



DA MING INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Stock code : 1090

2019 Interim Report



CONTENTS

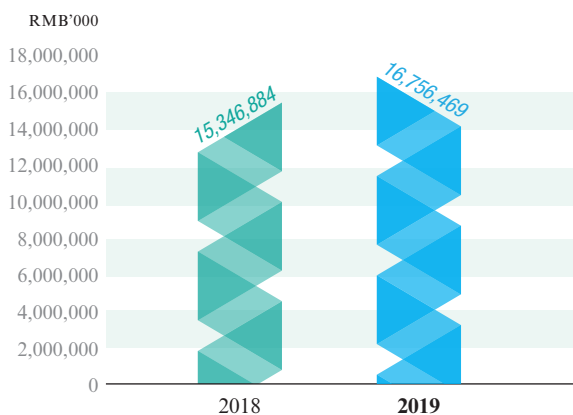
| | |
|----|--|
| 1 | Financial and Operating Highlights |
| 3 | Management Discussion and Analysis |
| 16 | Unaudited Condensed Consolidated Statement of Financial Position |
| 18 | Unaudited Condensed Consolidated Comprehensive Income Statement |
| 19 | Unaudited Condensed Consolidated Statement of Changes in Equity |
| 20 | Unaudited Condensed Consolidated Statement of Cash Flows |
| 21 | Notes to the Unaudited Condensed Consolidated Financial Statements |
| 34 | Other information |

FINANCIAL AND OPERATING HIGHLIGHTS

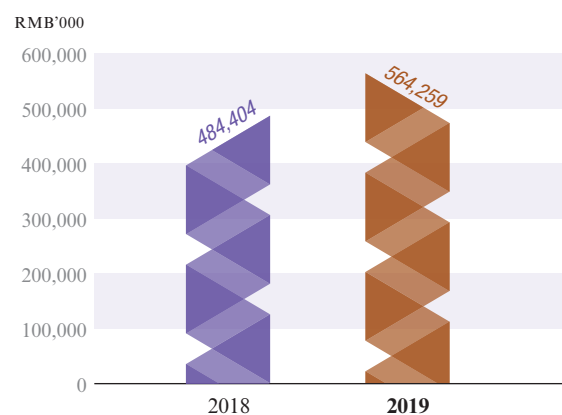
Financial Highlights

| | Six months ended 30 June | | % change |
|---|--------------------------|-----------------|----------|
| | 2019 RMB'000 | 2018 RMB'000 | |
| Revenue | 16,756,469 | 15,346,884 | +9.2% |
| Gross profit | 564,259 | 484,404 | +16.5% |
| Total comprehensive income for the period | 130,558 | 120,087 | +8.7% |

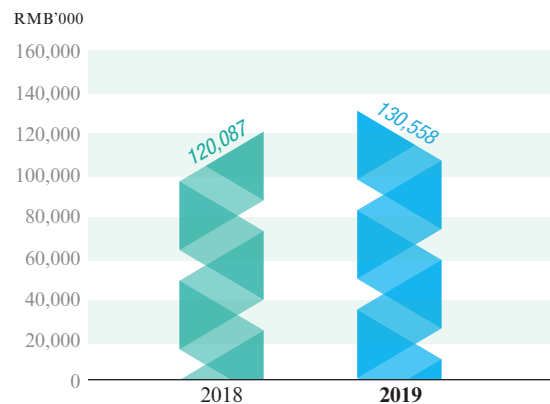
Revenue



Gross Profit



Total comprehensive income



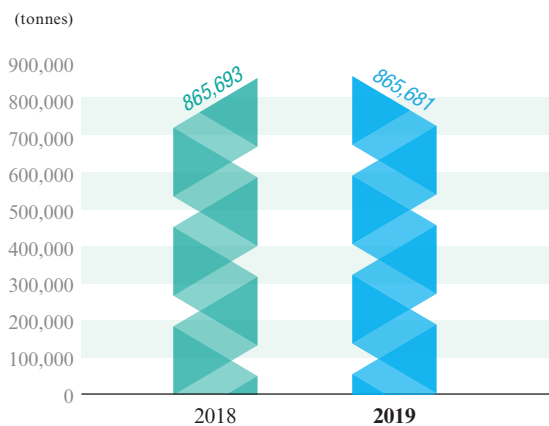
FINANCIAL AND OPERATING HIGHLIGHTS

Operating Highlights

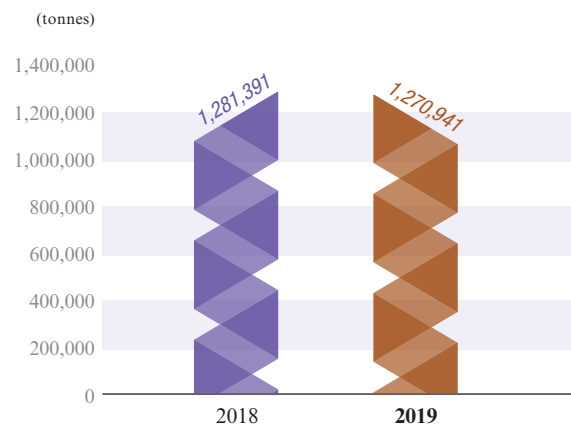
| | Six months ended 30 June 2019 | 2018 (Restated) | % change |
|----------------------------|----------------------------------|--------------------|----------|
| Stainless steel | | | |
| Sales volume (tonnes) | 865,681 | 865,693 | 0.0% |
| Processing volume (tonnes) | 1,270,941 | 1,281,391 | -0.8% |
| Processing multiple | 1.47 | 1.48 | |
| Carbon steel | | | |
| Sales volume (tonnes) | 1,272,614 | 912,841 | +39.4% |
| Processing volume (tonnes) | 1,465,379 | 933,177 | +57.0% |
| Processing multiple | 1.15 | 1.02 | |

Note : Processing multiple = Processing volume/Sales volume

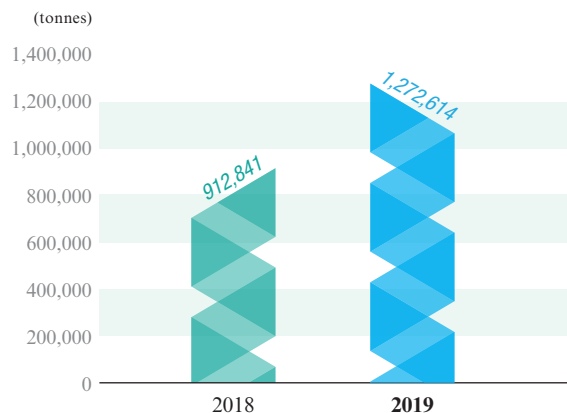
Sales volume of stainless steel



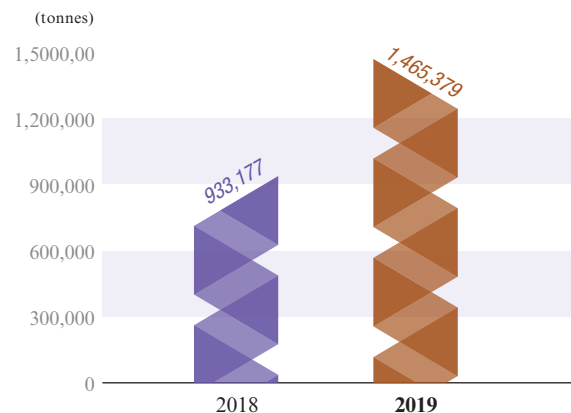
Processing volume of stainless steel



Sales volume of carbon steel



Processing volume of carbon steel



MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing Operations

The Group conducted its manufacturing operations through Da Ming Heavy Industry Co., Ltd. and Jiangsu Daming Precision Manufacturing Co., Ltd. The revenue from our manufacturing business amounted to approximately RMB458.5 million for the six months ended 30 June 2019 representing an increase of approximately 49.9% as compared with approximately RMB305.8 million for the six months ended 30 June 2018.

BUSINESS REVIEW

Processing centres

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

The construction work of the first and second phases of the main building of our Group's tenth processing centre in Jiaxing, Zhejiang province was completed during the first half year of 2019. Three production lines have been installed recently.



Deep processing services

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



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

2. Large-scale mining trucks supported by Daming Heavy Industry for Xuzhou Construction Machinery Group (“XCMG”) exported in bulk to Australia
A large number of cargo compartments of XCMG’s DE120 large-scale mining trucks supported by Daming Heavy Industry have been successfully shipped to Australia. This was another large-scale project completed after the previous export of 64 110-ton cargo compartments to the Middle East. It also laid a solid foundation for the forthcoming production project of 300-ton mining cargo compartments.

MANAGEMENT DISCUSSION AND ANALYSIS

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



Finished mining truck compartments of XCMG



XCMG's mining trucks

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

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

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



Formed products

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

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



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

MANAGEMENT DISCUSSION AND ANALYSIS

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



Delivery of reactors

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

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



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

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

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



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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group recorded a net profit of approximately RMB130.6 million for the six months ended 30 June 2019 representing an increase of approximately 8.7% as compared with the net profit of approximately RMB120.1 million for the six months ended 30 June 2018. The improvement in operating results was mainly due to:

- i) higher gross profit margin resulted from an improvement in operating efficiency;
- ii) contribution from new projects and growth in sales of varieties steel products; and

The sales volume of our stainless steel processing business was approximately 866,000 tonnes for both of the six months ended 30 June 2018 and six months ended 30 June 2019. The processing volume decreased slightly from approximately 1,281,000 tonnes for the six months ended 30 June 2018 to approximately 1,271,000 tonnes for the six months ended 30 June 2019 representing a decrease of approximately 0.8%.

The sales volume of our carbon steel processing business increased from approximately 913,000 tonnes for the six months ended 30 June 2018 to approximately 1,273,000 tonnes for the six months ended 30 June 2019 representing an increase of approximately 39.4% while the processing volume increased from approximately 933,000 tonnes for the six months ended 30 June 2018 to approximately 1,465,000 tonnes for the six months ended 30 June 2019 representing an increase of approximately 57.0%.

MANAGEMENT DISCUSSION AND ANALYSIS

The sales volume and processing volume of our processing centres for the six months ended 30 June 2019 and the corresponding period in 2018 were as follows:

Stainless steel

| | Six months ended 30 June | | % change |
|--------------------------|--------------------------|------------------------------|----------|
| | 2019 tonnes | 2018 tonnes (Restated) | |
| Sales volume | | | |
| Wuxi | 330,673 | 328,580 | +0.6% |
| Hangzhou | 132,293 | 140,082 | -5.6% |
| Tianjin | 116,823 | 118,546 | -1.5% |
| Taiyuan | 67,726 | 63,857 | +6.1% |
| Wuhan | 48,327 | 49,933 | -3.2% |
| Jingjiang | 110,151 | 109,367 | +0.7% |
| Shandong | 59,688 | 55,328 | +7.9% |
| Total | 865,681 | 865,693 | 0.0% |
| Processing volume | | | |
| Wuxi | 557,133 | 584,140 | -4.6% |
| Hangzhou | 172,579 | 179,793 | -4.0% |
| Tianjin | 128,577 | 139,932 | -8.1% |
| Taiyuan | 157,665 | 137,807 | +14.4% |
| Wuhan | 60,471 | 62,107 | -2.6% |
| Jingjiang | 140,502 | 121,182 | +15.9% |
| Shandong | 54,014 | 56,430 | -4.3% |
| Total | 1,270,941 | 1,281,391 | -0.8% |

Carbon steel

| | Six months ended 30 June | | % change |
|--------------------------|--------------------------|------------------------------|----------|
| | 2019 tonnes | 2018 tonnes (Restated) | |
| Sales volume | | | |
| Wuxi | 261,341 | 198,881 | +31.4% |
| Hangzhou | 93,059 | 103,170 | -9.8% |
| Tianjin | 119,479 | 71,593 | +66.9% |
| Taiyuan | 103,624 | 115,516 | -10.3% |
| Wuhan | 260,582 | 170,254 | +53.1% |
| Jingjiang | 296,597 | 221,997 | +33.6% |
| Shandong | 121,124 | 31,430 | +285.4% |
| Jiaying | 16,808 | – | n/a |
| Total | 1,272,614 | 912,841 | +39.4% |
| Processing volume | | | |
| Wuxi | 188,017 | 100,688 | +86.7% |
| Hangzhou | 100,369 | 104,909 | -4.3% |
| Tianjin | 201,121 | 93,230 | +115.7% |
| Taiyuan | 191,430 | 176,661 | +8.4% |
| Wuhan | 297,226 | 178,858 | +66.2% |
| Jingjiang | 348,812 | 247,353 | +41.0% |
| Shandong | 122,541 | 31,478 | +289.3% |
| Jiaying | 15,863 | – | n/a |
| Total | 1,465,379 | 933,177 | +57.0% |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND ANALYSIS

During the six months ended 30 June 2019, we recorded a revenue of approximately RMB16,756 million, gross profit of approximately RMB564 million and profit attributable to equity holders of the Company of approximately RMB118 million. Total assets of the Group as at 30 June 2019 amounted to approximately RMB10,829 million while equity attributable to equity holders of the Company amounted to approximately RMB2,617 million.

Revenue

Our revenue for the six months ended 30 June 2019 amounted to approximately RMB16,756 million comprising approximately RMB12,084 million from our stainless steel business and approximately RMB4,672 million from our carbon steel business. As compared with the revenue for the six months ended 30 June 2018 of approximately RMB15,347 million, it represented an increase of approximately 9.2%. Such increase was mainly due to the increase in the sales volume and processing volume of our carbon steel processing services.

The sales volume of our stainless steel processing business was 865,681 tonnes for the six months ended 30 June 2019 which was almost the same as that for the six months ended 30 June 2018. The sales volume of our carbon steel processing business increased from 912,841 tonnes for the six months ended 30 June 2018 to 1,272,614 tonnes for the six months ended 30 June 2019 representing an increase of approximately 39.4%.

The processing volume of our stainless steel processing business decreased slightly from 1,281,391 tonnes for the six months ended 30 June 2018 to 1,270,941 tonnes for the six months ended 30 June 2019 representing a decrease of approximately 0.8%. The processing volume of our carbon steel processing business increased from 933,177 tonnes for the six months ended 30 June 2018 to 1,465,379 tonnes for the six months ended 30 June 2019 representing an increase of approximately 57.0%.

MANAGEMENT DISCUSSION AND ANALYSIS

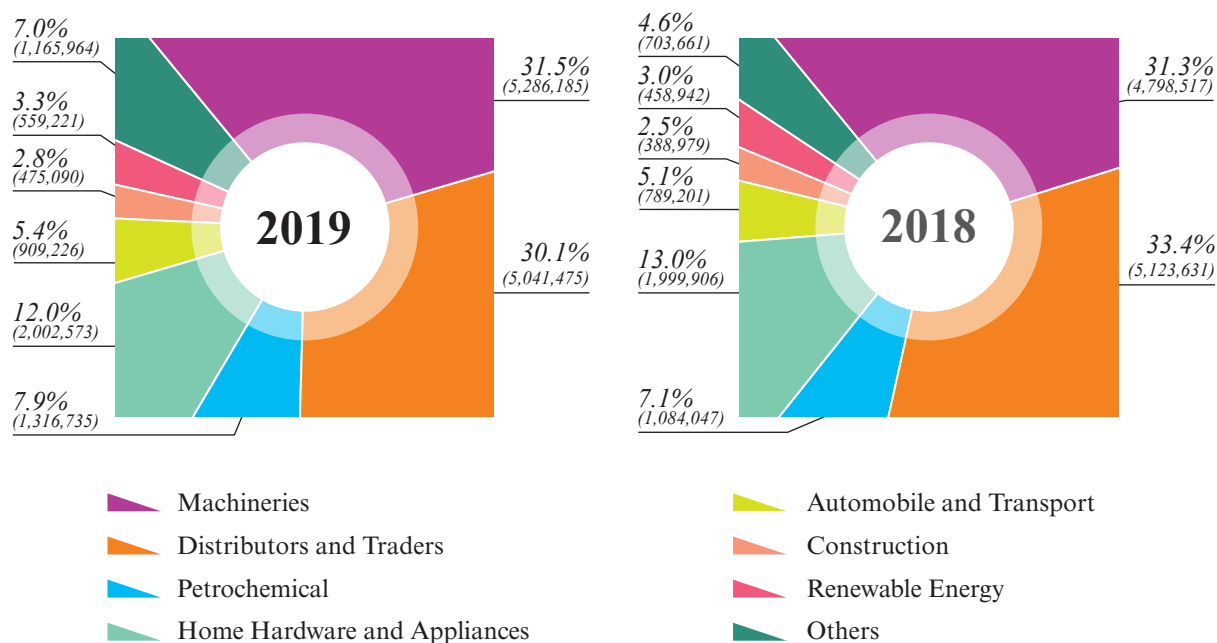
Analysis of revenue by key industry segments

During the six months ended 30 June 2019 and the corresponding period in 2018, our revenue by key industry segments were shown below:

Revenue

| Industry | Six months ended 30 June | | | |
|------------------------------|--------------------------|--------------|-------------------|--------------|
| | 2019 | | 2018 | |
| | RMB'000 | % | RMB'000 | % |
| Machineries | 5,286,185 | 31.5 | 4,798,517 | 31.3 |
| Distributors and Traders | 5,041,475 | 30.1 | 5,123,631 | 33.4 |
| Petrochemical | 1,316,735 | 7.9 | 1,084,047 | 7.1 |
| Home Hardware and Appliances | 2,002,573 | 12.0 | 1,999,906 | 13.0 |
| Automobile and Transport | 909,226 | 5.4 | 789,201 | 5.1 |
| Construction | 475,090 | 2.8 | 388,979 | 2.5 |
| Renewable Energy | 559,221 | 3.3 | 458,942 | 3.0 |
| Others | 1,165,964 | 7.0 | 703,661 | 4.6 |
| Total | 16,756,469 | 100.0 | 15,346,884 | 100.0 |

RMB'000



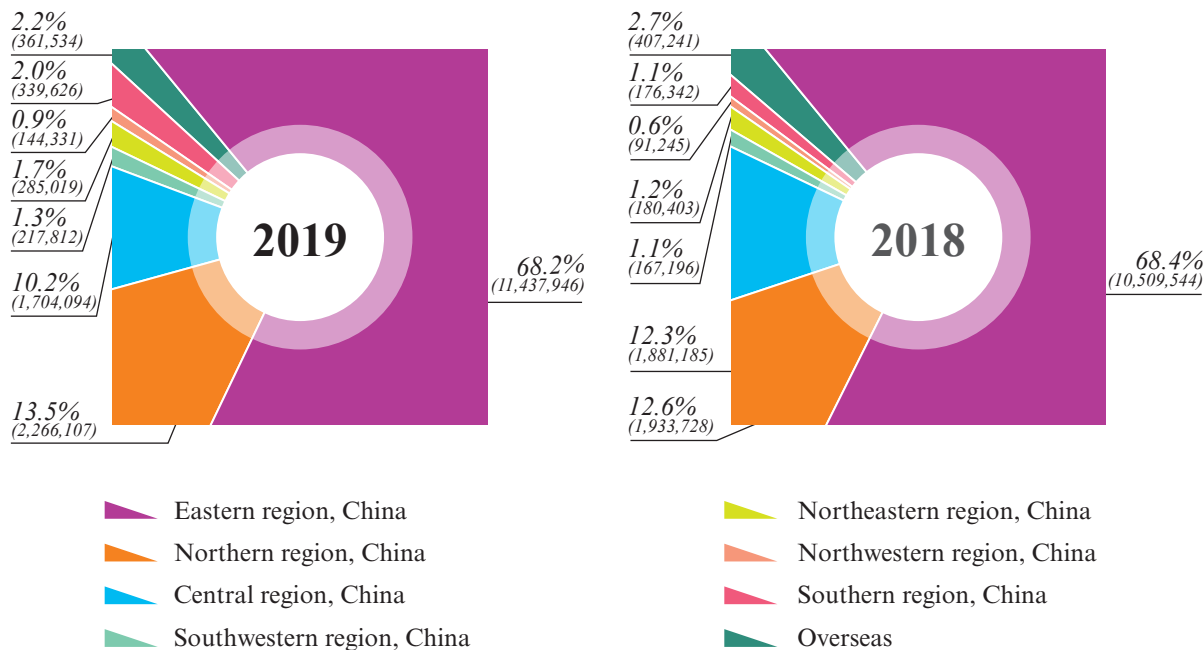
MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of revenue by geographical regions

During the six months ended 30 June 2019 and the corresponding period in 2018, our revenue by geographical regions were shown below:

| Region | Six months ended 30 June | | | |
|----------------------------|--------------------------|--------------|-------------------|--------------|
| | 2019 | | 2018 | |
| | RMB'000 | % | RMB'000 | % |
| Eastern region, China | 11,437,946 | 68.2 | 10,509,544 | 68.4 |
| Northern region, China | 2,266,107 | 13.5 | 1,933,728 | 12.6 |
| Central region, China | 1,704,094 | 10.2 | 1,881,185 | 12.3 |
| Southwestern region, China | 217,812 | 1.3 | 167,196 | 1.1 |
| Northeastern region, China | 285,019 | 1.7 | 180,403 | 1.2 |
| Northwestern region, China | 144,331 | 0.9 | 91,245 | 0.6 |
| Southern region, China | 339,626 | 2.0 | 176,342 | 1.1 |
| Overseas | 361,534 | 2.2 | 407,241 | 2.7 |
| Total | 16,756,469 | 100.0 | 15,346,884 | 100.0 |

RMB'000



Gross profit

Gross profit increased from approximately RMB484.4 million for the six months ended 30 June 2018 to approximately RMB564.3 million for the six months ended 30 June 2019 mainly due to the improvement in operating efficiency and relatively stable market price of stainless steel and carbon steel raw materials during the period.

Other income

Other income increased from approximately RMB7.9 million for the six months ended 30 June 2018 to approximately RMB12.9 million for the six months ended 30 June 2019 mainly due to the increase in government grants received.

Distribution costs

Distribution costs increased from approximately RMB136.2 million for the six months ended 30 June 2018 to approximately RMB167.5 million for the six months ended 30 June 2019. Such increase was mainly due to the increase in staff costs and transportation costs as a result of the increase in sales volume.

Administrative expenses

Administrative expenses increased from approximately RMB110.1 million for the six months ended 30 June 2018 to approximately RMB125.2 million for the six months ended 30 June 2019. Such increase was mainly due to the increase in staff costs and entertainment expenses.

Finance costs

Finance costs increased from approximately RMB77.4 million for the six months ended 30 June 2018 to approximately RMB93.7 million for the six months ended 30 June 2019. Such increase was mainly due to the increase in interest expenses on bank acceptance notes.

Income tax expense

The Group recorded an income tax expense of approximately RMB59.6 million for the six months ended 30 June 2019 as compared with an income tax expense of approximately RMB47.6 million for the six months ended 30 June 2018.

Profit for the period

The Group recorded a net profit of approximately RMB130.6 million for the six months ended 30 June 2019 as compared with a net profit of approximately RMB120.1 million for the six months ended 30 June 2018. The increase was mainly due to the increase in gross profit.

Foreign exchange risk management

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 30 June 2019, the borrowings of the Group amounted to approximately RMB4,911.4 million. Notes payable amounted to approximately RMB815.8 million while the bank balances were approximately RMB1,355.3 million of which approximately RMB1,144.5 million were restricted bank deposits for issuing letter of credit and notes payable.

As at 30 June 2019, the Group recorded a net current liabilities of approximately RMB939.4 million.

The gearing ratios as at 30 June 2019 and 31 December 2018 were 61.13% and 58.09% respectively. The ratios are calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents while total capital is calculated as total equity plus net debt.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | <i>Note</i> | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|---|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | | – | 487,286 |
| Right-of-use assets | | 483,591 | – |
| Property, plant and equipment | 6 | 4,285,200 | 4,204,500 |
| Investment properties | | 4,405 | 4,597 |
| Intangible assets | | 17,552 | 16,453 |
| Deferred income tax assets | | 82,921 | 75,500 |
| Trade receivable | 8 | 25,170 | 27,674 |
| Other non-current assets | | 8,405 | 5,881 |
| | | 4,907,244 | 4,821,891 |
| Current assets | | | |
| Inventories | 7 | 3,197,300 | 2,689,628 |
| Trade receivables | 8 | 482,186 | 506,697 |
| Prepayments, deposits and other receivables | 9 | 886,889 | 927,627 |
| Restricted bank deposits | | 1,144,511 | 1,076,064 |
| Cash and cash equivalents | | 210,794 | 140,004 |
| | | 5,921,680 | 5,340,020 |
| Total assets | | 10,828,924 | 10,161,911 |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 10 | 106,607 | 106,607 |
| Reserves | | 2,510,456 | 2,387,020 |
| | | 2,617,063 | 2,493,627 |
| Non-controlling interests | | 371,858 | 358,975 |
| Total equity | | 2,988,921 | 2,852,602 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | <i>Note</i> | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|---|-------------|--|--|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 11 | 800,100 | 850,183 |
| Deferred government grants | | 116,672 | 87,909 |
| Deferred income tax liabilities | | 24,662 | 15,636 |
| Trade payables | 12 | 9,421 | 8,959 |
| Long-term payables | | 28,109 | 38,750 |
| | | <u>978,964</u> | <u>1,001,437</u> |
| Current liabilities | | | |
| Trade payables | 12 | 1,795,547 | 2,153,632 |
| Accruals and other current liabilities | | 342,997 | 389,720 |
| Lease liability | | 1,634 | – |
| Contract liabilities | | 560,109 | 439,470 |
| Current income tax liabilities | | 44,875 | 75,032 |
| Borrowings | 11 | 4,111,284 | 3,243,536 |
| Current portion of deferred government grants | | 4,593 | 4,482 |
| Dividends payables | | – | 2,000 |
| | | <u>6,861,039</u> | <u>6,307,872</u> |
| Total liabilities | | <u>7,840,003</u> | <u>7,309,309</u> |
| Total equity and liabilities | | <u>10,828,924</u> | <u>10,161,911</u> |

UNAUDITED CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended 30 June 2019

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 13 | 16,756,469 | 15,346,884 |
| Cost of sales | 14 | (16,192,210) | (14,862,480) |
| Gross profit | | 564,259 | 484,404 |
| Other income – net | | 12,947 | 7,946 |
| Other loss – net | | (723) | (979) |
| Distribution costs | 14 | (167,486) | (136,232) |
| Administrative expenses | 14 | (125,174) | (110,125) |
| Operating profit | | 283,823 | 245,014 |
| Finance income | 15 | 15,625 | 15,231 |
| Finance costs | 15 | (109,317) | (92,608) |
| Finance costs – net | 15 | (93,692) | (77,377) |
| Profit before income tax | | 190,131 | 167,637 |
| Income tax expense | 16 | (59,573) | (47,550) |
| Profit for the period | | 130,558 | 120,087 |
| Other comprehensive income for the period | | – | – |
| Total comprehensive income for the period | | 130,558 | 120,087 |
| Attributable to: | | | |
| Equity holders of the Company | | 117,675 | 109,089 |
| Non-controlling interests | | 12,883 | 10,998 |
| | | 130,558 | 120,087 |
| Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share) | | | |
| – basic earnings per share | 17 | 0.09 | 0.09 |
| – diluted earnings per share | 17 | 0.09 | 0.09 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to equity holders of the Company | | Non- controlling interests RMB'000 | Total equity RMB'000 |
|--|--|---------------------|---|----------------------------|
| | Share Capital RMB'000 | Reserves RMB'000 | | |
| Balance at 1 January 2019 | 106,607 | 2,387,020 | 358,975 | 2,852,602 |
| Comprehensive income | | | | |
| Profit for the period | – | 117,675 | 12,883 | 130,558 |
| Total comprehensive income for the period | – | 117,675 | 12,883 | 130,558 |
| Transaction with owners | | | | |
| Employee share options scheme | | | | |
| – value of employee services | – | 486 | – | 486 |
| Share award scheme | | | | |
| – value of employee services | – | 5,275 | – | 5,275 |
| Total transaction with owners | – | 5,761 | – | 5,761 |
| Balance at 30 June 2019 | 106,607 | 2,510,456 | 371,858 | 2,988,921 |

| | Attributable to equity holders of the Company | | Non- controlling interests RMB'000 | Total equity RMB'000 |
|--|--|---------------------|---|----------------------------|
| | Share Capital RMB'000 | Reserves RMB'000 | | |
| Balance at 1 January 2018 | 106,607 | 2,322,971 | 267,626 | 2,697,204 |
| Comprehensive income | | | | |
| Profit for the period | – | 109,089 | 10,998 | 120,087 |
| Total comprehensive income for the period | – | 109,089 | 10,998 | 120,087 |
| Transaction with owners | | | | |
| Employee share options scheme | | | | |
| – value of employee services | – | 1,263 | – | 1,263 |
| Capital injection by a non-controlling interest | – | – | 72,177 | 72,177 |
| Total transaction with owners | – | 1,263 | 72,177 | 73,440 |
| Balance at 30 June 2018 | 106,607 | 2,433,323 | 350,801 | 2,890,731 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|---|--------------------------|------------------------|
| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
| Cash flows from operating activities | | |
| Cash flows from operations | 253,586 | 24,786 |
| Interest received | 15,625 | 15,231 |
| Interest paid | (109,317) | (92,068) |
| Income tax paid | (89,730) | (38,072) |
| Net cash from/(used) in operating activities | <u>70,164</u> | <u>(90,123)</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (196,724) | (298,201) |
| Other investing cash flow | 21,160 | 6,794 |
| Net cash used in investing activities | <u>(175,564)</u> | <u>(291,407)</u> |
| Cash flows from financing activities | | |
| Net change in borrowings | 817,665 | 213,662 |
| Net change in restricted bank deposits | (68,447) | 17,764 |
| Net change in bank acceptance notes | (573,028) | 235,844 |
| Capital injection by a non-controlling shareholder | – | 72,177 |
| Net cash from financing activities | <u>176,190</u> | <u>539,447</u> |
| Net change in cash and cash equivalents | 70,790 | 157,917 |
| Cash and cash equivalents at beginning of the period | 140,004 | 166,151 |
| Exchange loss on cash and cash equivalents | – | – |
| Cash and cash equivalents at end of the period | <u>210,794</u> | <u>324,068</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL INFORMATION

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

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1 December 2010.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These unaudited condensed consolidated financial statements have not been reviewed by external auditors but have been reviewed by the Company's audit committee.

Going Concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB939,359,000 (31 December 2018: RMB967,852,000). The Group meets its day-to-day working capital requirements mainly through its bank borrowings and facilities with banks in the PRC and Hong Kong that are refinanced and/or renewed every twelve months. In preparing this financial statements, the directors of the Company have considered the Group's available sources of funds as follows:

- The net cash inflows from operating activities;
- The available financing including bank borrowings in the PRC and Hong Kong to be renewed during the next twelve months. The directors are confident that these bank financing could be renewed and/or extended for at least another twelve months upon renewal based on the Group's past experience and good credit standing; and
- Other available sources of financing from banks and other financial institutions given the Group's credit history and that most of the Group's property, plant and equipment are free of pledge or restriction and would be available to secure further financing.

Having considered the above, the directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than 12 months from the approval date of these financial statements. The directors therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total earnings.

(a) New and amended standards adopted by the Group

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

- (a) HKFRS 16 Leases
- (b) Annual improvements 2015-2017 Cycle
- (c) HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments
- (d) Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- (e) Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28, and
- (f) Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19.

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

(i) *HKFRS 16 Leases*

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

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

All the recognised right-of-use assets relate to land use rights.

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

Prepayments, deposit and other receivables – decreased by 479,000
 Right-of-use assets – increased by 489,571,000
 Land use rights – decreased by 487,286,000
 Lease liability – increased by 1,806,000

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted.

| | | Effective for annual periods beginning on or after |
|------------------------------------|---|--|
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKFRS 3 | Definition of a Business | 1 January 2020 |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 17 | Insurance contracts | 1 January 2021 |

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4. ESTIMATES

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, and liquidity risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management department since year end or in any risk management policies.

5.2 Fair value estimation

There are no financial assets/liabilities carried at fair value determined by valuation method. The carrying value of cash and cash equivalents, restricted bank deposits, trade and other receivables and financial liabilities including trade and other payables and borrowings are assumed to approximate their fair values.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and plant RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Office equipment and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|--------------------------------------|-----------------------------------|----------------------|---------------------|--|--|------------------|
| At 1 January 2018 | | | | | | |
| Cost | 969,215 | 2,728,371 | 36,200 | 56,015 | 768,259 | 4,558,060 |
| Accumulated depreciation | (128,297) | (634,426) | (22,045) | (32,404) | – | (817,172) |
| Net book amount | <u>840,918</u> | <u>2,093,945</u> | <u>14,155</u> | <u>23,611</u> | <u>768,259</u> | <u>3,740,888</u> |
| Year ended 31 December 2018 | | | | | | |
| Opening net book amount | 840,918 | 2,093,945 | 14,155 | 23,611 | 768,259 | 3,740,888 |
| Additions | 18,276 | 73,966 | 3,314 | 6,138 | 635,988 | 737,682 |
| Transfer | 181,649 | 465,885 | 541 | 586 | (648,661) | – |
| Transfer to intangible assets | – | – | – | – | (2,000) | (2,000) |
| Transfer to land use rights | – | – | – | – | (79,437) | (79,437) |
| Disposals | – | (829) | (293) | (177) | – | (1,299) |
| Depreciation | (30,354) | (148,726) | (4,665) | (7,589) | – | (191,334) |
| Closing net book amount | <u>1,010,489</u> | <u>2,484,241</u> | <u>13,052</u> | <u>22,569</u> | <u>674,149</u> | <u>4,204,500</u> |
| At 31 December 2018 | | | | | | |
| Cost | 1,169,140 | 3,267,110 | 38,312 | 61,862 | 674,149 | 5,210,573 |
| Accumulated depreciation | (158,651) | (782,869) | (25,260) | (39,293) | – | (1,006,073) |
| Net book amount | <u>1,010,489</u> | <u>2,484,241</u> | <u>13,052</u> | <u>22,569</u> | <u>674,149</u> | <u>4,204,500</u> |
| Six months ended 30 June 2019 | | | | | | |
| Opening net book amount | 1,010,489 | 2,484,241 | 13,052 | 22,569 | 674,149 | 4,204,500 |
| Additions | – | 19,867 | 1,327 | 1,947 | 164,224 | 187,365 |
| Transfer | 1,173 | 29,403 | – | – | (30,576) | – |
| Disposals | – | – | (341) | (72) | – | (413) |
| Depreciation | (17,169) | (85,359) | (1,518) | (2,206) | – | (106,252) |
| Closing net book amount | <u>994,493</u> | <u>2,448,152</u> | <u>12,520</u> | <u>22,238</u> | <u>807,797</u> | <u>4,285,200</u> |
| At 30 June 2019 | | | | | | |
| Cost | 1,170,313 | 3,316,380 | 39,298 | 63,737 | 807,797 | 5,397,525 |
| Accumulated depreciation | (175,820) | (868,228) | (26,778) | (41,499) | – | (1,112,325) |
| Net book amount | <u>994,493</u> | <u>2,448,152</u> | <u>12,520</u> | <u>22,238</u> | <u>807,797</u> | <u>4,285,200</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. INVENTORIES

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|----------------|--|--|
| Raw materials | 2,405,727 | 2,035,769 |
| Finished goods | 791,573 | 653,859 |
| | 3,197,300 | 2,689,628 |

For the six months ended 30 June 2019, the Group has recorded a gain of approximately RMB41,367,000 for the reversal of provision of inventories to their net realisable value. A gain of approximately RMB5,358,000 was recorded for the six months ended 30 June 2018. These amounts have been included in the cost of sales in the unaudited condensed consolidated statement of comprehensive income.

8. TRADE RECEIVABLES

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|--|--|--|
| Accounts receivable | 433,109 | 329,077 |
| Notes receivable | | |
| – bank acceptance notes | 66,506 | 196,277 |
| – commercial acceptance notes | 9,825 | 11,126 |
| | 509,440 | 536,480 |
| Less: provision for impairment | (2,084) | (2,109) |
| | 507,356 | 534,371 |
| Less: non-current portion of accounts receivable | (25,170) | (27,674) |
| | 482,186 | 506,697 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|------------------------|--|--|
| Accounts receivable | | |
| – within 30 days | 357,345 | 308,514 |
| – 30 days to 3 months | 39,893 | 14,294 |
| – 3 months to 6 months | 34,896 | 3,214 |
| – 6 months to 1 year | 459 | 2,599 |
| – 1 year to 2 years | 474 | 278 |
| – over 2 years | 42 | 178 |
| | 433,109 | 329,077 |
| Notes receivable | | |
| – within 1 year | 76,331 | 207,403 |
| | 509,440 | 536,480 |

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|--|--|--|
| Prepayment for purchase of raw materials | 545,602 | 565,335 |
| Value added tax recoverable | 281,742 | 307,966 |
| Export tax refundable | 9,749 | 17,305 |
| Deposits and other receivables | 49,796 | 37,021 |
| | 886,889 | 927,627 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

10. SHARE CAPITAL

| | Number of shares '000 | HKD'000 | RMB'000 |
|--|-----------------------------|---------|---------|
| Authorised share capital As at 31 December 2018 and 30 June 2019 (ordinary shares of HKD0.10 each) | 1,500,000 | 150,000 | 128,886 |
| Issued and fully paid up As at 31 December 2018 and 30 June 2019 (ordinary shares of HKD0.10 each) | 1,245,190 | 124,519 | 106,607 |

11. BORROWINGS

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|---|-------------------------------------|---|
| Non-current | | |
| Bank borrowings | 757,700 | 800,200 |
| Borrowing under finance lease arrangement | 42,400 | 49,983 |
| | 800,100 | 850,183 |
| Current | | |
| Bank borrowings | 4,044,797 | 3,008,543 |
| Borrowing under finance lease arrangement | 66,487 | 234,993 |
| | 4,111,284 | 3,243,536 |
| Total borrowings | 4,911,384 | 4,093,719 |
| Representing : | | |
| Bank borrowings | | |
| – unsecured | 4,266,398 | 3,098,443 |
| – secured | 421,099 | 620,300 |
| – guaranteed | 115,000 | 90,000 |
| Finance lease arrangement | 108,887 | 284,976 |
| | 4,911,384 | 4,093,719 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

12. TRADE PAYABLES

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|--|--|--|
| Accounts payable | 989,180 | 773,775 |
| Notes payable | 815,788 | 1,388,816 |
| | 1,804,968 | 2,162,591 |
| Less: non-current portion of accounts payables | (9,421) | (8,959) |
| | 1,795,547 | 2,153,632 |

The ageing analysis of the trade payable was as follows:

| | As at 30 June 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|--------------------|--|--|
| Within 6 months | 1,797,653 | 2,162,516 |
| 6 months to 1 year | 7,280 | 50 |
| 1 year to 2 years | 11 | 12 |
| 2 years to 3 years | 11 | 13 |
| Over 3 years | 13 | – |
| | 1,804,968 | 2,162,591 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. SALES AND SEGMENT INFORMATION

| | Six months ended | |
|----------------|-------------------------|-------------------------|
| | 30 June 2019 RMB'000 | 30 June 2018 RMB'000 |
| Sales of goods | 16,756,469 | 15,346,884 |

The chief operating decision-maker has been identified as the executive directors and all top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker has determined that single business segment information is presented as all of the Group's sales and operating profits are derived from the sales of stainless steel and carbon steel products and all of the Group's productions and operating assets are located in Mainland China which is considered as one segment with similar risks and returns.

The Group is domiciled in Mainland China. The result of its sales from external customers in different countries and regions is as follows:

| | Six months ended | |
|---|-------------------------|-------------------------|
| | 30 June 2019 RMB'000 | 30 June 2018 RMB'000 |
| – Mainland China | 16,394,935 | 14,939,643 |
| – Hong Kong and other overseas countries and regions* | 361,534 | 407,241 |
| Total sales | 16,756,469 | 15,346,884 |

* Other overseas countries and regions for the six months ended 30 June 2019 mainly represented United States of America, Australia, South Korea and South East Asia.

Other overseas countries and regions for the six months ended 30 June 2018 mainly represented United States of America, Australia, South Korea and South East Asia.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

14. EXPENSES BY NATURE

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

| | Six months ended | |
|---|-------------------|-------------------|
| | 30 June 2019 | 30 June 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Changes in inventories of finished goods | (155,527) | (84,591) |
| Raw materials consumed | 15,915,906 | 14,552,820 |
| Stamp duty, property tax and other surcharges | 22,416 | 23,262 |
| Transportation costs | 148,843 | 134,626 |
| Employee benefit expenses, including directors' emoluments | 312,970 | 268,918 |
| Depreciation and amortisation | 116,024 | 95,189 |
| Operating lease rental for buildings | 3,619 | 2,984 |
| Utilities charges | 33,458 | 30,285 |
| Reversal of write-down of inventories | (41,367) | (5,358) |
| Entertainment and travelling expenses | 24,171 | 15,871 |
| Professional service expenses | 4,921 | 3,410 |
| Others | 99,436 | 71,421 |
| Total cost of sales, distribution costs and administrative expenses | <u>16,484,870</u> | <u>15,108,837</u> |

15. FINANCE COSTS – NET

| | Six months ended | |
|--|------------------|-----------------|
| | 30 June 2019 | 30 June 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest expenses on bank borrowings | 73,674 | 70,673 |
| Interest expenses on bank acceptance notes | 39,217 | 20,452 |
| Exchange (gain)/loss, net | (3,574) | 1,483 |
| Total finance costs | <u>109,317</u> | <u>92,608</u> |
| Interest income | <u>(15,625)</u> | <u>(15,231)</u> |
| | <u>93,692</u> | <u>77,377</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. INCOME TAX EXPENSE

| | Six months ended | |
|---------------------------------------|------------------|---------------|
| | 30 June 2019 | 30 June 2018 |
| | RMB'000 | RMB'000 |
| Current income tax expense | | |
| – Mainland China corporate income tax | 57,968 | 57,506 |
| Deferred income tax expense/(credit) | 1,605 | (9,956) |
| | <u>59,573</u> | <u>47,550</u> |

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

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

Hong Kong profits tax has not been provided as there is no estimated assessable profit arising in or derived from Hong Kong during the financial periods.

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

17. EARNINGS PER SHARE

(a) Basic

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

| | Six months ended | |
|---|------------------|--------------|
| | 30 June 2019 | 30 June 2018 |
| Profit attributable to equity holders of the company (RMB'000) | 117,675 | 109,089 |
| Weighted average number of ordinary shares in issue (thousands) | 1,245,190 | 1,245,190 |
| Basic earnings per share (RMB) | 0.09 | 0.09 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

(b) Diluted

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

| | Six months ended | |
|---|------------------|--------------|
| | 30 June 2019 | 30 June 2018 |
| Profit attributable to equity holders of the company (RMB'000) | 117,675 | 109,089 |
| Weighted average number of ordinary shares in issue (thousands) | 1,245,190 | 1,245,190 |
| Adjustments for share option plan (thousands) | 132 | 643 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 1,245,322 | 1,245,833 |
| Diluted earnings per share (RMB) | 0.09 | 0.09 |

18. INTERIM DIVIDENDS

The Board has declared an interim dividend of HK\$0.06 per share in respect of the six months ended 30 June 2019 (2018: HK\$0.05 per share).

19. COMMITMENTS

Capital commitments

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--|-------------------------------------|---|
| Contracted but not provided for: | | |
| Acquisition of property, plant and equipment | 313,958 | 476,053 |

CORPORATE GOVERNANCE

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

The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2019. The Company adopted the CG Code as its own code of corporate governance.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all the directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 10 to the unaudited condensed consolidated financial statements.

INTERIM DIVIDENDS

At the Board meeting held on 23 August 2019, the Directors declared an interim dividend of HK\$0.06 (2018: HK\$0.05) per share. The interim dividend, which total HK\$74,711,400 (2018: HK\$62,259,500), will be payable on Tuesday, 24 September 2019 to shareholders registered at the close of business on Friday, 13 September 2019.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed with the management and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and considered that the Company has complied with all applicable accounting standards and requirements.

BOARD CHANGES

On 14 June 2019, Mr. Lin Changchun was appointed as a non-executive director of the Company.

OTHER INFORMATION

CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of Director of the Company subsequent to the date of the 2018 Annual Report of the Company are set out below:

| Name of Director | Detail of Change |
|------------------|--|
| Mr. Zhang Feng | Appointed as a director of Jiangsu Daming Specialty Steel Company Limited, a wholly owned subsidiary of the Company, with effect from 19 March 2019. |

SHARE OPTION SCHEME

The Company adopted a share option scheme on 9 November 2010. Principal terms of the share option scheme were set out in our 2018 Annual Report.

Particulars of share options outstanding under the share option scheme at the beginning and at the end of the financial period for the six months ended 30 June 2019 and share options granted, exercised, cancelled or lapsed under the share option scheme during such period are as follows:

| Name or category of participant | Date of grant | Exercise price (HK\$) | Number of share options | | | | As at 30 June 2019 | Exercise period |
|-------------------------------------|------------------|-----------------------|---------------------------|---------------------------|-----------------------------|-------------------------------------|--------------------|--------------------------------------|
| | | | As at 1 January 2019 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | | |
| Directors | | | | | | | | |
| Mr. Zhang Feng | 21 December 2010 | 2.452 | 300,000 ⁽¹⁾ | – | – | – | 300,000 | 21 December 2013 to 20 December 2020 |
| | 23 December 2014 | 2.364 | 100,000 ⁽²⁾ | – | – | – | 100,000 | 23 December 2017 to 22 December 2024 |
| Dr. Fukui Tsutomu | 23 December 2014 | 2.364 | 500,000 ⁽²⁾ | – | – | – | 500,000 | 23 December 2017 to 22 December 2024 |
| Mr. Wang Jian | 23 December 2014 | 2.364 | 400,000 ⁽²⁾ | – | – | – | 400,000 | 23 December 2017 to 22 December 2024 |
| Other employees in aggregate | | | | | | | | |
| | 21 December 2010 | 2.452 | 4,720,000 ⁽¹⁾ | – | – | (300,000) | 4,420,000 | 21 December 2013 to 20 December 2020 |
| | 23 December 2014 | 2.364 | 14,350,000 ⁽²⁾ | – | – | (450,000) | 13,900,000 | 23 December 2017 to 22 December 2024 |
| Total | | | 20,370,000 | – | – | (750,000) | 19,620,000 | |

- (1) 30% of share options are exercisable from the third anniversary date of the date of grant; 60% of share options are exercisable from the fourth anniversary date of the date of grant; and all share options are exercisable from the fifth anniversary date of the date of grant.
- (2) 40% of share options are exercisable from the third anniversary date of the date of grant; 70% of share options are exercisable from the fourth anniversary date of the date of grant; and all share options are exercisable from the fifth anniversary date of the date of grant.

SHARE AWARD SCHEME

The Company adopted a share award scheme on 25 August 2011. Principal terms of the share award scheme were set out in our 2018 Annual Report.

During the period ended 30 June 2019, an aggregate of 2,040,000 shares of the Company's existing ordinary shares have been purchased for the share award scheme, a total of 4,366,000 awarded shares were granted and vested to directors and selected employees. As at 30 June 2019, the independent trustee holds 19,154,000 shares of the Company for the share award scheme.

Particulars of share awards movements for the six months ended 30 June 2019 are as follows:

| Name of awardees | Date of grant | Number of Awarded Shares | | | As at 30 June 2019 | Vesting date/period |
|------------------------------|---------------|----------------------------|---------------------------------|--------------------------------|--------------------------|------------------------|
| | | As at 1 January 2019 | Granted during the period | Vested during the period | | |
| Mr. Zhang Feng | 14 June 2019 | – | 262,000 | (262,000) | – | 21 June 2019 |
| Dr. Fukui Tsutomu | 14 June 2019 | – | 88,000 | (88,000) | – | 21 June 2019 |
| Mr. Wang Jian | 14 June 2019 | – | 120,000 | (120,000) | – | 21 June 2019 |
| Other employees in aggregate | 14 June 2019 | – | 3,896,000 | (3,896,000) | – | 21 June 2019 |
| Total | | – | 4,366,000 | (4,366,000) | – | |

EMPLOYMENT POLICY

The Group employed a total of 4,997 staffs as at 30 June 2019 (2018: 4,460).

The remuneration of the Directors and employees was based on their performance, skills, knowledge, experiences and market trend. The remuneration committee reviews the remuneration policies and packages of the Group on a regular basis. In addition to basic salaries, employees may be offered with discretionary bonus on individual performance. The Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

OTHER INFORMATION

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

As at 30 June 2019, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code, were as follows:

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

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

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

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

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

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

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

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

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

(8) As at 30 June 2019, Ally Good Group Limited is the holder of 63.72% of the issued share capital of the Company and is an associated corporation under SFO.

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

Save as disclosed above, as at 30 June 2019, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

OTHER INFORMATION

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

As at 30 June 2019, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

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

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2019.

EVENT AFTER THE END OF THE REPORTING PERIOD

Share Award Scheme

During 2 July 2019 to 17 July 2019, the independent trustee acquired 972,000 shares from the market for the share award scheme.

238,000 awarded shares were granted and vested to selected employees on 12 July 2019 and 19 July 2019 respectively.

Board

Mr. Chen Xuedong resigned as an independent non-executive director of the Company with effect from 12 July 2019.

The director's fee of each of Mr. Zhou Keming (Chairman), Mr. Jiang Changhong (Chief Executive Officers), Ms. Xu Xia, Mr. Zou Xiaoping, Dr. Fukui Tsutomu, Mr. Zhang Feng, Mr. Wang Jian, Mr. Lu Ping, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa was increased from HK\$25,000 per month to HK\$30,000 per month with effect from 1 July 2019.