of the Group. The operations of the Group's factories in Jiangmen city, Guangdong Province, the PRC had been suspended for around two weeks and had resumed their operations in February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic.

Despite the above, the 950mm coupled pickling and tandem cold rolling mill (the "New Production Line") has begun its trial production in the Group's new production plant and has completed production of its first qualified coil successfully on 6 June 2020. The successful trial production of the New Production Line marks an important milestone for the Group. The Group's annual processing design capacity for cold rolling processes increased from 750,000 tonnes to 1,350,000 tonnes when the New Production Line commenced commercial production in the second half of 2020. The Group's operating performance in the second half of 2020 improved significantly when compared to the first half of 2020.

The Board believed that the Group's operating results will achieve better performance for the year ending 31 December 2021. The Group will continue to maintain its leading position in the cold rolled steel processors in Guangdong Province in terms of annual production volume. The New Production Line will enhance quality products and production efficiency of the Group thereby providing a solid foundation for the entrenchment of the Company's long term competitive advantage.

PROPOSED DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

On 21 January 2021, the Board had resolved to declare a special interim dividend of HK\$0.098 per Share in an aggregate amount of HK\$58,800,000.

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, 31 March 2021

DIRECTORS

Executive directors

Mr. Xu Songqing (許松慶), aged 50, 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 47 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, Jiangmen Huihan, Jiangmen Huihao and Jiangmen Huiyang respectively. 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 Foshan Dongying Trading Company Limited* (佛山市東盈貿易有限公司) (formerly known as Foshan 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 49, 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 respectively. 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 44, 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 27, 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 49, 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 consultant 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 57, 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 China Apex Group 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 64, 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), Central Development 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 YuanShengTai Dairy Farm Limited (stock code: 1431) from November 2013 to September 2018, 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.

COMPANY SECRETARY

Mr. Wong Chak Keung (黃澤強), aged 54, 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 2020.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2020, except as noted hereunder.

Code provision A.4.1

In respect of the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive Director is appointed for a term of 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 2020.

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 2020, seven 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 2020 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	6/7	1/1
Mr. Luo Canwen (<i>Note 1</i>)	7/7	0/1
Mr. Chen Chunniu (<i>Note 1</i>)	7/7	0/1
Mr. Xu Songman	7/7	1/1
Non-executive Director		
Mr. Xu Jianhong (<i>Note 1</i>)	6/7	0/1
Independent non-executive Directors		
Mr. Goh Choo Hwee (<i>Note 1</i>)	4/7	0/1
Mr. Tam Yuk Sang Sammy	7/7	1/1
Mr. Wu Chi Keung	7/7	1/1

Note:

1. Mr. Luo Canwen, Mr. Chen Chunniu, Mr. Xu Jianhong and Mr. Goh Choo Hwee were absent from the annual general meeting of the Company held on 30 June 2020 due to their business engagement.

(d) **Responsibilities, accountability 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 2020, 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 2020.

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/she 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 2020, 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 2020. 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 general meetings of our Company and until terminated by not less than three months' notice in writing served by either the Company or the relevant Director.

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

BOARD COMMITTEES

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

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 2020, the Audit Committee held three meetings to consider and approve the following:

- (a) to review the Group's consolidated financial results for the six months ended 30 June 2020 before submission to the Board, with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting of the Audit Committee;
- (b) to discuss the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;
- (c) to review the accounting principles and practices adopted by the Group and other financial reporting matters.

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditor during the year ended 31 December 2020.

The Group's audited consolidated results for the year ended 31 December 2020 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	2/3
Mr. Tam Yuk Sang Sammy	3/3
Mr. Wu Chi Keung	3/3

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 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 2020, the Remuneration Committee held one meeting. The Remuneration Committee determined the policy for the remuneration of the Directors, assessed the performance of the Directors and approved the terms of their service contracts. The Remuneration Committee had also made recommendations to the Board regarding the Company's remuneration policy and the formulation and review of the remuneration package of all Directors and senior management of the Company for determination by the Board. Details of the Directors' emolument are set out in note 11 to the consolidated financial statements.

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

Name of Directors	Number of attendance/ number of meetings
Mr. Goh Choo Hwee	0/1
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, reappointment of 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 2020, 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 meetings.

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	0/1
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 2020 and the amount charged to profit or loss during the year ended 31 December 2020 is shown in note 10 to the consolidated financial statements on page 85 of this annual report.

	Deloitte Touche Tohmatsu <i>RMB'000</i>	Other auditors <i>RMB'000</i>	Total <i>RMB'000</i>
Audit services:			
Annual audit service	1,940	305	2,245
Non-audit services*:			
Other related services	545	318	863
Total	2,485	623	3,108

* 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 47 to 51 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 2020.

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)' enquiries.

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 dividend(s) of around 30% of the net profit available for distribution to our Shareholders, subject to Shareholders' approval, if any, 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 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 2020, the Group recorded revenue of RMB2,847.8 million and a profit attributable to Shareholders of RMB36.4 million, representing an increase of 31.7% and 97.8%, respectively, from the corresponding period in 2019.

After three years of preparation, planning and construction for the Group's new production plant located at Gujing Town, Xinhui District, Jiangmen City, Guangdong Province, the PRC, the 950mm coupled pickling and tandem cold rolling mill (the "New Production Line") has begun the trial production and completed production of its first qualified coil successfully on 6 June 2020. The New Production Line began to contribute to the Group's operating performance in commercial production in the second half of 2020.

Our sales volume of processed steel products and galvanized steel products in aggregate was 618,787 tonnes for the year ended 31 December 2020, representing an increase of 147,485 tonnes or 31.3%, as compared to 471,302 tonnes for the year ended 31 December 2019. The annual processing capacity of our cold-rolling process and zinc coating process was approximately 750,000 tonnes and 250,000 tonnes respectively during the year ended 31 December 2020.

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 2020, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB300.2 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 commenced its commercial productions in the second half of 2020.

The net current liabilities position as at 31 December 2020 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, as at 31 December 2020, was approximately HK\$108.4 million, which will be financed by the Group's internal resources and borrowings. The Group envisages ongoing growth in demand for its products and an ongoing need to increase its production capacity. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the years ahead.

Having considered the business, financial and cash flow position of the Company and the Group, on 21 January 2021, the Board had resolved to declare a special interim dividend of HK\$0.098 per ordinary share of the Company, in an aggregate amount of HK\$58,800,000. The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

FINANCIAL REVIEW

Revenue

Our Group primarily generates revenue from the sales of processed steel products and galvanized steel products. Our revenue increased to approximately RMB2,847.8 million for the year ended 31 December 2020, by approximately RMB685.2 million or 31.7%, as compared with that of approximately RMB2,162.6 million for the year ended 31 December 2019.

Our sales volume of processed steel products increased to 536,912 tonnes for the year ended 31 December 2020, by 140,782 tonne or 35.5%, as compared with that of 396,130 tonnes for the year ended 31 December 2019. Our sales volume of galvanized steel products increased to 81,875 tonnes for the year ended 31 December 2020, by 6,703 tonnes or 8.9%, as compared with that of 75,172 tonnes for the year ended 31 December 2019. Thus, our sales volume of processed steel products and galvanized steel products in aggregate was 618,787 tonnes for the year ended 31 December 2020, representing an increase of 147,485 tonnes or 31.3%, as compared to 471,302 tonnes for the year ended 31 December 2019.

The increase in revenue was mainly attributable to the decrease in the average selling price and the increase in the sales volume of our products. The average selling price of our processed steel products decreased to RMB4,155 per tonne for the year ended 31 December 2020 as compared with that of RMB4,357 per tonne for the year ended 31 December 2019. The average selling price of our galvanized steel products increased to RMB4,456 per tonne for the year ended 31 December 2020 as compared with that of RMB4,348 per tonne for the year ended 31 December 2019. In summary, the average selling price of our processed steel products and galvanized steel products decreased to RMB4,195 per tonne for the year ended 31 December 2020 as compared with that of RMB4,355 per tonne for the year ended 31 December 2019.

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

Other revenue was primarily attributable to the sales of scrap steel residual in our manufacturing process to recycling agents and the provision of processing service to the customers who engage us to process hot-rolled steel coils provided by them. Such other revenue accounted for about 8.9% of our revenue for the year ended 31 December 2020.

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

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Sales of processed steel products	2,230,807	78.3	1,725,781	79.8
— processed steel strips and sheets	2,056,133	72.2	1,538,278	71.1
— welded steel tubes	174,674	6.1	187,503	8.7
Sales of galvanized steel products	364,838	12.8	326,872	15.1
Others	252,106	8.9	109,952	5.1
	2,847,751	100.0	2,162,605	100.0

Cost of sales

Our cost of sales increased to approximately RMB2,697.4 million for the year ended 31 December 2020, by approximately RMB649.3 million or 31.7%, as compared with that of approximately RMB2,048.1 million for the year ended 31 December 2019.

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

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Direct materials	2,420,866	89.7	1,822,151	89.0
Utilities	114,568	4.2	82,979	4.0
Depreciation expense	59,695	2.2	54,631	2.7
Direct labour	45,473	1.7	44,132	2.2
Consumables	50,333	1.9	37,386	1.8
Others	6,499	0.3	6,785	0.3
	2,697,434	100.0	2,048,064	100.0

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 89.7% of our cost of sales for the year ended 31 December 2020. The increase in direct materials was mainly attributable to the increase in the sales volume of processed steel products and galvanized steel products which was contributed by the commencement of operation of the new production plant in the second half of the year 2020.

Utilities related primarily to electricity, water, and natural gas consumed throughout our production process. Utilities expenses increased to approximately RMB114.6 million for the year ended 31 December 2020, by approximately RMB31.6 million or 38.1%, as compared with that of approximately RMB83.0 million for the year ended 31 December 2019. Such increase was mainly due to the increase in sales volume and production activities during the reporting period under review.

Depreciation expense experienced an increase to approximately RMB59.7 million for the year ended 31 December 2020, by approximately RMB5.1 million or 9.3%, as compared with that of approximately RMB54.6 million for the year ended 31 December 2019. Such increase was mainly due to the increase in depreciation for property, plant and equipment during the reporting period under review.

Our direct labour slightly increased to approximately RMB45.5 million for the year ended 31 December 2020, by approximately RMB1.4 million or 3.2%, as compared with that of approximately RMB44.1 million for the year ended 31 December 2019. Although the Group experienced the production halt of the Group's factories for around two weeks due to the Chinese New Year holidays and compliance with the local government's preventive policies, our workers, subject to mandatory quarantine by the local government, resumed work gradually and the increase in our direct labour was in line with our increase in the sales volume of processed steel products and galvanized steel products contributed by the new production plant in the second half of the year 2020.

Consumables consisted of machinery spare parts and supplies consumed in the production process. Consumables increased to approximately RMB50.3 million for the year ended 31 December 2020, by approximately RMB12.9 million or 34.5%, as compared with that of approximately RMB37.4 million for the year ended 31 December 2019. Such increase was mainly attributable to the increased 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

Due to the decrease in the average processing fee (being the difference between the selling price and the cost of the raw materials, namely hot-rolled steel coils) of the Group's processed steel products and galvanized steel products and the increase in sales volume and other sales, the Group recorded a gross profit of approximately RMB150.3 million for the year ended 31 December 2020, representing an increase of approximately RMB35.8 million or 31.3%, as compared with that of approximately RMB114.5 million for the year ended 31 December 2019, and a gross profit margin of 5.3%, representing the same of 5.3% in the corresponding period in 2019.

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	
	2020	2019
Sales volume of processed steel products	536,912 tonnes	396,130 tonnes
— processed steel strips and sheets	498,002 tonnes	353,843 tonnes
— welded steel tubes	38,910 tonnes	42,287 tonnes
Sales volume of galvanized steel products	81,875 tonnes	75,172 tonnes
	618,787 tonnes	471,302 tonnes
Average selling price (per tonne)		
— processed steel products	RMB4,155	RMB4,357
— galvanized steel products	RMB4,456	RMB4,348
— processed steel products and galvanized steel products	RMB4,195	RMB4,355
Average cost of direct materials used (per tonne)	RMB3,912	RMB3,866
Difference (per tonne) between average selling price and average cost of direct materials used		
— processed steel products	RMB243	RMB491
— galvanized steel products	RMB544	RMB482
— processed steel products and galvanized steel products	RMB283	RMB489

Other income, other gains and losses

Other income, other gains and losses decreased to approximately RMB2.1 million for the year ended 31 December 2020, by approximately RMB11.9 million or 85.0%, as compared with that of approximately RMB14.0 million for the year ended 31 December 2019.

Selling expenses

Our selling expenses increased to approximately RMB35.7 million for the year ended 31 December 2020, by approximately RMB8.3 million or 30.3%, as compared with that of approximately RMB27.4 million for the year ended 31 December 2019. The increase in selling expenses during the reporting period under review was mainly attributable to the increase in salary, delivery costs and other selling related expenses.

Administrative expenses

Our administrative expenses increased to approximately RMB41.1 million for the year ended 31 December 2020, by approximately RMB3.0 million or 7.9%, as compared with that of approximately RMB38.1 million for the year ended 31 December 2019.

Investment (loss) gain

Our investment loss was approximately RMB2.2 million for the year ended 31 December 2020 when compared with investment gain of approximately RMB2.1 million for the year ended 31 December 2019. Such investment loss during the reporting period under review was primarily due to the net realised loss on derivative financial instruments in relation to the commodity futures contracts.

Finance costs

The finance costs comprised interest expenses on borrowings which were charged at interest rates ranging from 1.00% to 9.6% (2019: 1.00% to 11.00%) per annum for the year ended 31 December 2020. Finance costs decreased to approximately RMB34.8 million for the year ended 31 December 2020, by approximately RMB7.9 million or 18.5%, as compared with that of approximately RMB42.7 million for the year ended 31 December 2019. Such decrease was primarily resulted from reduced average interest rate and increased proportion of borrowings with lower interest rates during the reporting period under review.

Income tax expenses

Income tax expenses decreased to approximately RMB3.8 million for the year ended 31 December 2020, by approximately RMB3.5 million or 47.9%, as compared with that of approximately RMB7.3 million for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in PRC withholding income tax during the reporting period under review.

Profit for the year

Our profit attributable to shareholders of the Company increased to approximately RMB36.4 million for the year ended 31 December 2020, by approximately RMB18.0 million or 97.8%, as compared with that of approximately RMB18.4 million for the year ended 31 December 2019.

Net profit margin increased to approximately 1.3% for the year ended 31 December 2020 by approximately 0.4 percentage points from approximately 0.9% for the year ended 31 December 2019.

Liquidity and financial resources

As at 31 December 2020, the Group's bank balances and cash increased to approximately RMB46.2 million, by approximately RMB7.5 million or 19.4%, from approximately RMB38.7 million as at 31 December 2019. The Group's restricted bank deposits decreased to approximately RMB50.9 million as at 31 December 2020, by approximately RMB21.6 million or 29.8%, from approximately RMB72.5 million as at 31 December 2019.

As at 31 December 2020, the Group had the net current liabilities and the net assets of approximately RMB310.6 million (2019.: RMB104.2 million) and approximately RMB570.4 million (2019: RMB534.0 million), respectively. As at 31 December 2020, the current ratio calculated based on current assets divided by current liabilities of the Group was 72.7% as compared with that of 83.1% as at 31 December 2019.

At 31 December 2020, the Group's total borrowings amounted to approximately RMB959.9 million (2019: RMB790.8 million) and total equity amounted to approximately RMB570.4 million (2019: RMB534.0 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 1.68 times (31 December 2019: 1.48 times) as at 31 December 2020.

As at 31 December 2020, the Group had total financing facilities amounted to approximately RMB845.3 million (2019: RMB701.0 million), of which approximately RMB757.7 million (2019: RMB575.3 million) had been utilised, and the unutilised financing facilities amounted to approximately RMB87.6 million (2019: RMB125.7 million). The Group believes it has and will have sufficient unutilised financing facilities to meet its business operation, capital expenditures and expansion.

As at 31 December 2020, certain of the Group's borrowings, which were secured by certain assets of the Group, were also secured by personal guarantees from Mr. Xu Songqing, Mr. Luo Canwen and Mr. Chen Chunniu 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 fifteen months from the date of approval of these consolidated financial statements. The Group believes that 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 Renminbi ("RMB") and a portion of our revenue is derived from sales to overseas customers who settle in United States dollars ("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, Hong Kong dollars and Singapore dollars. 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 acquisition and disposal

On 2 September 2020, the Group completed the disposal of entire 20% equity interest in Jiangmen Jinyuan for a total cash consideration of RMB7.5 million to an independent third party. During the reporting period under review, saved as disclosed, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures.

Capital structure

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

Capital commitments

Details of the capital commitments are set out in note 31 to the consolidated consolidated financial statements.

Pledge of assets

Details of the pledge of assets are set out in note 32 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 2020 (2019: nil).

Employees

As at 31 December 2020, the Group had a total of 989 (31 December 2019: 845) full-time employees in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) in the year of 2020 amounted to approximately RMB82.7 million (2019: RMB75.2 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 2020.

The Directors are pleased to present this annual report together with audited consolidated financial statements for the year ended 31 December 2020.

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

PRINCIPAL ACTIVITIES

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.

A list of the Company's subsidiaries as at 31 December 2020 and their particulars are set out in note 41 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 38 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 38 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 steel into cold-rolled 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 or their agents and steel trading companies which purchase our processed steel products and galvanized steel products for the manufacture of their end products. During the year ended 31 December 2020, 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 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2020, the total purchases of raw materials from our five largest suppliers in aggregate accounted for approximately 84.8% (2019: 60.8%) of our total purchases and the total purchases from our largest supplier accounted for approximately 40.0% (2019: 14.8%) of our total purchases of raw materials.

For the year ended 31 December 2020, revenue from our five largest customers in aggregate accounted for approximately 14.6% (2019: 17.7%) of our revenue and revenue from our largest customer accounted for approximately 4.0% (2019: 5.7%) of our revenue.

None of the Directors, their respective close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) had any interest in the customers or suppliers mentioned above.

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 118 of this annual report.

DONATIONS

During the year ended 31 December 2020, the Group's charitable and other donations amounted to RMB30,000 (2019: RMB150,000).

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 2020 are set out in note 14 to the consolidated financial statements. A write-off of RMB2,323,000 (2019: nil) and an impairment loss of RMB765,000 (2019: nil) in respect of property, plant and equipment respectively have been recognized in profit or loss for the year ended 31 December 2020.

Details of the movements in the Group's right-of-use assets during the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements

Deposits paid for acquisition of property, plant and equipment amounted to approximately RMB78.5 million (2019: RMB109.1 million) as at 31 December 2020.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2020 are set out in note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2020 are set out in note 29 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 54 of this annual report and note 40 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to Shareholders, comprising share premium and retained profit amounted to approximately RMB179.1 million (2019: RMB180.0 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 2020 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 Songqing, Mr. Luo Canwen and Mr. Xu Jianhong 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 11 of this annual report.

DIRECTORS' EMOLUMENTS

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

No Director has waiver or has agreed to waive any emoluments and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2020.

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 2020, the Group did not enter 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 2020.

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 2020.

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 2020 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 2020, 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:

- 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).
- 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.
- 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).
- 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 2020.

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 2020, 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 2020, 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:

- 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 2020.

Save as disclosed above, as at 31 December 2020, 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 36 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 2020 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 2020 and up to the date of this annual report.

NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders, namely Haiyi, Intrend Ventures, Zhong Cheng, Mr. Xu and Mr. Luo, has provided written confirmation (the "Confirmation") to the Company that, for the year ended 31 December 2020, 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 2020; 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 2020.

RELATED PARTY TRANSACTIONS

Details of material related party transactions of the Group undertaken in the normal course of business are set out in note 36 to the consolidated financial statements. During the year ended 31 December 2020, certain related party transactions set out in note 36 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 2020, the Group had the following continuing connected transactions:

On 31 December 2018, the Group entered into a lease agreement (the "Lease Agreement A") with Jiangmen Huazhi, the landlord, to renew the continual use 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 for the lease term of two years from 1 January 2019 at the same 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 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 previous market rent of the Warehouses as assessed by Greater China Appraisal Limited, an independent property valuer. The Group did not extend the lease until the expiration of the lease. Jiangmen Huazhi is owned 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 August 2019, the Group entered into a lease agreement (the "Lease Agreement B") with Hua Jin Holdings, the landlord, to renew the continual use of the office in Singapore at a monthly rental of S\$5,000 for a 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 one of our Controlling Shareholders, Hua Jin Holdings is a connected person pursuant to the Listing Rules. The same 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 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 complied 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 2020, 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 complied 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 2020.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" on pages 12 to 22 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.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2020 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, 31 March 2021

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 52 to 117, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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 an impairment assessment of the long-lived assets comprising certain property, plant and equipment and right-of-use assets (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 2020, 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 14 to the consolidated financial statements. As at 31 December 2020, the aggregate carrying amount of the Identified Long-lived Assets was RMB50,057,000, including certain property, plant and equipment and right-of-use assets of RMB33,796,000 and RMB16,261,000, respectively, as set out in note 14 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 fair value less costs to disposal calculations based on adjusted available market information, where the key input parameters include adjustment factors on market comparable assets and obsolescence rates.

Based on the management's assessment, impairment losses of the Identified Long-lived Assets of RMB765,000 has been recognised in profit or loss for the year ended 31 December 2020.

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 appropriateness of the valuation methodologies adopted and assumptions used by the management of the Group.
- Assessing the appropriateness of the selection of comparables and adjustment factors in regards to location, size and nature of the assets.
- Assessing the reasonableness of the obsolescence rates used by management with reference to the remaining useful lives of those assets and physical obsolescence factors.
- Checking the validity and relevance of the market comparable samples used in the valuations.

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 HKSA's 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 HKSA's, 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, actions taken to eliminate threats or safeguards applied.

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 Lee Ka Kei.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	6	2,847,751	2,162,605
Cost of sales		(2,697,434)	(2,048,064)
Gross profit		150,317	114,541
Other income, other gains and losses	7	2,089	13,978
Selling expenses		(35,735)	(27,407)
Administrative expenses		(41,118)	(38,096)
Share of loss of an associate	16	(78)	(40)
Profit before investment income and gain, net finance costs and taxation		75,475	62,976
Investment (loss) gain		(2,155)	2,059
Finance income	8	1,690	3,295
Finance costs	8	(34,759)	(42,654)
Finance costs, net	8	(33,069)	(39,359)
Profit before taxation		40,251	25,676
Income tax expense	9	(3,833)	(7,296)
Profit and total comprehensive income for the year attributable to owners of the Company	10	36,418	18,380
Earnings per share for profit attributable to owners of the Company, — Basic (RMB cents)	13	6.07	3.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	964,478	741,458
Right-of-use assets	15	168,419	173,803
Interests in an associate	16	—	6,130
Deposits paid for acquisition of property, plant and equipment		78,523	109,100
Deferred tax assets	28	5,407	5,363
		1,216,827	1,035,854
CURRENT ASSETS			
Inventories	17	224,117	81,460
Trade, bills and other receivables	18	500,898	316,915
Derivative financial instruments at fair value through profit or loss	19	—	—
Tax recoverable		4,490	915
Restricted bank deposits	20	50,871	72,484
Bank balances and cash	21	46,236	38,695
		826,612	510,469
CURRENT LIABILITIES			
Trade, bills and other payables and accrued expenses	22	351,533	89,390
Contract liabilities	23	135,036	96,838
Tax payables		5,103	2,596
Amounts due to related parties	24	—	6,217
Borrowings — due within one year	25	645,071	418,290
Lease liabilities	26	480	1,313
		1,137,223	614,644
NET CURRENT LIABILITIES		(310,611)	(104,175)
TOTAL ASSETS LESS CURRENT LIABILITIES		906,216	931,679
NON-CURRENT LIABILITIES			
Borrowings — due more than one year	25	314,809	372,550
Lease liabilities	26	2,844	3,684
Deferred income	27	18,150	21,450
		335,803	397,684
NET ASSETS		570,413	533,995
CAPITAL AND RESERVES			
Share capital	29	4,999	4,999
Reserves		565,414	528,996
TOTAL EQUITY		570,413	533,995

The consolidated financial statements on pages 52 to 117 were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Mr. Xu Songqing
Director

Mr. Luo Canwen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital <i>RMB'000</i> <i>(Note 29)</i>	Share premium <i>RMB'000</i>	Statutory reserve <i>RMB'000</i> <i>(Note i)</i>	Capital reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	4,999	254,343	41,153	63,840	(5,012)	226,632	585,955
Profit and total comprehensive income for the year	–	–	–	–	–	18,380	18,380
Transfer	–	–	2,455	–	–	(2,455)	–
Dividend recognised as distribution (<i>note 12</i>)	–	(70,340)	–	–	–	–	(70,340)
At 31 December 2019	4,999	184,003	43,608	63,840	(5,012)	242,557	533,995
Profit and total comprehensive income for the year	–	–	–	–	–	36,418	36,418
Transfer	–	–	4,457	–	–	(4,457)	–
At 31 December 2020	4,999	184,003	48,065	63,840	(5,012)	274,518	570,413

Note:

- (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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		40,251	25,676
Adjustments for:			
Depreciation of property, plant and equipment		3,498	2,561
Depreciation of right-of-use assets		3,999	3,916
Loss (gain) on disposal of property, plant and equipment		594	(754)
Write-off of property, plant and equipment		2,323	–
Impairment losses of property, plant and equipment		765	–
Impairment losses of trade receivables under expected credit loss (“ECL”) model		388	–
Share of loss of an associate	16	78	40
Interest income		(1,690)	(3,295)
Interest expense		34,759	42,654
Release of deferred income		(3,300)	(3,300)
Gain on disposal of an associate	34	(1,448)	–
Gain on disposal of a subsidiary	35	–	(7,845)
Investment loss (gain) on derivative financial instruments		2,155	(2,059)
Operating cash flows before movements in working capital		82,372	57,594
(Increase) decrease in inventories		(78,531)	186,067
(Increase) decrease in trade, bills and other receivables		(176,870)	136,090
Increase (decrease) in trade, bills and other payables and accrued expenses		233,924	(191,841)
Decrease in amounts due to related parties		(5)	(905)
Increase in contract liabilities		38,198	30,249
Cash generated from operations		99,088	217,254
(Income tax paid) tax refunds received		(4,945)	387
NET CASH FROM OPERATING ACTIVITIES		94,143	217,641

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES			
Deposit paid for acquisition and purchase of property, plant and equipment		(222,697)	(129,248)
Placement of restricted bank deposits		(64,922)	(439,858)
Settlements of derivative financial instruments		(2,155)	2,059
Interest received		1,690	3,295
Proceeds from disposal of property, plant and equipment		5,838	1,805
Withdrawal of restricted bank deposits		86,535	491,318
Net cash inflow on disposal of a subsidiary	35	–	29,445
NET CASH USED IN INVESTING ACTIVITIES		(195,711)	(41,184)
FINANCING ACTIVITIES			
Repayment of borrowings		(486,274)	(1,230,588)
Interest paid		(45,796)	(53,091)
Payment for acquisition of additional interest in a subsidiary completed in previous years		(10,138)	–
Repayment to related parties		(2,689)	(53,197)
Repayment of lease liabilities		(1,260)	(789)
Dividend paid		–	(70,340)
Advances from related parties		–	24,865
New borrowings raised		655,314	1,173,190
NET CASH FROM (USED IN) FINANCING ACTIVITIES		109,157	(209,950)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7,589	(33,493)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		38,695	72,465
EFFECTS OF EXCHANGE RATE CHANGES		(48)	(277)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		46,236	38,695

1. GENERAL INFORMATION

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 41. 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 (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 (“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 RMB310,611,000 as at 31 December 2020 and had capital commitments contracted for but not provided in the consolidated financial statements of RMB108,379,000 on the same date, of which RMB75,566,000 is due for payment in the next twelve months from 31 December 2020. The Group had incurred a net cash inflow of RMB7,589,000 and net operating cash inflow of RMB94,143,000 for the year ended 31 December 2020.

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 and the working capital estimated to be generated from operating activities. As at 31 December 2020, the Group had total financing facilities relating to borrowings amounted to approximately RMB845,300,000, of which approximately RMB757,650,000 had been utilised, and the unutilised financing facilities amounted to RMB87,650,000. 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 15 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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 and the related Amendments ¹
Amendment to HKFRS 16	COVID-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁵
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	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKFRS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

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

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

⁵ Effective for annual periods beginning on or after 1 January 2021.

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.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

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

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group’s liabilities.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, 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 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies

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.

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.

Changes in the Group's interests in existing subsidiaries

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

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.

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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

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.



4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, 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

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.



4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as lessee (Continued)

Right-of-use assets (Continued)

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

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as lessee (Continued)

Lease liabilities (Continued)

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.

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 asset.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

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.

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 related to income 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. Such grants are presented under 'other income'.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Retirement benefit costs

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

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

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 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" 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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

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 amounts 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 testing a cash-generated unit for impairment, corporate assets are allocated to relevant 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 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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 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)*

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.

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.



4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 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 ECL model on financial assets which are subject to impairment assessment 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 components.



4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case 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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, 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.

Definition of default

For internal credit risk management, the Group considers an event 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.



4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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 and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is 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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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.

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

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

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; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts. Changing the assumptions and estimates, including the adjustment factors on market comparable assets and obsolescence rates, could materially affect the recoverable amounts.

As at 31 December 2020, long-lived assets comprising certain property, plant and equipment and right-of-use assets (the "Identified Long-lived Assets"), at carrying amounts of RMB33,796,000 and RMB16,261,000 respectively are subject to impairment assessment. As at 31 December 2020, an impairment loss of RMB765,000 (2019: nil) in respect of property, plant and equipment has been recognised. Details of the impairment of the Identified Long-lived Assets are disclosed in note 14.

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 necessary to make the sale for the products (if any), to determine if any write-off or provision to 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 2020, the inventories amounted to RMB224,117,000 (2019: RMB81,460,000). No provision for inventories has been recognised as at 31 December 2020 and 2019.

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 2020 and 2019, 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.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

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 18. The Group's product warranty typically requires it to produce products free from defects in material and workmanship and in conformity with specifications of the customers. If the Group fails to meet the product requirements, its customers may return such non-conforming products within 15 days and the Group shall repair or replace such products free of charge.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sales of cold-rolled steel products		
— steel strips and sheets	2,056,133	1,538,278
— welded steel tubes	174,674	187,503
Sales of galvanized steel products	364,838	326,872
Sales of hot-rolled steel products and others	252,106	109,952
	2,847,751	2,162,605

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
PRC	2,841,430	2,151,849
Southeast Asia	6,321	10,756
	2,847,751	2,162,605

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the years ended 31 December 2020 and 2019.

7. OTHER INCOME, OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Government grants (<i>Notes i and ii</i>)	4,193	5,586
Gain on disposal of an associate (<i>note 34</i>)	1,448	–
(Loss) gain on disposal of property, plant and equipment	(594)	754
Write-off of property, plant and equipment (<i>note 14</i>)	(2,323)	–
Impairment losses of property, plant and equipment (<i>note 14</i>)	(765)	–
Impairment losses of trade receivables under ECL model (<i>note 38</i>)	(388)	–
Net foreign exchange loss	(23)	(1,231)
Gain on disposal of a subsidiary (<i>note 35</i>)	–	7,845
Others	541	1,024
	2,089	13,978

Notes:

- (i) Incentives received from the PRC local authorities by the Group as encouragement of its business development amounting to RMB893,000 (2019: RMB2,286,000) are recognised in the profit or loss for the year ended 31 December 2020 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 as details are set out in note 27, of which RMB3,300,000 (2019: RMB3,300,000) has been recognised in the profit or loss for the year ended 31 December 2020.

8. FINANCE INCOME AND COSTS

	2020 RMB'000	2019 RMB'000
Finance costs		
— Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB11,037,000 (2019: RMB10,437,000)	(34,553)	(42,426)
— Interest expense on lease liabilities	(206)	(228)
	(34,759)	(42,654)
Finance income:		
— Interest income from bank deposits	1,690	3,295
Finance costs, net	(33,069)	(39,359)

Borrowing costs capitalised during the year ended 31 December 2020 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.11% (2019: 6.0%) per annum to expenditure on qualifying assets.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax charge:		
— PRC Enterprise Income Tax ("EIT")	5,612	4,437
— PRC withholding income tax	—	4,253
	5,612	8,690
Overprovision in prior years:		
— PRC EIT	(1,735)	(2,219)
Deferred tax (credit) charge (note 28)	(44)	825
Income tax expense for the year	3,833	7,296

The taxation 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:

	2020 RMB'000	2019 RMB'000
Profit before taxation	40,251	25,676
Tax at the EIT rate of 25% (2019: 25%)	10,063	6,419
Tax effect of expenses not deductible for tax purpose	939	1,451
Tax effect of tax losses not recognised	1,290	222
Withholding tax on earnings of subsidiaries	—	4,253
Income tax at concessionary rate	(4,745)	(3,560)
Effect of super deduction of research and development cost	(2,317)	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	338	730
Overprovision in prior years	(1,735)	(2,219)
Income tax expense for the year	3,833	7,296

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.

9. INCOME TAX EXPENSE (Continued)

Two major subsidiaries established in the PRC are approved as enterprises that satisfied the conditions as high and new technology enterprises and obtained the Certificates of High and New Technology Enterprises (the “HNTe Certificates”) enjoying the preferential enterprise income tax rate of 15% 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 AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit and total comprehensive income for the year has been arrived at after charging (crediting):		
Directors’ remuneration (note 11)		
— fees	670	660
— other emoluments, salaries, allowances and other benefits	1,287	1,091
— retirement benefit scheme contributions	74	74
	2,031	1,825
Staff salaries, allowances and other benefits	78,558	65,537
Retirement benefit scheme contributions, excluding those of directors (Note)	2,152	7,846
Total employee benefit expenses	82,741	75,208
Auditor’s remuneration		
— audit services	2,245	1,743
— non-audit services	863	777
Depreciation of property, plant and equipment	67,624	57,192
Less: amount capitalised as cost of inventories manufactured	(64,126)	(54,631)
	3,498	2,561
Depreciation of right-of-use assets	3,999	3,916
Cost of inventories recognised as an expense	2,695,437	2,048,064

Note: For the year ended 31 December 2020, payment of certain retirement benefit scheme contributions for employees due to COVID-19 has been waived.

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

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable by the Group to the directors and the chief executive of the Company during the years ended 31 December 2020 and 2019 are as follows:

For the year ended 31 December 2020

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	–	543	66	609
Mr. Luo (Note i)	–	222	3	225
Mr. Chen Chunniu ("Mr. Chen")	–	300	5	305
Mr. Xu Songman	–	222	–	222
Non-executive director:				
Mr. Xu Jianhong	136	–	–	136
Independent non-executive directors:				
Mr. Goh Choo Hwee	178	–	–	178
Mr. Tam Yuk Sang Sammy	178	–	–	178
Mr. Wu Chi Keung	178	–	–	178
	670	1,287	74	2,031

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

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

For the year ended 31 December 2019

Name of directors	Fee <i>RMB'000</i>	Salaries, allowances and other benefits <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:				
Mr. Xu	–	431	56	487
Mr. Luo <i>(Note i)</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

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.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(b) Emoluments of senior management:

Of the 11 (2019: 12) senior management of the Company for the year ended 31 December 2020, 8 (2019: 8) of them are directors of the Company and their remuneration has been disclosed in note 11(a) above. The total emoluments of the remaining 3 (2019: 4) senior management are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and other benefits	1,486	1,587
Retirement benefit scheme contributions	26	26
	1,512	1,613

The emoluments fell within the following bands:

	Number of senior management	
	2020	2019
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	1
	3	4

(c) Five highest paid individuals

The five highest paid individuals of the Group include 2 (2019: 1) directors of the Company and 1 (2019: 2) senior management for the year ended 31 December 2020 whose emoluments have been disclosed in note 11(a) and (b) above. The emoluments of the remaining 2 (2019: 2) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and other benefits	718	566
Retirement benefit scheme contributions	68	60
	786	626

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

	Number of employee	
	2020	2019
Nil to HK\$1,000,000	2	2

During the years ended 31 December 2020 and 2019, 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 2020 and 2019.

12. DIVIDENDS

Dividends recognised as distribution during the year:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
2019 interim dividend of HK3.0 cents per share	–	16,232
2019 special interim dividend of HK10.0 cents per share	–	54,108
	–	70,340

At a meeting held on 21 January 2021, the Board of Directors has resolved to declare a special interim dividend of HK9.8 cents per ordinary share, in an aggregate amount of HK\$58,800,000 (2019: nil). No final dividend has been proposed for the year ended 31 December 2020 since the end of the reporting period (2019: nil).

13. EARNINGS PER SHARE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	36,418	18,380

	2020	2019
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 2020 and 2019 as the Group had no potential ordinary shares in issue during both years.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Building <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixture and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
At 1 January 2019	242,823	367,345	6,223	7,519	22,110	238,215	884,235
Additions	–	5,064	–	–	3,012	174,116	182,192
Transfer	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
Additions	–	1,087	22	–	2,440	296,626	300,175
Transfer	237,321	100,934	429	367	–	(339,051)	–
Disposals	–	(39,335)	(537)	(3)	–	–	(39,875)
Write-off	(3,818)	–	–	–	–	–	(3,818)
Exchange realignment	–	–	(16)	(83)	(7)	–	(106)
At 31 December 2020	489,399	514,889	6,124	6,946	27,557	268,627	1,313,542
DEPRECIATION AND IMPAIRMENT							
At 1 January 2019	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
Provided for the year	11,243	51,712	329	539	3,801	–	67,624
Disposals	–	(32,963)	(478)	(2)	–	–	(33,443)
Impairment loss recognised in profit and loss	–	765	–	–	–	–	765
Write-off	(1,495)	–	–	–	–	–	(1,495)
Exchange realignment	–	–	(8)	(81)	(6)	–	(95)
At 31 December 2020	81,174	234,955	4,982	6,165	21,788	–	349,064
CARRYING VALUES							
At 31 December 2020	408,225	279,934	1,142	781	5,769	268,627	964,478
At 31 December 2019	184,470	236,762	1,087	956	7,131	311,052	741,458

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

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

Building	Over the shorter of the term of the lease or 20 years
Plant and machinery	9.5% per annum
Furniture, fixture and equipment	9.5% – 19.5% per annum
Motor vehicles	19% – 33.3% per annum
Leasehold improvement	Over the shorter of the term of the lease or 3 years

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

Details of property, plant and equipment pledged as securities for the Group's borrowings are set out in note 32.

Due to the suspension of certain of the Group's production, the aggregate carrying amount of the Identified Long-lived Assets of RMB50,057,000, including certain property, plant and equipment and right-of-use assets of RMB33,796,000 and RMB16,261,000, respectively, were considered idle as at end of the reporting period. The management of the Group concluded there were indications that the Identified Long-lived Assets may be impaired and conducted impairment assessment on the recoverable amounts of the Identified Long-lived Assets. The recoverable amounts of the Identified Long-lived Assets are estimated individually using fair value less costs to disposal calculations under Level 3 fair value hierarchy. The fair value less costs to disposal calculations are based on adjusted available market information, where the key input parameters include adjustment factors on market comparable assets and obsolescence rates. As at 31 December 2020, an impairment loss of RMB765,000 (2019: nil) in respect of property, plant and equipment has been recognised in profit or loss.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. RIGHT-OF-USE ASSETS

	Leasehold lands <i>RMB'000</i>	Warehouse <i>RMB'000</i>	Office premise and furniture <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2020				
Carrying amount	167,843	–	576	168,419
At 31 December 2019				
Carrying amount	171,733	623	1,447	173,803
For the year ended 31 December 2020				
Depreciation charge	3,912	311	794	5,017
Less: capitalised in qualifying assets	(1,018)	–	–	(1,018)
	2,894	311	794	3,999
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
			2020	2019
			<i>RMB'000</i>	<i>RMB'000</i>
Expense relating to short-term leases			–	289
Total cash outflow for leases			1,466	1,306
Additions to right-of-use assets			–	1,937

For both years, the Group leases leasehold lands, warehouse and office premise and furniture 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 2020 and 2019, the Group has no outstanding lease commitments relating to short-term leases.

The Group had an extension option in the lease for the warehouse, of which the contract has been early terminated during the current year. It was used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension option held was exercisable only by the Group and not by the lessor. The Group does not have other leases having extension option after termination of this lease contract.

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

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

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

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 32, the remaining leased assets may not be used as security for borrowing purposes.

16. INTERESTS IN AN ASSOCIATE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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 entire 20% equity interest of an associate Jiangmen Jinyuan Metals Company Limited ("Jiangmen Jinyuan"), which was inactive as of the date of the disposal. The disposal was completed on 7 September 2020, on which date the Group's significant influence over Jiangmen Jinyuan was lost. Further details of the disposal are set out in note 34.

During the year ended 31 December 2019, 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 Jinyuan was 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 35.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. INVENTORIES

	2020	2019
	RMB'000	RMB'000
Raw materials	23,629	14,635
Work in progress	186,013	63,715
Finished goods	14,475	3,110
	224,117	81,460

18. TRADE, BILLS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	RMB'000
Trade receivables from contracts with customers	126,953	102,912
Less: Allowance for credit losses	(388)	–
	126,565	102,912
Bills receivables	160,276	54,865
Prepayments to suppliers	172,263	134,926
Value-added tax recoverable	31,293	15,051
Other prepayments, deposits and other receivables	10,501	9,161
	500,898	316,915

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB189,756,000.

For long-term customers with good credit quality and payment history, the Group may allow credit periods of up to 90 days (2019: 90 days). For other customers, the Group requires full payment upon delivery of goods.

18. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

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

	2020 RMB'000	2019 RMB'000
Trade receivables:		
Within 30 days	120,690	98,256
31 – 60 days	5,114	3,050
61 – 90 days	135	358
91 – 120 days	21	488
121 – 180 days	501	416
181 – 365 days	43	315
Over 1 year	61	29
	126,565	102,912
Bills receivables:		
Within 30 days	48,888	1,267
31 – 60 days	29,099	352
61 – 90 days	40,013	279
91 – 120 days	9,873	827
121 – 180 days	32,403	38,803
181 – 365 days	–	13,337
	160,276	54,865

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 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB626,000 (2019: RMB1,248,000) which are past due as at the reporting date. Out of the past due balances, RMB21,000 (2019: RMB344,000) 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 RMB158,458,000 (2019: RMB53,498,000), as at 31 December 2020 being the discounted bills receivables transferred to certain banks and suppliers 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 the corresponding amounts in bank borrowings from factoring of bills receivables with full recourse (note 25) and trade payables. These bills receivables are carried at amortised cost in the consolidated statement of financial position. All the bills receivables are with a maturity period of less than one year.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

As at 31 December 2020 and 2019, the Group does not hold any collateral as security over these balances.

	2020 RMB'000	2019 RMB'000
Carrying amount of transferred asset	158,458	53,498
Carrying amount of associated liability	(158,458)	(53,498)
	-	-

During the year ended 31 December 2019, certain transactions between subsidiaries of the Company arising from steel processing services were settled by bank bills (2020: nil). 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 (2020: 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 had recognised the cash received on the transfer of the bills receivables as bank borrowings from factoring of trade receivables with full recourse.

Details of impairment assessment of trade, bills and other receivables are set out in note 38.

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

As at 31 December 2020 and 2019, the Group has no outstanding hot rolled coils future contracts. Future contracts of hot rolled coils entered into during the years ended 31 December 2020 and 2019 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 2020 and 2019 were recognised in profit or loss and presented as 'Investment (loss) gain'.

20. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent deposits pledged to banks for issue of bank bills on the Group's behalf, as set out in note 32.

Restricted bank deposits carry interest at variable interest rates ranging from 0.01% to 1.82% (2019: 0.30% to 4.00%) per annum as quoted by the People's Bank of China as at 31 December 2020.

21. 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 3.00% (2019: 0.01% to 0.35%) per annum as at 31 December 2020.

22. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	182,340	28,785
Bills payables	60,003	–
Accrued staff costs	9,972	6,599
Construction payables	60,366	26,147
Transportation fees payable	7,138	1,237
Other tax payables	6,606	720
Consideration payable for acquisition of additional interest in a subsidiary	–	10,138
Other payables and accrued expenses	25,108	15,764
	351,533	89,390

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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables:		
Within 30 days	69,943	15,010
31 – 60 days	30,881	4,386
61 – 90 days	22,598	2,627
91 – 120 days	15,659	455
121 – 180 days	36,763	946
181 – 365 days	3,732	2,296
Over 1 year	2,764	3,065
	182,340	28,785
Bills payables:		
Within 30 days	14,103	–
61 – 90 days	10,500	–
121 – 180 days	35,400	–
	60,003	–

The average credit period granted by suppliers on purchase of goods is no longer than 30 (2019: 30) days from certain of its suppliers. For other suppliers, the Group is required to prepay in advance (see note 18) and make full payment upon receipt of the goods purchased.

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For the year ended 31 December 2020

23. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Sales of processed steel products and galvanized steel products and analysed for reporting purpose as current liabilities	135,036	96,838

As at 1 January 2019, contract liabilities amounted to RMB66,589,000.

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 2020 and 2019 have been recognised as revenue during the respective reporting periods.

24. AMOUNTS DUE TO RELATED PARTIES

	2020 RMB'000	2019 RMB'000
Mr. Xu (<i>Note i</i>)	–	2,047
Jiangmen Jinyuan (<i>Note ii</i>)	–	4,165
Hua Jin Holdings Pte Ltd (“Hua Jin Holdings”) (<i>Note iii</i>)	–	5
	–	6,217

Notes:

- (i) The amount was non-trade in nature, interest free and unsecured and repayable within twelve months from 31 December 2019.
- (ii) The amount was non-trade in nature, interest free, unsecured and repayment on demand.
- (iii) This is an entity controlled by Mr. Xu. The amount was trade in nature, interest free, unsecured and repayment on demand.

25. BORROWINGS

	2020	2019
	RMB'000	RMB'000
Fixed-rate borrowings:		
Secured bank borrowings	660,549	352,100
Bank borrowings from factoring of bills receivables with full recourse (note 18)	66,043	125,844
Unsecured bank borrowings	29,050	29,437
Secured borrowings from entities established in the PRC and individuals independent with the Group	63,528	–
Unsecured borrowings from entities established in the PRC independent with the Group	82,660	50,459
	901,830	557,840
Variable-rate borrowings:		
Secured bank borrowings	58,050	233,000
	959,880	790,840
The carrying amounts of the above bank borrowings are repayable based on the scheduled repayment dates set out in the loan agreements as		
— within one year	608,953	412,831
— more than one year, but not more than two years	6,523	190,900
— more than two years, but not more than five years	93,320	50,600
— more than five years	104,896	86,050
	813,692	740,381
Less: amount due within one year shown under current liabilities	(608,953)	(412,831)
Amount shown under non-current liabilities	204,739	327,550
The carrying amounts of the above other borrowings are repayable based on the scheduled repayment dates set out in the loan agreements as		
— within one year	36,118	5,459
— more than one year, but not more than two years	110,070	–
— more than two years, but not more than five years	–	45,000
	146,188	50,459
Less: amount due within one year shown under current liabilities	(36,118)	(5,459)
Amount shown under non-current liabilities	110,070	45,000

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

	2020	2019
Fixed-rate borrowings	1.00% to 9.6%	1.00% to 11.00%
Variable-rate borrowings	4.35% to 7.11%	4.35% to 7.11%

The secured portion of the Group's borrowings are secured by certain assets of the Group as detailed in note 32. Certain of the Group's borrowings are also guaranteed personally by certain directors of the Company.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	480	1,313
Within a period of more than one year but not more than two years	238	832
Within a period of more than two years but not more than five years	294	436
Within a period of more than five years	2,312	2,416
	3,324	4,997
Less: amount due for settlement with 12 months shown under current liabilities	(480)	(1,313)
Amount due for settlement after 12 months shown under non-current liabilities	2,844	3,684

The weighted average incremental borrowing rates applied to lease liabilities range from 2.82% to 5.88% (2019: from 2.82% to 5.88%).

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 2020	131	458
As at 31 December 2019	687	876

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 38.

27. 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 both years are as follows:

	2020 RMB'000	2019 RMB'000
Government grants related to assets:		
At the beginning of the year	21,450	24,750
Released to profit or loss	(3,300)	(3,300)
At the end of the year	18,150	21,450

28. DEFERRED TAX ASSETS

The deferred tax assets recognised by the Group as at 31 December 2020 and 2019 and the movements during the current and prior years are as follow:

	Government grants <i>RMB'000</i>	Impairment losses and write-off <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	6,188	–	6,188
Charge for the year	(825)	–	(825)
At 31 December 2019	5,363	–	5,363
(Charge) credit for the year	(825)	869	44
At 31 December 2020	4,538	869	5,407

As at 31 December 2020, 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 RMB157,307,000 (2019: RMB118,247,000). 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 RMB8,961,000 (2019: RMB3,802,000) available for offset against future profits. No deferred tax asset has been recognised in respect of any of these amounts as at 31 December 2020 and 2019 due to the unpredictability of future profit streams. Out of these unrecognised tax losses, RMB6,155,000 (2019: RMB3,739,000) 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
2022	56	56
2023	4	4
2024	3	3
2025	2,743	–
	2,806	63

29. SHARE CAPITAL

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

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 2020	8,000,000,000	80,000
Issued:		
At 1 January 2019, 31 December 2019 and 2020	600,000,000	6,000
	2020	2019
	RMB'000	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.

30. 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.

30. SHARE OPTION *(Continued)*

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.

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.

31. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	108,379	189,451

32. 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:

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	747,871	496,021
Right-of-use assets	162,624	168,972
Restricted bank deposits	50,871	72,484
	961,366	737,477

Furthermore, bills receivables issued by third parties with full recourse for settlement of payables for purchasing of steel raw materials is disclosed in note 25.

33. 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 2020, 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 RMB2,229,000 (2019: RMB7,920,000) for the year ended 31 December 2020.

34. DISPOSAL OF AN ASSOCIATE

On 7 September 2020, the Group completed the disposal of entire 20% equity interest in Jiangmen Jinyuan, an inactive associate of the Group, for a total cash consideration of RMB7,500,000 to an independent third party and a gain on disposal of RMB1,448,000 was resulted. Upon completion of the disposal, the Group has lost significant influence over Jiangmen Jinyuan, which ceased to be an associate of the Group.

35. 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 had lost control of Jiangmen Jinyuan, which ceased to be a subsidiary of the Group. The Group's remaining 20% equity interest of Jiangmen Jinyuan was accounted for as interests in an associate as the directors of the Company considered the Group has significant influence over the investee. During the current year, the remaining 20% equity interest in Jiangmen Jinyuan has been disposed (Further details of the disposal are set out in note 34).

	RMB'000
Analysis of assets and liabilities of Jiangmen Jinyuan over which control was lost during the last year:	
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	6,170
Less: net assets disposed of	(28,325)
Gain on disposal	7,845
Net cash inflow arose from 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 year ended 31 December 2019 prior to the disposal of it as a subsidiary was insignificant.

36. 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 24.

(b) Related party transactions

The Group entered into the following transactions with related parties:

Related party	Nature of transactions	2020	2019
		RMB'000	RMB'000
Jiangmen Huazhi (<i>Note i</i>)	Interest expense on lease liabilities	29	42
Hua Jin Holdings (<i>Note ii</i>)	Interest expense on lease liabilities	18	12
	Short term lease expenditure	–	152

Notes:

- (i) The Group entered into a lease agreement with Jiangmen Huazhi with the lease term till 2021 for the use of warehouse located in Muzhou Town, Xinhui District, Jiangmen City. During the current year, the Group have made repayment of the lease liability of RMB336,000 (2019: RMB336,000). As at 31 December 2020, the corresponding carrying amount of the lease liabilities is RMB324,000 (2019: RMB640,000).
- (ii) The Group entered into a lease agreement with Hua Jin Holdings with the lease term till 2022 for the use of office premise and furniture located in Tradehub 21, 8 Boon Lay Way, 609964 in District 22, Singapore. During the current year, the Group have made repayment of the lease liability of RMB300,000 (2019: RMB202,000). As at 31 December 2020, the corresponding carrying amount of the lease liabilities is RMB457,000 (2019: RMB876,000).
- (iii) During the current year, the Group has disposed of certain property, plant and equipment with an aggregate carrying amount of RMB617,000 to Mr. Xu for consideration of the same amount.

(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 2020 and 2019 as set out in note 25.

36. RELATED PARTY DISCLOSURES *(Continued)*

(d) Compensation of key management personnel

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Directors' fee	670	660
Salaries, allowances and other benefits	2,773	2,678
Retirement benefit scheme contributions	100	100
	3,543	3,438

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

37. 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.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost	392,442	269,812
Financial liabilities		
Amortised cost	1,273,094	855,831
Lease liabilities	3,324	4,997

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, restricted bank deposits, bank balances and cash, trade, bills and other payables, 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 in 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.

38. 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:

	2020 RMB'000	2019 RMB'000
Monetary assets		
HKD	511	763
USD	1,989	2,118
SGD	82	67
Monetary liabilities		
HKD	131	687
SGD	458	876

Sensitivity analysis

The Group mainly exposes foreign currency risk on fluctuation of HKD, USD and SGD during the years ended 31 December 2020 and 2019. The Group performed sensitivity analysis by assessing impact toward post-tax profit from a 5% (2019: 5%) increase and decrease in RMB against HKD, USD or SGD. 5% (2019: 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% (2019: 5%) change in foreign currency rates. Management considered the exposure of foreign currency risk to the Group is not material for both years and no sensitivity analysis is performed.

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.

38. 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 25) and lease liabilities (note 26). The Group is also exposed to cash flow interest rate risk in relation to the restricted bank deposits (note 20), bank balances (note 21) and variable-rate borrowings (note 25).

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 (2019: 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 (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2020 would have increased/decreased by RMB166,000 (2019: decreased/increased by RMB518,000).

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. As at 31 December 2020, 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.

38. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

As at 31 December 2020, the Group has concentration of credit risk from trade receivables as 30% (2019: 12%) 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.

As at 31 December 2020, the Group has concentration of credit risk from bills receivables as 73% (2019: 96%) 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 as set out above, the Group does not have any other significant concentration of credit risk.

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 — non credit-impaired	12m ECL
Watch list	Debtor frequently repays in full after due dates	Lifetime ECL — non 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 — non 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

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. 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	12m ECL or lifetime ECL	Gross carrying amount	
					2020 RMB'000	2019 RMB'000
Trade receivables -contract with customers	18	N/A	(Note i)	Lifetime ECL — non-credit impaired	125,961	102,912
	18	N/A	(Note i)	Lifetime ECL — credit impaired	992	—
Other receivables	18	N/A	(Note ii)	12m ECL	8,494	856
Bills receivables	18	Ba1 to Baa3	N/A	12m ECL	160,276	54,865
Restricted bank deposits	20	Ba1 to Baa3	N/A	12m ECL	50,871	72,484
Bank balances	21	A1 to Baa3	N/A	12m ECL	46,236	38,695

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. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on a collective basis, of which the average loss rate represents function of the probability of default, loss given default and the exposure at default and adjusted by forward-looking information. No allowance for credit losses was provided for the year ended 31 December 2019 and the balance of provision for credit losses as at the end of 31 December 2019 was negligible.

38. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Notes: (Continued)

(i) (Continued)

Gross carrying amount

	2020	
	Average loss rate	Trade receivables RMB'000
Within 60 days	–	125,804
61 — 90 days	0.13%	135
91 — 120 days	2.56%	22
Over 120 days	38.99%	992
		126,953

During the year ended 31 December 2020, the Group provided HK\$388,000 (2019: nil) impairment allowance for trade receivables based on the rebuttable presumption that default occurs when a financial asset is 90 days past due.

The following table shows the movement in ECL that has been recognised for trade receivables.

	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January and 31 December 2019	–	–
New financial assets originated during the year:		
Impairment losses recognised	388	388
As at 31 December 2020	388	388

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk in other receivables has increased significantly since initial recognition. As at 31 December 2020 and 2019, these balances are debtors which are not past due or do not have fixed repayment as at the reporting date.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. 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 RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2020									
<i>Non-derivative financial liabilities</i>									
Trade, bills and other payables	-	313,214	-	-	-	-	-	313,214	313,214
Borrowings	5.63	5,833	69,088	599,160	149,335	147,885	118,251	1,089,552	959,880
		319,047	69,088	599,160	149,335	147,885	118,251	1,402,766	1,273,094
Lease liabilities	3.04	279	137	222	384	696	3,144	4,862	3,324
As at 31 December 2019									
<i>Non-derivative financial liabilities</i>									
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

(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.

39. 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:

	Amounts due to related parties						Total
	Borrowings	(non-trade nature)	Lease liabilities	Other payable	Dividend payable	Interest payable	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2019 (restated)	848,238	33,137	3,784	10,138	–	–	895,297
Financing cash flows (Note)	(57,398)	(28,332)	(1,017)	–	(70,340)	(52,863)	(209,950)
<i>Non-cash changes:</i>							
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	10,138	–	–	812,187
Financing cash flows (Note)	169,040	(2,689)	(1,466)	(10,138)	–	(45,590)	109,157
<i>Non-cash changes:</i>							
Interest expenses	–	–	206	–	–	34,553	34,759
Finance costs capitalised	–	–	–	–	–	11,037	11,037
Lease modification	–	–	(329)	–	–	–	(329)
Foreign exchange translation	–	–	(84)	–	–	–	(84)
Reclassification to other payable	–	(3,523)	–	–	–	–	(3,523)
At 31 December 2020	959,880	–	3,324	–	–	–	963,204

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

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSET		
Interests in subsidiaries	191,199	191,199
CURRENT ASSETS		
Other receivables	140	16
Amount due from a subsidiary	1,717	377
Bank balances and cash	103	162
	1,960	555
CURRENT LIABILITIES		
Accrued expenses	610	436
Amount due to a subsidiary	2,460	332
	3,070	768
NET CURRENT LIABILITIES	(1,110)	(213)
NET ASSETS	190,089	190,986
CAPITAL AND RESERVES		
Share capital	4,999	4,999
Reserves (<i>Note</i>)	185,090	185,987
TOTAL EQUITY	190,089	190,986

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 2019	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
Loss and total comprehensive expense for the year	-	-	(897)	(897)
At 31 December 2020	184,003	6,031	(4,944)	185,090

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2020 and 2019 are as follows:

Name of subsidiaries	Place of incorporation/ operations	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			2020	2019	
Huajin Investments Limited (<i>Note</i>)	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.

	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
RESULTS					
Revenue	1,919,020	2,863,465	2,909,265	2,162,605	2,847,751
Profit before taxation	118,073	108,394	9,263	25,676	40,251
Income tax expense	(23,740)	(15,989)	(2,968)	(7,296)	(3,833)
Profit for the year	94,333	92,405	6,295	18,380	36,418

	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
ASSETS AND LIABILITIES					
Total assets	1,360,534	1,866,481	1,761,605	1,546,323	2,043,439
Total liabilities	823,242	1,269,875	1,175,650	1,012,328	1,473,026
Net assets	537,292	596,606	585,955	533,995	570,413
EQUITY					
Equity attributable to owners of the Company	533,292	587,236	585,955	533,995	570,413
Non-controlling interests	4,000	9,370	–	–	–
Total equity	537,292	596,606	585,955	533,995	570,413