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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased to approximately RMB798.6 million for the six months ended 30 June 2016, representing a decrease of approximately 20.9% as compared with approximately RMB1,009.2 million for the same period in 2015.
- Gross profit decreased to approximately RMB125.9 million for the six months ended 30 June 2016, representing a decrease of approximately 7.6% as compared with approximately RMB136.3 million for the same period in 2015.
- Gross profit margin increased by approximately 2.3 percentage points to approximately 15.8% for the six months ended 30 June 2016, as compared with approximately 13.5% for the same period in 2015.
- There was a slight decrease of 2.8% of total tonnage sold during the six months ended 30 June 2016 as compared with the same period in 2015 which was mainly attributable to decrease in demand from overseas customers. Nonetheless, our “cost-plus” pricing policy enables the Group to maintain a rather stable margin in light of a volatile steel market price environment.
- Profit attributable to shareholders of the Company increased to approximately RMB50.3 million for the six months ended 30 June 2016 after taking into account the one-off non-recurring listing expenses charged to profit or loss of approximately RMB6.1 million incurred during the period, representing an increase of 12.0% as compared with a profit attributable to shareholders of the Company of approximately RMB44.9 million for the same period in 2015. Without the impact of the one-off non-recurring listing expenses charged to profit or loss, our profit attributable to shareholders of the Company would have increased by approximately 25.6% to approximately RMB56.4 million for the six months ended 30 June 2016, as compared with approximately RMB44.9 million for the same period in 2015.

- Basic earnings per share for the six months ended 30 June 2016 decreased to approximately RMB9.79 cents as compared with that of approximately RMB9.99 cents for the six months ended 30 June 2015.
- The Board recommended the declaration of an interim dividend of HK4.8 cents per share for the six months ended 30 June 2016.

The board (the “Board”) of directors (the “Directors”) of Huajin International Holdings Limited (the “Company”) hereby announced the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015. The unaudited results for the six months ended 30 June 2016 have been reviewed by the Company’s Audit Committee are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
	<i>Notes</i>	2016	2015
		RMB’000	RMB’000
		(Unaudited)	(Unaudited)
Revenue	3	798,567	1,009,199
Cost of sales		<u>(672,627)</u>	<u>(872,894)</u>
Gross profit		125,940	136,305
Other income and gains		4,353	57
Selling expenses		(15,862)	(17,572)
Administrative expenses		(23,157)	(20,308)
Listing expenses		<u>(6,113)</u>	<u>–</u>
Profit before net finance costs and taxation		85,161	98,482
Finance income	4	447	1,285
Finance costs	4	<u>(13,777)</u>	<u>(30,427)</u>
Finance costs, net	4	<u>(13,330)</u>	<u>(29,142)</u>
Profit before taxation		71,831	69,340
Income tax expenses	5	<u>(21,540)</u>	<u>(23,726)</u>
Profit for the period	6	50,291	45,614
Other comprehensive income for the period			
— exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		<u>1,427</u>	<u>761</u>
Total comprehensive income for the period		<u>51,718</u>	<u>46,375</u>

		Six months ended 30 June	
		2016	2015
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		50,291	44,935
Non-controlling interests		–	679
		<u>50,291</u>	<u>45,614</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		51,718	45,696
Non-controlling interests		–	679
		<u>51,718</u>	<u>46,375</u>
Earnings per share for profit attributable to owners of the Company, basic (RMB cents)	7	<u>9.79</u>	<u>9.99</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	<i>Notes</i>	30.6.2016 RMB'000 (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	434,565	325,617
Prepaid lease payment		63,993	50,051
Deposit paid for acquisition of property, plant and equipment		13,493	7,249
		512,051	382,917
CURRENT ASSETS			
Prepaid lease payment		1,118	1,118
Inventories		162,281	125,364
Trade, bills and other receivables	10	393,676	216,879
Amounts due from related parties		–	122,411
Restricted bank deposits		44,719	44,352
Bank balances and cash		140,299	96,190
		742,093	606,314
CURRENT LIABILITIES			
Trade, bills and other payables and accrued expenses	11	131,903	191,616
Tax payables		11,446	10,840
Bank borrowings — due within one year	12	389,712	390,027
		533,061	592,483
NET CURRENT ASSETS		209,032	13,831
TOTAL ASSETS LESS CURRENT LIABILITIES		721,083	396,748
NON-CURRENT LIABILITIES			
Bank borrowings — due more than one year	12	177,740	137,275
Deferred income		33,000	33,000
Deferred tax liability		–	3,000
		210,740	173,275
NET ASSETS		510,343	223,473
CAPITAL AND RESERVES			
Share capital	13	4,999	–
Reserves		505,344	223,473
TOTAL EQUITY		510,343	223,473

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. BASIS OF PREPARATION

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

The shares of the Company were listed on the Stock Exchange since 15 April 2016.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2015 underlying the preparation of financial information included in the Accountants’ Report in Appendix I of the prospectus of the Company dated 5 April 2016.

In the current interim period, the Group has applied, for the first time, amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers, being Mr. Xu Songqing (“Mr. Xu”) and Mr. Luo Canwen (“Mr. Luo”) (the “CODM”), in order to allocate resources to segments and to assess their performance. During the period ended 30 June 2016 and 2015, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in processing and sales of processed steel products. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in the PRC and the Group’s non-current assets are also located in the PRC.

	Six months ended 30 June	
	2016	2015
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Sales of processed steel products		
— Processed steel strips and sheets	676,527	885,651
— Welded steel tubes	89,629	111,908
Sales of zinc coated steel products	5,371	—
Others	27,040	11,640
	798,567	1,009,199

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC	751,491	866,964
Southeast Asia	47,076	142,235
	<u>798,567</u>	<u>1,009,199</u>

No revenue from any customer of the Group contributed to over 10% of the total revenue of the Group for the six months ended 30 June 2016 (six months ended 30 June 2015: nil (unaudited)).

4. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income from bank deposits	447	1,285
Interest expense on bank borrowings, net of amounts capitalised in the cost of qualifying assets of RMB2,100,000 (six months ended 30 June 2015: nil)	(13,777)	(30,427)
Finance costs, net	<u>(13,330)</u>	<u>(29,142)</u>

Borrowing costs amounted to RMB2,100,000 capitalised during the six months ended 30 June 2016 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 6.20% (six months ended 30 June 2015: nil) per annum to expenditure on qualifying assets.

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
— Hong Kong Profits Tax	—	178
— PRC Enterprise Income Tax ("EIT")	19,540	17,548
— PRC withholding income tax	2,000	3,000
	<u>21,540</u>	<u>20,726</u>
Deferred tax	—	3,000
Income tax expense for the period	<u>21,540</u>	<u>23,726</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2016 and 2015.

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.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration		
— Fees	140	—
— Other emoluments, salaries, bonus and other benefits	382	71
— Retirement benefit scheme contributions	7	8
	<u>529</u>	79
Other staff salaries, benefits and allowances	32,366	26,501
Retirement benefit scheme contributions, excluding those of directors	6,481	2,665
	<u>39,376</u>	29,245
Total employee benefits expenses		
	<u>39,376</u>	29,245
Amortisation of prepaid lease payment	558	558
Depreciation of property, plant and equipment	17,290	15,475
Exchange gain, net	(345)	(10)
	<u>(345)</u>	(10)

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>50,291</u>	<u>44,935</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	<u>513,462</u>	<u>450,000</u>

The weighted average numbers of ordinary shares for the purpose of calculating the basic earnings per share for each of the six months ended 30 June 2016 and 2015 have been retrospectively adjusted to reflect the capitalisation issue of 449,999,900 as described in note 13 had been effective since 1 January 2015.

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue during both periods.

8. DIVIDEND

An interim dividend of HK4.8 cents per share amounting to HK\$28,800,000 (six months ended 30 June 2015: nil) has been determined by the directors of the Company on 29 July 2016 and the interim dividend will be paid to the owners of the Company whose names appear in the Company's register of members at the close of business on 9 September 2016.

The aggregate sum of dividends, amounted to RMB52,470,000, has been declared and approved by the directors of the Company during the six months ended 30 June 2016 and has been paid to the then shareholders of the Company prior to the listing of the company on Stock Exchange on 15 April 2016.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment and incurred construction costs of RMB128,604,000 (unaudited) (six months ended 30 June 2015: RMB19,020,000 (unaudited)).

10. TRADE, BILLS AND OTHER RECEIVABLES

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Trade receivables:		
— third parties	183,211	98,005
— related parties	—	3,453
	183,211	101,458
Bills receivables	108,826	61,757
Prepayments to suppliers	99,142	45,020
Value-added tax recoverable	655	1,856
Other prepayments, deposits and other receivables	1,842	6,788
	393,676	216,879
Total	393,676	216,879

No allowance for bad and doubtful was provided for the six months ended 30 June 2016 (six months ended 30 June 2015: nil (unaudited)), and no provision for bad and doubtful debt balances were recognised as at the end of the reporting period (31 December 2015: nil).

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 90 days. For other customers, the Group demands for full settlement upon delivery of goods.

The following is an ageing analysis of trade receivables and bills receivables presented based on the invoice date.

	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Trade receivables:		
Within 30 days	95,614	60,731
31–60 days	68,577	9,529
61–90 days	16,230	12,762
91–120 days	2,790	11,872
121–180 days	–	2,325
181–365 days	–	4,078
Over 1 year	–	161
	183,211	101,458
	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Bills receivables:		
Within 30 days	16,544	10,529
31–60 days	18,738	1,792
61–90 days	20,469	9,442
91–120 days	27,663	12,988
121–180 days	24,358	25,106
181–365 days	1,054	1,900
	108,826	61,757

As at 30 June 2016, included in the Group's bills receivables was amount of RMB88,769,000 (31 December 2015: RMB55,803,000), being transferred to certain banks by discounting the relevant bills receivables on a full recourse basis. If the bills receivables are not paid on maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as bank borrowings from factoring of trade receivables with full recourse (note 12). The financial asset is carried at amortised cost in the condensed consolidated statement of financial position.

	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Carrying amount of transferred asset	88,769	55,803
Carrying amount of associated liability	(88,769)	(55,803)
	–	–

11. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Trade payables to		
— related parties	—	639
— third parties	<u>29,941</u>	<u>23,556</u>
	29,941	24,195
Bills payables	4,966	68,591
Receipts in advance from third parties customers	54,400	65,699
Accrued staff costs	6,364	6,491
Construction payables	20,779	4,098
Transportation fee payables to third parties	1,568	1,251
Other tax payables	752	3,201
Other payables and accrued expenses	<u>13,133</u>	<u>18,090</u>
Total	<u>131,903</u>	<u>191,616</u>

The ageing analysis of trade payables, presented based on the invoice date, is as follows:

	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Trade payables:		
Within 30 days	16,455	14,291
31–60 days	2,140	2,023
61–90 days	2,334	2,573
91–120 days	1,015	2,107
121–180 days	3,645	948
181–365 days	2,969	1,934
Over 1 year	<u>1,383</u>	<u>319</u>
	<u>29,941</u>	<u>24,195</u>
	30.6.2016 <i>RMB'000</i> (Unaudited)	31.12.2015 <i>RMB'000</i> (Audited)
Bills payables:		
31–60 days	—	6,737
61–90 days	—	1,658
91–120 days	—	1,119
121–180 days	—	8,925
181–365 days	<u>4,966</u>	<u>50,152</u>
	<u>4,966</u>	<u>68,591</u>

12. BANK BORROWINGS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Fixed rate borrowings:		
Unsecured bank borrowings	49,023	90,000
Secured bank borrowings	429,660	381,499
Bank borrowings from factoring of bills receivables with full recourse	88,769	55,803
	<u>567,452</u>	<u>527,302</u>
The amount is repayable as per follows:		
— within one year	389,712	390,027
— more than one year, but not more than two years	177,740	137,275
	<u>567,452</u>	<u>527,302</u>
Less: amount due within one year shown under current liabilities	<u>(389,712)</u>	<u>(390,027)</u>
	<u>177,740</u>	<u>137,275</u>

13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 13 March 2015 (date of incorporation) and 31 December 2015 (<i>note i</i>)	38,000,000	380
Increase on 23 March 2016 (<i>note ii</i>)	<u>7,962,000,000</u>	<u>79,620</u>
At 30 June 2016	<u><u>8,000,000,000</u></u>	<u><u>80,000</u></u>
	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Issued:		
Issued on date of incorporation (<i>note i</i>)	1	—
Issue of shares (<i>note i</i>)	<u>99</u>	<u>—</u>
At 31 December 2015 (audited)	100	—
Issue of shares (<i>note iii</i>)	<u>599,999,900</u>	<u>6,000</u>
At 30 June 2016 (unaudited)	<u><u>600,000,000</u></u>	<u><u>6,000</u></u>

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Shown in the condensed consolidated statement of financial position	<u>4,999</u>	<u>–</u>

Notes:

- (i) The Company was incorporated in Cayman Islands on 13 March 2015 as an exempted company with an authorised capital of HK\$380,000, divided into 38,000,000 shares of HK\$0.01 each. On the date of incorporation, 1 share of HK\$0.01 of the Company was allotted and issued to the initial subscriber and was further transferred to Haiyi Limited (“Haiyi”), a company incorporated in British Virgin Island and ultimately controlled by the Controlling Shareholders. On the same day, an additional 99 shares of HK\$0.01 each were allotted to Haiyi. At 31 December 2015, 100 shares of the Company were issued to Haiyi.
- (ii) Pursuant to the resolution passed by the shareholders of the Company on 23 March 2016, the authorised share capital of the Company was increased from HK\$380,000 to HK\$80,000,000 by the creation of additional 7,962,000,000 ordinary shares of HK\$0.01 each.
- (iii) On 15 April 2016, the Company issued a total of 150,000,000 ordinary shares of HK\$0.01 each at HK\$2.38 (equivalent to RMB1.99) per share pursuant to the initial public offering of the Company’s shares. On the same date, the Company allotted and issued 449,999,900 ordinary shares of HK\$0.01 each credited as fully paid to the shareholders by capitalising an amount of HK\$4,499,999 (equivalent to RMB3,769,000) from the share premium account of the Company.
- (iv) All the shares issued during the six months ended 30 June 2016 and 2015 ranked pari passu in all respects with the then existing shares in issue.

14. CAPITAL COMMITMENTS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>3,716</u>	<u>40,503</u>

15. PLEDGE OF ASSETS

Certain of the Group’s borrowings are secured by assets of the Group and the carrying amounts are stated below:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Property, plant and equipment	409,670	201,576
Prepaid lease payment	65,111	51,169
Restricted bank deposits	<u>44,719</u>	<u>44,352</u>
	<u>519,500</u>	<u>297,097</u>

In addition, certain of the Group’s borrowings are secured by assets held by Mr. Xu and the related companies as at 31 December 2015. These securities were released upon the repayments of the relevant borrowings during the current interim period.

16. RELATED PARTY DISCLOSURES

(a) Related parties transactions

During the six months ended 30 June 2016, the Group entered into the following transactions with related parties, which are controlled by Mr. Xu, Mr. Luo and/or their family members:

Related Party	Nature of transactions	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Hua Jin Trading Pte. Ltd. 佛山市順德區華寶鞍貿易 有限公司	Sales of processed steel products	–	105,476
	Sales of processed steel products	–	42,985
		<u>–</u>	<u>148,461</u>
江門市華集運輸有限公司	Transportation fees paid/payable by the Group	–	1,637
江門市華順運輸有限公司	Transportation fees paid/payable by the Group	–	2,822
		<u>–</u>	<u>4,459</u>
佛山市順德區華寶鞍貿易 有限公司	Purchase of raw material	–	713
江門市華順運輸有限公司	Purchase of property, plant and equipment	–	930
江門市華集運輸有限公司	Purchase of property, plant and equipment	–	740
		<u>–</u>	<u>1,670</u>

During the period ended 30 June 2016, the Group acquired certain lands and buildings erected thereon which are situated in Jiangmen, Guangdong Province, the PRC (the “Lands and Properties”) from Mr. Xu at an aggregate consideration of RMB45,000,000 (the “Consideration”). The Consideration is determined by reference to the market value of the Lands and Properties prepared by Greater China Appraisal Limited, an independent professional valuer. In previous years, the Lands and Properties were occupied and used by the Group for operation at no cost. The Lands and Properties have been classified as prepaid lease payment and property, plant and equipment in the condensed consolidated statement of financial position at the end of the reporting period.

(b) Compensation of key management personnel

During the six months ended 30 June 2016, the remuneration of key management personnel, which represent the directors of the Company and other members of key management, were as follows:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries and other allowances	1,152	141
Retirement benefit scheme contributions	40	14
	<u>1,192</u>	<u>155</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 15 April 2016 (the “Listing Date”), the ordinary shares of HK\$0.01 each in the share capital (the “Share(s)”) of Huajin International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”, “we” or “us”) have been successfully listed (the “Listing”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), which marked an important milestone in the strategic development of our Group. The Listing is expected to provide a more effective fund-raising platform to equip the Group with stronger financial capability and flexibility to timely capture greater opportunities for our sustainable business development and expansion in the long term.

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to announce that our Group completed the construction work of workshop no. 4 for the production of zinc coated steel products (“Workshop No. 4”), which commenced operation and production in mid 2016. The total gross floor area for Workshop No. 4 is approximately 16,714.7 square metres and its maximum designed annual processing capacity for zinc coating process is 250,000 tonnes. During the six months ended 30 June 2016, our Group received an aggregate sale order of zinc coated steel products amounted to approximately 4,388.3 tonnes of which approximately 1,741.7 tones of zinc coated steel products had been delivered to the customers.

On 9 May 2016, the Company set up Huajin (Singapore) Pte. Ltd., an indirect wholly owned subsidiary in Singapore, with a share capital of US\$680,000. The new subsidiary will facilitate the sales of our processed steel products to overseas customers in Southeast Asian countries.

We are principally engaged in the processing of hot-rolled carbon steel coils into cold-rolled carbon steel products, such as cold-rolled carbon steel strips/sheets, coils and welded steel tubes with various sizes and specifications. Following commencement of operation of Workshop No. 4, our product offerings will be further extended to zinc coated steel products. Our Directors are confident that zinc coated steel products will be well received by our customers. We believe the addition of zinc coated steel in our product mix will allow us to further improve our profitability and strengthen our customer base, which in turn will enhance our competitive position.

FINANCIAL REVIEW

Revenue

Our group generates revenue primarily from the sales of processed steel products, which consist of processed steel strips/sheets, coils and welded steel tubes. Our total revenue decreased to approximately RMB798.6 million for the six months ended 30 June 2016, representing a decrease of approximately 20.9% as compared with approximately RMB1,009.2 million for the same period in 2015. Such revenue decrease was resulted from the decrease in total sales volume and the decrease in our average selling price.

Our total sales volume slightly decreased by approximately 8,225 tonnes, or 2.8%, from approximately 294,866 tonnes for the six months ended 30 June 2015 to approximately 286,641 tonnes for the six months ended 30 June 2016. It was mainly due to the decrease in sales volume to our overseas customers as a result of the hefty rise of steel price in the PRC during the period from early March 2016 to May 2016, which hindered our competitiveness in and sales demand from overseas market.

Despite a rise of steel price from early March 2016 to May 2016, steel market prices in the PRC during the first half of 2016 were generally lower than those for the same period in 2015. Accordingly, our average selling price decreased by approximately RMB699 per tonne or 20.7% from approximately RMB3,372 per tonne for the six months ended 30 June 2015 to approximately RMB2,673 per tonne for the six months ended 30 June 2016.

Our revenue derived from the PRC market dropped from RMB867.0 million to RMB751.5 million for the six months ended 30 June 2015 and 2016, respectively, as a result of the decrease in our average selling price. The substantial reduction in revenue derived from overseas market from RMB142.2 million to RMB47.1 million for the same periods was mainly because of less sales demand from overseas market as aforementioned.

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

	Six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Sales of processed steel products	766,156	95.9	997,559	98.8
— processed steel strips and sheets	676,527	84.7	885,651	87.7
— welded steel tubes	89,629	11.2	111,908	11.1
Sales of zinc coated steel products	5,371	0.7	—	—
Others	27,040	3.4	11,640	1.2
	798,567	100.0	1,009,199	100.0

Cost of sales

Our cost of sales decreased by approximately RMB200.3 million, or 22.9%, from approximately RMB872.9 million to approximately RMB672.6 million for each of the six months ended 30 June 2015 and 2016, respectively.

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

	Six months ended 30 June			
	2016		2015	
	RMB'000	%	RMB'000	%
Direct materials	561,032	83.4	766,236	87.8
Utilities	47,374	7.0	43,959	5.0
Consumables	24,875	3.7	25,383	2.9
Depreciation expense	11,834	1.8	13,719	1.6
Direct labour	23,570	3.5	19,043	2.2
Others	3,942	0.6	4,554	0.5
	<u>672,627</u>	<u>100.0</u>	<u>872,894</u>	<u>100.0</u>

For each of the six months ended 30 June 2015 and 2016, the largest component of our cost of sales was direct materials, which accounted for over 83% of our cost of sales and decreased from approximately RMB766.2 million to approximately RMB561.0 million by approximately RMB205.2 million or 26.8% for the six months ended 30 June 2015 and 2016, respectively. Such decrease was attributable to our slightly decreased level of sales volume and the decline of prevailing steel market price for the period.

The increase in utilities expenses from approximately RMB44.0 million to approximately RMB47.4 million by approximately RMB3.4 million or 7.7% for each of the six months ended 30 June 2015 and 2016, respectively, was mainly due to the increase in unit price of the utilities.

Our consumables also slightly decreased from approximately RMB25.4 million to approximately RMB24.9 million by approximately RMB0.5 million or 2.0% for each of the six months ended 30 June 2015 and 2016, respectively. Such decrease was attributable to our slightly decreased level of sales volume.

Depreciation expense experienced a decrease of approximately RMB1.9 million or 13.9% from approximately RMB13.7 million to approximately RMB11.8 million for each of the six months ended 30 June 2015 and 2016, respectively, following some of our property, plant and equipment already fully depreciated during the six months ended 30 June 2016.

Our direct labour increased from approximately RMB19.0 million to approximately RMB23.5 million by approximately RMB4.5 million or 23.7% for each of the six months ended 30 June 2015 and 2016, respectively. The increase in our direct labour was mainly due to the increase in the contribution to the social insurance funds and the housing provident funds by our PRC subsidiaries. We had made social insurance contributions and housing provident fund contributions in full compliance with the relevant PRC laws and regulations since December 2015 and October 2015 respectively.

Gross profit

Despite the steel market price of the six months ended 30 June 2016 was decreased when compared with the corresponding period in 2015, we have still been able to achieve a rather stable difference of approximately RMB734 per tonne (six months ended 2015: approximately RMB785 per tonne) between the average revenue per tonne and the average cost of direct materials used per tonne. This is mainly due to the mechanics of our “cost-plus” pricing policy. Under our “cost-plus” pricing policy, the selling price of our products is comprised of (a) our envisaged difference between selling price and cost of direct materials as stated above, (b) the costs of direct materials, namely the costs of hot-rolled steel, and (c) the total estimated processing costs. The envisaged difference between selling price and cost of direct materials per tonne is determined based on the general market demand for our products as well as our competitor’s behaviour; whilst the total estimated processing costs are calculated mainly based on the actual costs incurred in the prior period.

As a result of the decrease in revenue by approximately RMB210.6 million and the decrease in cost of sales by approximately RMB200.3 million, our gross profit decreased by approximately RMB10.4 million, or 7.6%, from approximately RMB136.3 million to approximately RMB125.9 million for each of the six months ended 30 June 2015 and 2016, respectively. Our gross profit margin increased from 13.5% to 15.8% for the corresponding periods, which was primarily due to the increase in the sales of scrap steel.

Selling expenses

Our selling expenses decreased by approximately RMB1.7 million, or 9.7%, from approximately RMB17.6 million to approximately RMB15.9 million for each of the six months ended 30 June 2015 and 2016, respectively. The decrease in selling expenses was mainly attributable to (a) the decrease in export related expenses (including custom declaration fees, warehousing charges paid for storage of our products before they are loaded onto cargo vessels at the terminal, etc.) by approximately RMB2.8 million due to the decrease in sales volume in overseas sales, and offset by (b) the increase in vehicle expenses (including diesel, toll charges, maintenance costs, etc.) by approximately RMB1.7 million due to the acquisition of the delivery vehicles from our two related logistics companies in April 2015 and we principally handled the delivery services ourselves since then.

Administrative expenses

The increase in our administrative expenses by approximately RMB2.8 million, or 13.8%, from approximately RMB20.3 million for the six months ended 30 June 2015 to approximately RMB23.1 million for the six months ended 30 June 2016, was primarily due to (a) the increase in staff costs by approximately RMB4.5 million due to the increase in our administrative personnel, and offset by (b) the decrease in professional fees by approximately RMB0.7 million which was mainly due to the non-recurring expenses in relation to group reorganization incurred during the six months ended 30 June 2015. During the six months ended 30 June 2016, the Group also made charitable and other donations amounting to approximately RMB0.8 million.

Listing expenses

Listing expenses in relation to the global offering primarily consist of fees paid or payable to professional parties.

Finance costs

The finance costs comprise interest expenses on bank borrowings which were charged at interest rates ranging from 4.35% to 8.39% per annum for the six months ended 30 June 2016. The decrease in finance costs by approximately RMB16.6 million or 54.6% from approximately RMB30.4 million for the six months ended 30 June 2015 to approximately RMB13.8 million for the six months ended 30 June 2016 was primarily attributable to the lower level of bank borrowings during the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

Income tax expense

Income tax expense decreased from approximately RMB23.7 million to approximately RMB21.5 million by approximately RMB2.2 million or 9.3% for each of the six months ended 30 June 2015 and 2016, respectively. The decrease was mainly attributable to the decrease in PRC withholding income tax, which was imposed on dividends declared in respect of profits earned by our PRC subsidiaries that were expected to be distributed to our subsidiary outside of the PRC. The total amount of PRC withholding income tax decreased from RMB6.0 million for the same period in 2015 to RMB2.0 million in the current interim period as the dividends expected to be declared by our PRC subsidiaries decreased.

Profit for the period

Profit attributable to shareholders of the Company increased to approximately RMB50.3 million for the six months ended 30 June 2016 after taking into account of the one-off non-recurring listing expenses charged to profit or loss of approximately RMB6.1 million incurred during the period, representing an increase of approximately 12.0% as compared with a profit attributable to shareholders of the Company of approximately RMB44.9 million for the same period in 2015. Without the impact of the one-off non-recurring listing expenses charged to profit or loss, our profit attributable to shareholders of the Company would have increased by approximately 25.6% to approximately RMB56.4 million for the six months ended 30 June 2016, as compared with approximately RMB44.9 million for the same period in 2015.

Net profit margin increased by approximately 1.8 percentage points to approximately 6.3% for the six months ended 30 June 2016, as compared with that of approximately 4.5% for the same period in 2015. Without the impact of the one-off non-recurring listing expenses charged to profit or loss, our net profit margin would have increased by approximately 2.6 percentage points to approximately 7.1% for the six months ended 30 June 2016, as compared with approximately 4.5% for the same period in 2015.

Liquidity and financial resources

As at 30 June 2016, the Group's bank balances and cash increased by approximately RMB44.1 million from approximately RMB96.2 million as at 31 December 2015 to approximately RMB140.3 million. The Group's restricted bank deposits increased by approximately RMB0.3 million from approximately RMB44.4 million as at 31 December 2015 to approximately RMB44.7 million. The increase in bank balances and cash for the period was mainly contributed from the unutilized net proceeds from the global offering.

As at 30 June 2016, the Group had the net current assets and the net assets of approximately RMB209.0 million (31 December 2015: RMB13.8 million) and approximately RMB510.3 million (31 December 2015: RMB223.5 million) respectively. As at 30 June 2016, the current ratio calculated based on current assets divided by current liabilities of the Group was 139.2% as compared with 102.3% as at 31 December 2015.

At 30 June 2016, the Group's total bank borrowings amounted to approximately RMB567.5 million (31 December 2015: RMB527.3 million) and the equity attributable to owners of the Company amounted to approximately RMB510.3 million (31 December 2015: RMB223.5 million). The gearing ratio of the Group, calculated based on total debt divided by total equity, as at 30 June 2016 was approximately 1.1 times (31 December 2015: 2.4 times).

As at 30 June 2016, the Group had total banking facilities in respect of bank loans, bank guarantees and/or trade financing of approximately RMB636.5 million (31 December 2015: RMB1,330.8 million), of which approximately RMB567.5 million (31 December 2015: RMB527.3 million) had been utilized for bank guarantees and trade finance. The Group believes it has sufficient unutilized banking facilities to meet its current business operation, capital expenditures and expansion.

Foreign currency exposure

As the functional currency of our PRC subsidiaries is RMB and a portion of our revenue is derived from sales to overseas customers who settle in US dollars, we are exposed to risks associated with fluctuations in US dollars against RMB. In addition, we are exposed to foreign currency risk arising from certain bank balances which are denominated in US dollars and Hong Kong 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.

Material acquisitions and disposal

The Group acquired property, plant and equipment, prepaid lease payment and incurred construction costs of approximately RMB143.1 million during the six months ended 30 June 2016. Save as disclosed above, the Group had no other material acquisition or disposal during the six months ended 30 June 2016.

Capital commitment

For details of capital commitment, please refer to note 14 to the condensed consolidated financial statements.

Pledge of assets

For details of pledge of assets, please refer to note 15 to the condensed consolidated financial statements.

Contingent liabilities

During the period under review, the Company provided guarantees to banks as securities for banking facilities granted to certain subsidiaries of the Company in the PRC. The Group did not provide any guarantee to any third parties and did not have contingent liabilities as at 30 June 2016 (31 December 2015: nil).

Capital structure

Details in the changes of the capital structure of the Company for the six months ended 30 June 2016 are set out in note 13 to the condensed consolidated financial statements. The capital of the Company comprises only ordinary shares as at 30 June 2016.

Employees

As at 30 June 2016, the Group had a total of 1,090 (31 December 2015: 1,094) full-time employees in Hong Kong and mainland China. The Group's total staff costs (including directors' remuneration) for the six months ended 30 June 2016 amounted to approximately RMB39.4 million (six months ended 30 June 2015: RMB29.2 million). The Group remunerated the employees based in their performance, experience and prevailing market practices.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Based on the offer price of HK\$2.38 per Share and the actual listing expenses incurred, the net proceeds from the global offering received by the Company amounted to approximately HK\$330.7 million (equivalent of approximately RMB276.8 million) and the balance of unutilized net proceeds of HK\$130.7 million (equivalent of approximately RMB110.4 million) were kept at the bank accounts of the Group as at 30 June 2016.

The net proceeds from the global offering (adjusted on a pro rata basis based on the actual net proceeds) will be utilized in accordance with the purposes set out in the section “Future Plans and Use of Proceeds” of the prospectus of our Company dated 5 April 2016 (the “Prospectus”). The below table sets out the planned applications of the net proceeds and usage up to 30 June 2016:

Use of proceeds	Planned applications <i>(HK\$ million)</i>	% of total net proceeds <i>(%)</i>	Actual usage up to 30 June 2016 <i>(HK\$ million)</i>	Actual usage up to 30 June 2016 <i>(RMB million)</i>
To repay working capital loans from PRC commercial banks	150.0	45.4	94.4	78.7
To purchase production machinery and equipment	71.0	21.5	–	–
To finance the acquisition of two parcels of industrial lands and the operational buildings erected thereon from Mr. Xu	48.6	14.7	48.6	40.3
To finance the construction and operation of Workshop No. 4	27.3	8.2	27.3	22.7
To upgrade our ERP system	4.1	1.2	–	–
For general working capital and other general corporate purposes	29.7	9.0	29.7	24.7
Total	330.7	100.0	200.0	166.4

INTERIM DIVIDEND

During the six months ended 30 June 2016 and prior to the Listing Date, we declared dividends in the aggregate amount of approximately RMB52.5 million. All the dividends declared were paid in cash out of our internally generated resources to the then shareholders.

The Board has resolved to pay an interim dividend of HK4.8 cents (six months ended 30 June 2015: nil) per Share totaling HK\$28.8 million and the interim dividend will be paid to the shareholders on Thursday, 15 September 2016 whose names appear on the register of members of the Company at the close of business on Friday, 9 September 2016.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 September 2016 to Friday, 9 September 2016, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend payable on Thursday, 15 September 2016, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 6 September 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the six months ended 30 June 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2016 was the Company or its subsidiary a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the period from the Listing Date to 30 June 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the period from the Listing Date to 30 June 2016.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the Company's Shares which are in the hands of the public is not less than 25% of the Company's total number of issued shares during the period from the Listing Date to 30 June 2016.

OUTLOOK

The successful Listing this year has marked a key milestone for the Group. Our Group has a comparative advantage in providing processing, cutting, slitting, storage and delivery services of the customized processed steel products and establishing long-term relationship with customers by providing cold-rolled carbon steel strips, sheets and welded steel tubes customized to the specifications of our customers.

Our Board believes that, through unwavering efforts, the Group is able to attain profitable growth to our shareholders by continuing our investment in broadening our product offerings, increasing our processing capacity, optimizing our customer mix and increasing training opportunities for our employees.

REVIEW OF INTERIM RESULTS

As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors. The principal duties of the Audit Committee include the review and supervision of the Company's and the Group's financial reporting system and internal control procedures and review of the Company's and the Group's financial information. The unaudited condensed consolidated financial results of the Company for the six months ended 30 June 2016 has been reviewed by the Audit Committee.

The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2016 had been reviewed by the Company's external auditors, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website (<http://www.huajin-hk.com>) and the website of the Stock Exchange (<http://www.hkexnews.hk>). The Company's interim report for the six months ended 30 June 2016 will be made available on the websites of the Company and the Stock Exchange and will be despatched to the shareholders in due course.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our shareholders for their continuing support, and extend our sincere appreciation to all management and staff for their ongoing dedication, commitments and contributions.

By Order of the Board
Huajin International Holdings Limited
Xu Songqing
Chairman

Hong Kong, 29 July 2016

As at the date of this announcement, the board of directors of the Company is comprised of Mr. Xu Songqing (Chairman), Mr. Luo Canwen (Chief Executive Officer), Mr. Chen Chunniu and Mr. Xu Songman as executive directors, and Mr. Goh Choo Hwee, Mr. Tam Yuk Sang Sammy and Mr. Wu Chi Keung as independent non-executive directors.