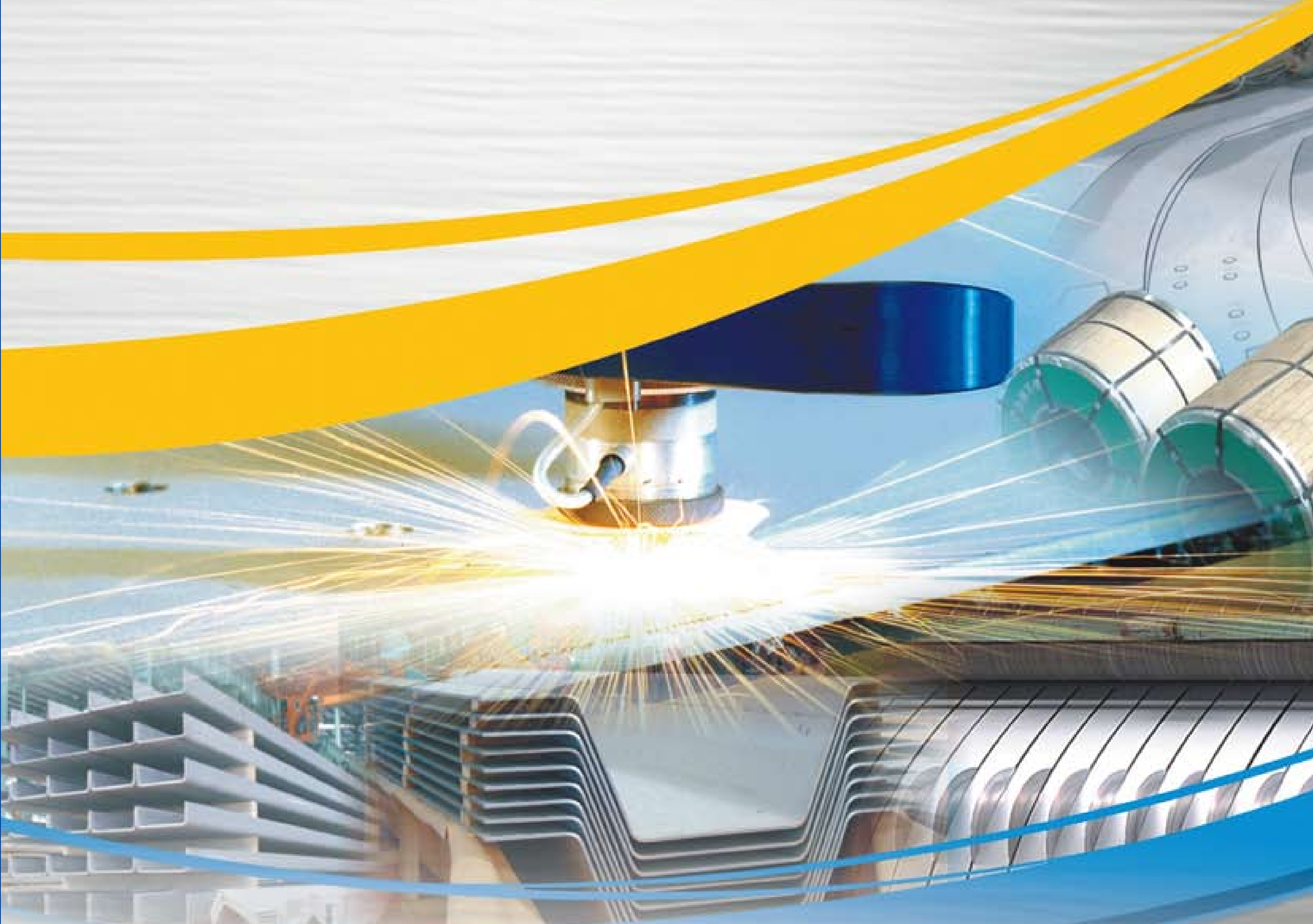
大明

# DA MING INTERNATIONAL HOLDINGS LIMITED

( Incorporated in the Cayman Islands with limited liability )

**Stock code : 1090**

# 2010 Annual Report



# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**
Mr. Zhou Keming *(Chairman)*
Ms. Xu Xia
Mr. Qian Li
Mr. Zou Xiaoping
Mr. Tang Zhonghai

**Non-executive Director**
Mr. Jiang Changhong

**Independent Non-executive Directors**
Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang

## COMPANY SECRETARY
Mr. Leung Man Fai

## AUTHORISED REPRESENTATIVES
Mr. Zou Xiaoping
Mr. Leung Man Fai

## AUDIT COMMITTEE
Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang

## REMUNERATION COMMITTEE
Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Zou Xiaoping

## NOMINATION COMMITTEE
Prof. Hua Min
Mr. Chen Xuedong
Mr. Cheuk Wa Pang
Mr. Zou Xiaoping

## REGISTERED OFFICE IN THE CAYMAN ISLANDS
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA
No. 1518, Tong Jiang Road
Wuxi, Jiangsu
People's Republic of China

## PLACE OF BUSINESS IN HONG KONG
Suite 1007, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

## LEGAL ADVISERS TO THE COMPANY

**As to Hong Kong Law**
Deacons
5/F, Alexandra House
18 Chater Road
Central
Hong Kong

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

## HONG KONG SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## AUDITOR
PricewaterhouseCoopers
*Certified Public Accountants*
22nd Floor, Prince's Building
Central
Hong Kong

## COMPLIANCE ADVISER
Shenyin Wanguo Capital (H.K.) Limited
28/F, Citibank Tower,
Citibank Plaza
3 Garden Road,
Central
Hong Kong

## PRINCIPAL BANKERS

**In Hong Kong**
China Construction Bank Hong Kong Branch
Bank of China (Hong Kong) Limited

**In China**
Agricultural Bank of China, Xishan Branch
China CITIC Bank, Wuxi Guangsui Road Branch

## STOCK CODE
1090

## WEBSITE
http://www.dmssc.net

# BUSINESS MILESTONES

## 2003

Our first processing centre commenced operation in Wuxi, Jiangsu providing stainless steel processing services to customers in the eastern region of China

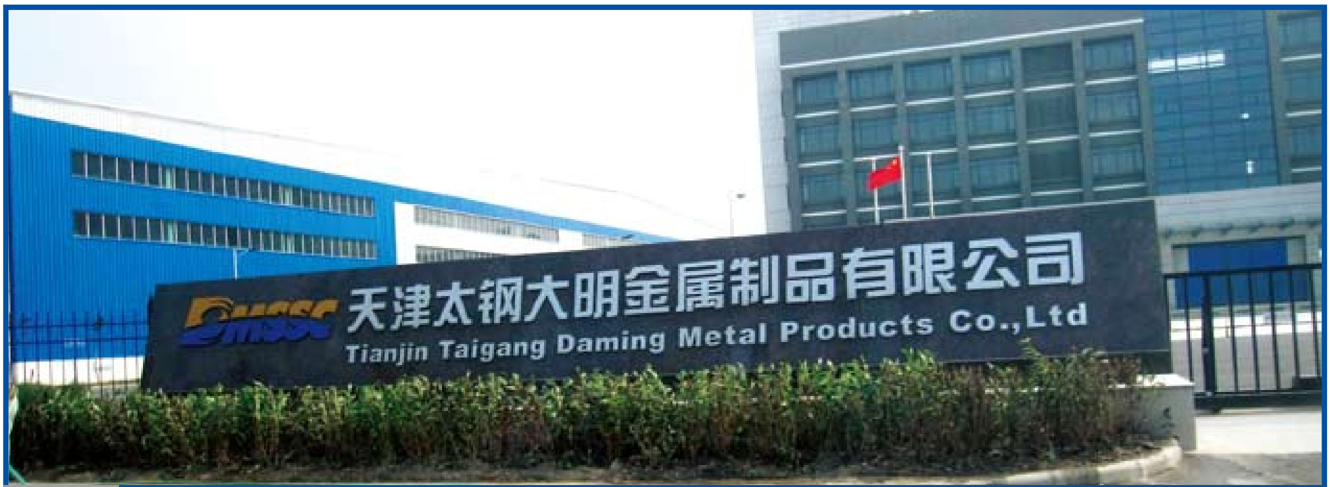
## 2007



Second and third processing centres commenced operation in Wuhan and Hangzhou extending the Group's network outside Jiangsu Province

## Business Milestones

# 2009




Fourth processing centre, our first joint venture company with Shanxi Taigang Stainless Steel Co., Ltd. commenced operation in Tianjin exploring the northern China market

# 2010

Our company was successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 1 December 2010

# FINANCIAL HIGHLIGHTS

| | 2010<br>*RMB'000* | 2009<br>*RMB'000* | *% change* |
|---|---|---|---|
| Revenue | **8,972,581** | 6,447,357 | +39.2% |
| Gross profit | **461,465** | 379,527 | +21.6% |
| Operating profit | **355,734** | 283,613 | +25.4% |
| Profit attributable to equity holders of the Company | **235,507** | 203,498 | +15.7% |
| Basic earnings per share (expressed in RMB per share) | **0.30** | 0.27 | +11.1% |
| Diluted earnings per share (expressed in RMB per share) | **0.30** | 0.27 | +11.1% |

| | **2010** | 2009 | % change |
|---|---|---|---|
| Sales volume | **475,797 tons** | 419,806 tons | +13.3% |
| Processing volume | **539,321 tons** | 447,755 tons | +20.5% |
| Processing volume to sales volume ratio | **1.134** | 1.067 | +6.3% |

| | **2010** | 2009 |
|---|---|---|
| Current ratio *(note 1)* | **1.21** | 0.97 |
| Gearing ratio *(note 2)* | **25.2%** | 31.3% |
| Inventory turnover days *(note 3)* | **42 days** | 33 days |
| Trade receivables turnover days *(note 4)* | **6 days** | 6 days |
| Trade payables turnover days *(note 5)* | **40 days** | 31 days |
| Return on equity *(note 6)* | **22.2%** | 30.8% |

*Notes:*

1) Current ratio = current assets/current liabilities

2) Gearing ratio = net debt/(total equity + net debt) * 100%

3) Inventory turnover days = ((inventory balance at the beginning of the year + inventory balance at the end of the year)/2)/cost of sales for the year * 365

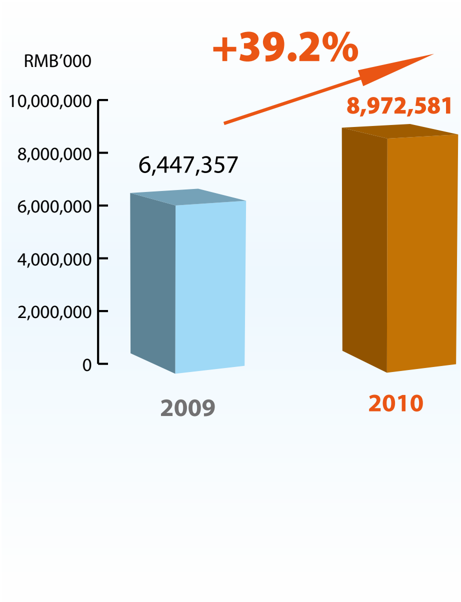
4) Trade receivables turnover days = ((trade receivables balance at the beginning of the year + trade receivables balance at the end of the year)/2)/revenue for the year * 365

5) Trade payables turnover days = ((trade payables balance at the beginning of the year + trade payables balance at the end of the year)/2)/cost of sales for the year * 365

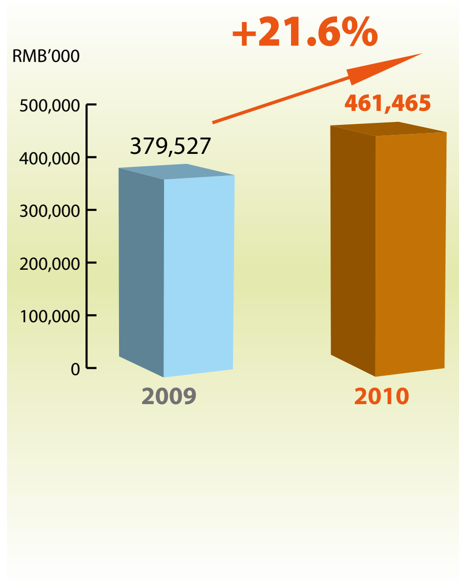
6) Return on equity = profit for the year/((equity balance at the beginning of the year + equity balance at the end of the year)/2) * 100%

# Financial Highlights

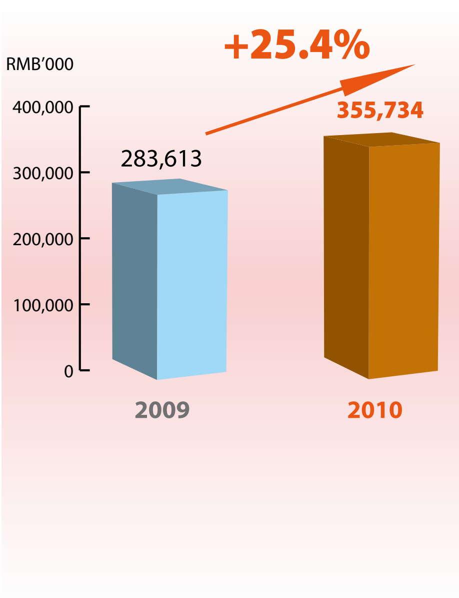
## Revenue



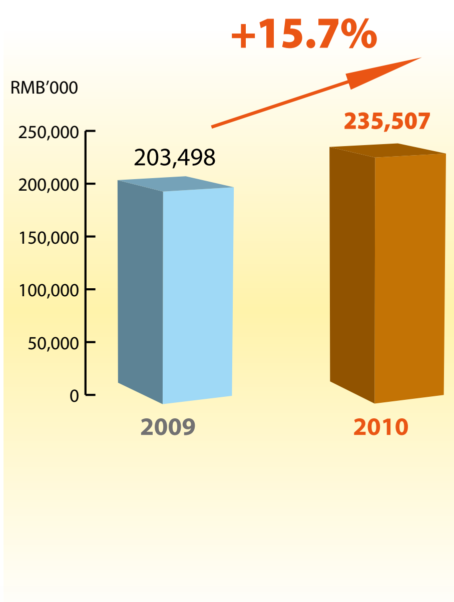

## Gross profit




## Operating profit




## Profit attributable to equity holders of the Company



# CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board of directors of Da Ming International Holdings Limited ("the Company", together with its subsidiaries as the "Group"), I hereby present to the shareholders the first annual report of the Company for the year ended 31 December 2010.

The Company was successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 1 December 2010 (the "IPO"), which allows the Company to enter into a new stage of development. The Company's leading position in the industry, strong performance and good prospects are well received by investors, leading to net proceeds of approximately HK$553.4 million raised from the IPO. Not only does the listing help to promote the Company's business expansion, brand promotion and corporate governance, it also provides opportunities for investors to share in the Company's development.

# Chairman's Statement

## BUSINESS REVIEW

In 2010, the Company has made great progress in increasing its processing capacity and product variety and in improving its processing technology. The heavy machinery platform has started construction in April 2010. The ground work for the processing centre of 30,000 sq.m. was basically completed by the end of the year and the installation of equipment has been started. The Company introduced some advanced processing equipment such as three roller coiling machine, four roller coiling machine, bending machine of 3,000 tons, five-sided gantry processing centre, large floor type boring and milling machine, flat machine and wafer machine. The Company further optimized stainless steel cutting, surface polishing, cutting and forming process platform, focusing on building machining platform to further enhance the processing capability.

The total processing volume of our four processing centres achieved approximately 539,000 tons in 2010 as compared with approximately 448,000 tons in 2009 representing an increase of 20.5%. On the other hand, a total sales volume of approximately 476,000 tons was recorded in 2010 as compared with approximately 420,000 tons in 2009 representing an increase of 13.3%.

The annual sales volume of the Group in 2010 increased by approximately 13.3% as compared with 2009, and annual sales was approximately RMB8,972.6 million, representing a year-on-year increase of approximately 39.2%. Profit reached approximately RMB237.6 million, representing an increase of approximately 16.8% compared to 2009, hence laying a solid foundation for future development of the Company.

## OUTLOOK

The national policies and the economic development of the People's Republic of China ("PRC") have driven the development of the metal deep processing industry. To achieve the "Twelfth Five-Year" emission reduction targets set by the PRC government, the PRC government has requested to accelerate the restructuring of the steel industry. Developing the deep processing and enhancing the processing rate of steel materials are important objectives in accelerating the restructuring of the steel industry. As a result, processing centres become increasingly prominent in the development of China's manufacturing industry. They also play an important role in enhancing efficiency of the manufacturing enterprises. Expansion in processing centres by the Company is in line with the development trend of the business model.

## Chairman's Statement

The processing centre can also act as the iron and steel logistics base, not only will it be able to improve the efficiency of raw material sourcing and shorten the time required for delivery, it can also help the Company to better understand customers' needs and provide them with tailor-made services.

The PRC government clearly stated in the "Adjustment and Revitalization Plan for the Equipment Manufacturing Industry" that by 2010, it would aid development of large competitive equipment manufacturing enterprises to meet requirements from the energy, transportation, raw materials, national defence and other sectors. The Company plans to leverage on its regional advantages and industry consolidation trend to form equipment manufacturing centres with well-known brands.

In addition to developing processing centres, the Company has made every effort to improve its support capacity for the basic equipment manufacturing industry. This has resulted in the creation of a unique processing platform that supports locomotive, chemical tankers and other heavy equipment manufacturers. The Company will continue to expand in this direction in the coming years.

Over the years, the Company has maintained friendly relationships and correspondence with major stainless steel suppliers. Such ties have helped to address issues ranging from providing support to users to develop the steel market and providing services to the market. Consequently, many stainless steel suppliers have become strategic partners of the Company. In future, the Company will adhere to this cooperative policy strengthening ties with stainless steel suppliers to increase market share.

In the coming year, the Company will remain committed to developing specialized processing operations, such as heavy equipment supporting parts processing, high-strength steel processing and chemical tanker ship plate processing. The Company will also provide users with a personalized products processing platform and make every effort to bolster the capabilities of its short-process integrated service improving customer satisfaction.

The Company plans to further expand new operating platforms to speed up construction of heavy machinery platforms, expand machine processing platform, construct new flat bar steel, carbon steel and welding service platforms, and develop copper, aluminium, titanium and other non-ferrous metals and alloy processing platforms.

In the coming year, the Company plans to complete construction of the Phase 5 of the heavy machinery platform at the Wuxi processing centre and start the construction of Phase 6 of the welding and other processing platform. In the first half of 2011, the Company will complete the planning for Phase 2 of the Hangzhou processing centre, and the carbon steel processing centre in Jingjiang, Jiangsu. In the coming year, the Company may consider establishing processing centres in other regions. The Company also plans to launch a processing business involving carbon steel, titanium, copper, aluminium and other metals in the second quarter of 2011.

# Chairman's Statement

## APPRECIATION

On behalf of the board, I would like to thank the management and staff for their relentless contributions to the Company, and to the shareholders for their support to the Company. The Company will make every effort to maximize shareholders' return.

**Zhou Keming**
*Chairman*

Hong Kong,
25 March 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Overview

We are a leading independent stainless steel services provider in China which acts as a link between the stainless steel producers and the manufacturing customers within the value chain.

Stainless steel producers typically sell their products in the form of standard-sized coils and plates. As stainless steel production is capital-intensive, to reduce cost and increase efficiency, stainless steel producers generally do not provide direct supply and delivery to manufacturing customers with small orders. The trend towards producing more standardized products to reduce production down-time means that stainless steel producers are becoming less flexible in providing customized products and services to end users. We believe that stainless steel end users are increasingly seeking to purchase from "one-stop" suppliers like us who can provide customized specifications, including value-added processing, in smaller volumes, on shorter lead times and with more reliable deliveries.

### Processing centres

We have a network of four processing centres situated in Wuxi, Hangzhou, Wuhan and Tianjin providing a wide variety of processing services to our customers, including coil cutting, coil slitting, surface polishing, plate cutting, forming and machining. Our customer base comprises more than 6,000 customers from industries including machineries, petrochemical, home hardware and appliances, automobile and transport, construction and renewable energy. Our broad and diversified customer base allows us to capture growth in various industries, while at the same time reduces our business concentration risk from any unexpected downturn in a particular industry.

## Management Discussion and Analysis

The sales volume and processing volume of our processing centres for the years ended 31 December 2010 and 2009 are as follows:

### Sales volume

| Processing centre | Year ended 31 December<br>**2010**<br>***tons*** | <br>2009<br>*tons* | *% change* |
|---|---|---|---|
| Wuxi | **330,321** | 315,480 | +4.7% |
| Wuhan | **22,938** | 24,126 | -4.9% |
| Hangzhou | **67,655** | 62,699 | +7.9% |
| Tianjin | **54,883** | 17,501 | +213.6% |
| | **475,797** | 419,806 | +13.3% |

### Processing volume*

| Processing centre | Year ended 31 December<br>**2010**<br>***tons*** | <br>2009<br>*tons* | *% change* |
|---|---|---|---|
| Wuxi | **432,558** | 391,530 | +10.5% |
| Wuhan | **6,856** | 4,413 | +55.4% |
| Hangzhou | **65,439** | 43,915 | +49.0% |
| Tianjin | **34,468** | 7,897 | +336.5% |
| | **539,321** | 447,755 | +20.5% |

The increase in our total processing volume and total sales volume in 2010 was mainly due to the contribution from our Tianjin processing centre which started to operate on a full-year basis in 2010. Tianjin processing centre will become the regional centre of the Group in exploring the northern China market.

* processing volume is equal to weight of products processed x number of processing steps required

On the other hand, our Wuxi processing centre remained to be the largest revenue contributor in our Group for 2010. Wuxi processing centre was the regional centre of the Group providing processing services to customers mainly in the eastern region of China. Similar to the previous year, the year ended 31 December 2010 saw the revenue from the eastern region of China accounted for over 75% of our Group's revenue.

Processing volume to sales volume ratio increased from 1.067 in 2009 to 1.134 in 2010, representing an increase of approximately 6.3%, showing an increase in demand of processing services per sale transaction. The increase in sales volume and increase in this processing volume to sales volume ratio will be the two drives for our revenue growth in future.

## FINANCIAL REVIEW AND ANALYSIS

During the year under review, we recorded a revenue of approximately RMB8,972.6 million, gross profit of approximately RMB461.5 million and the profit attributable to equity holders of the Company of approximately RMB235.5 million. Total assets of the Group as at 31 December 2010 amounted to approximately RMB3,703.7 million while equity attributable to equity holders of the Company amounted to approximately RMB1,426.6 million.

### Revenue

Our revenue increased by approximately RMB2,525.2 million, or 39.2%, from approximately RMB6,447.4 million in 2009 to approximately RMB8,972.6 million in 2010. Such increase was due to an increase of sales volume from 419,806 tons in 2009 to 475,797 tons in 2010 as well as an increase in the average selling prices of our stainless steel products from RMB15,358 per ton in 2009 to RMB18,858 per ton in 2010.

The increase in sales volume was mainly due to the increased sales volume of our Tianjin processing centre which started to operate on a full-year basis in 2010 and the increased sales volume of our Wuxi processing centre. With the strong recovery of PRC market in different industries in 2010, we were able to increase our market share and to expand our range of processing services by the introduction of new processing equipments focused on deep processing services.

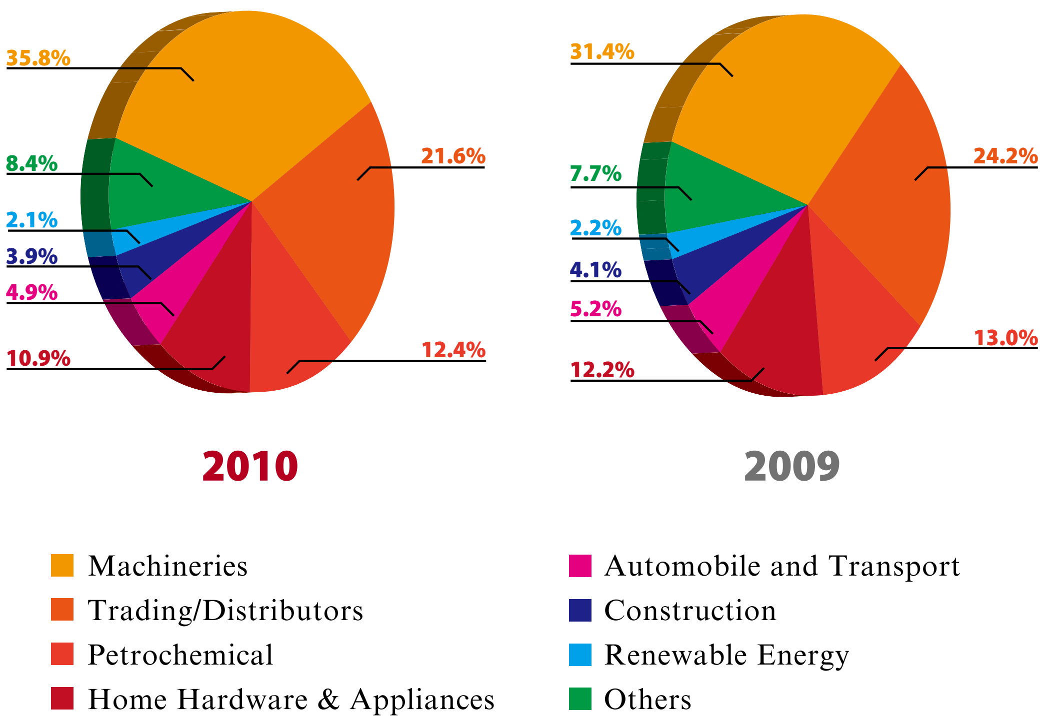
The increase in the average selling prices of our stainless steel products was attributable to the increase in the average market prices of stainless steel materials as well as the increased processing fees charged to our customers.

## Management Discussion and Analysis

### Analysis of revenue by key industry segments

During the year under review and the year ended 31 December 2009, our revenue by key industry segments are shown below:

| | Revenue For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| Industry | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Machineries | **3,214,294** | **35.8** | 2,024,064 | 31.4 |
| Trading/Distributors | **1,936,437** | **21.6** | 1,557,605 | 24.2 |
| Petrochemical | **1,115,503** | **12.4** | 839,798 | 13.0 |
| Home Hardware & Appliances | **977,772** | **10.9** | 784,197 | 12.2 |
| Automobile and Transport | **436,027** | **4.9** | 335,225 | 5.2 |
| Construction | **350,894** | **3.9** | 267,017 | 4.1 |
| Renewable Energy | **184,204** | **2.1** | 144,280 | 2.2 |
| Others | **757,450** | **8.4** | 495,171 | 7.7 |
| Total | **8,972,581** | **100.0** | 6,447,357 | 100.0 |

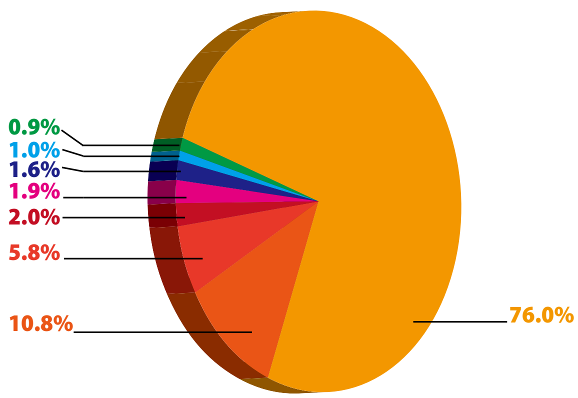



The four largest customer segments during the years ended 31 December 2010 and 2009 were machineries, trading/distributors, petrochemical and home hardware & appliances which, in aggregate, accounted for over 80% of our total revenue.

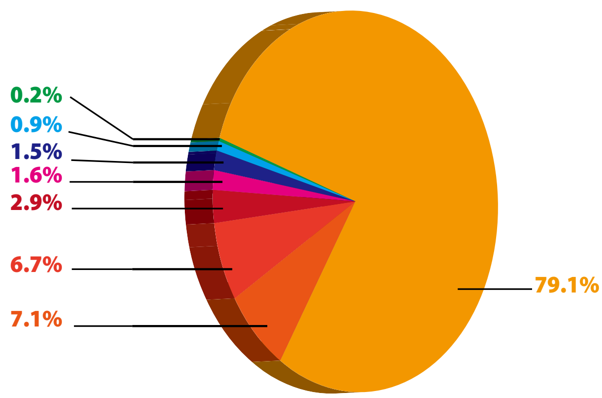
## Management Discussion And Analysis

**Analysis of revenue by geographical regions**

| | Revenue For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| Region | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Eastern region, China | **6,815,440** | **76.0** | 5,101,982 | 79.1 |
| Northern region, China | **966,139** | **10.8** | 460,498 | 7.1 |
| Central region, China | **519,301** | **5.8** | 430,123 | 6.7 |
| Southwestern region, China | **183,436** | **2.0** | 184,383 | 2.9 |
| Northeastern region, China | **169,488** | **1.9** | 103,239 | 1.6 |
| Northwestern region, China | **147,098** | **1.6** | 94,592 | 1.5 |
| Southern region, China | **91,481** | **1.0** | 59,377 | 0.9 |
| Overseas | **80,198** | **0.9** | 13,163 | 0.2 |
| | **8,972,581** | **100.0** | 6,447,357 | 100.0 |




**2010**




**2009**

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

Our stainless steel products are sold mainly to domestic customers. As illustrated above, a majority of our sales during the years ended 31 December 2010 and 2009 was derived from the eastern region of China, which was in line with where the majority of stainless steel was consumed in China.

# Management Discussion and Analysis

## Gross profit

Gross profit increased from approximately RMB379.5 million in 2009 to approximately RMB461.5 million in 2010 due to the increases in sales volume and the raising processing fee per ton as well as an improvement in cost control implemented in 2010. Gross profit per ton increased from RMB904 in 2009 to RMB970 in 2010 representing an increase of approximately 7.3% primarily due to the increased customers' demand in in-depth processing services after the installation of additional production facilities in 2010 capable of providing more advanced processing services.

## Other income

Other income increased from approximately RMB5.0 million in 2009 to approximately RMB25.9 million mainly due to the increase in subsidy income of approximately RMB17.5 million granted by local government in 2010 and the increase of approximately RMB3.5 million in the sales of packaging materials.

## Other (losses)/gains, net

Other losses amounted to approximately RMB6.3 million in 2010 as compared with other gains of approximately RMB0.5 million in 2009. The net losses in 2010 mainly represent exchange losses resulting from appreciation of Renminbi against Hong Kong dollars denominated bank deposits from the issue of shares through placing and public offering of the Company's shares in Hong Kong.

## Distribution costs

Distribution costs increased slightly from approximately RMB50.4 million in 2009 to approximately RMB52.5 million in 2010. The increase was mainly due to an increase in transportation expenses and entertainment expenses of approximately RMB5.4 million, resulting from higher level of sales in 2010, which was partially offset by a decrease of employee benefit expenses of approximately RMB4.6 million in 2010. The decrease in employee benefit expenses was primarily due to the termination of our sales incentive plan, which was implemented from 2008 to 2009 to encourage our sales force to try to secure more sale orders in response to the then global economy downturn.

## Administrative expenses

Administrative expenses increased from approximately RMB51.0 million in 2009 to approximately RMB72.8 million in 2010 mainly due to the listing expenses of approximately RMB5.7 million and the increases in employee benefit expenses and depreciation expenses of approximately RMB8.7 million as a result of business expansion.

## Finance costs-net

Finance costs increased from approximately RMB20.4 million in 2009 to approximately RMB41.0 million in 2010 mainly due to the increase in interest expenses on bank borrowings and bank acceptance notes. The increases in bank borrowings and bank acceptance notes were attributable to the additional financing required for increased inventory level as a result of the growth in sales volume and increased average purchasing price as well as increased prepayment to suppliers for the purpose of locking the purchase price of January in 2011.

## Management Discussion And Analysis

### Income tax expense

Income tax expense increased from approximately RMB59.8 million in 2009 to approximately RMB77.1 million in 2010 mainly attributable to the increase in operating profit and the increase in effective income tax rate resulting from the expiration of tax free incentive of certain operating subsidiaries.

### Profit for the year

Profit for the year increased from approximately RMB203.4 million in 2009 to approximately RMB237.6 million in 2010 representing an increase of approximately 16.8%.

### Capital expenditure

In 2010, our capital expenditure consisted of additions of property, plant and equipment as well as land use rights which amounted to approximately RMB304.6 million. (2009: RMB226.8 million).

### Foreign exchange risk management

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

Our Group did not use any forward contract or other instruments to hedge its foreign currency exposure. Our management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts.

## LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 31 December 2010, the short term bank borrowings of the Group amounted to approximately RMB868.2 million. Bank acceptance notes amounted to approximately RMB1,119.8 million as at 31 December 2010 while the bank balances were approximately RMB787.0 million of which approximately RMB408.0 million were pledged mainly for bank borrowings and the issuance of bank acceptance notes and letter of credit.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

Total capital is calculated as total equity plus net debt. The gearing ratios at 31 December 2010 and 2009 calculated on this basis were 25.2% and 31.3% respectively.

The decrease in the gearing ratio during 2010 resulted primarily from the issue of shares through placing and public offering of the Company's shares in Hong Kong.

# Management Discussion and Analysis

## SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

For the year ended 31 December 2010, the Group did not have any material acquisitions and disposals of assets.

## CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabillities.

## USE OF PROCEEDS FROM GLOBAL OFFERING

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2010 with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option). The net proceeds from the global offering of approximately HK$553.4 million will be utilized for the following purposes:

- Approximately 35%, or HK$193.7 million, is expected to be used for the purchase of processing equipment, in particular, processing facilities for the machining platform for the fifth phase and sixth phase of our processing centre in Wuxi, Jiangsu.

- Approximately 15%, or HK$83.0 million, is expected to be used for the development of a new processing centre in Changsha, Hunan, with an aggregate site area of 80,000 sq.m., the construction of which is expected to commence in 2011.

- Approximately 30%, or HK$166.0 million, is expected to be used for the construction and development of a new processing and logistics complex in Jingjiang, Jiangsu with an aggregate site area of 530,000 sq.m., the construction of which is expected to commence in 2012.

- Approximately 10%, or HK$55.3 million, is expected to be used for the construction and development of the second phase of our processing centre in Hangzhou.

- Approximately 10%, or HK$55.3 million, is expected to be used for general working capital and general corporate purposes.

As at 31 December 2010, approximately RMB33.5 million had been applied towards the purchase of processing equipment and the construction of the fifth phase of our processing centre in Wuxi and approximately RMB14.1 million had been used for the development of the second phase of our processing centre in Hangzhou. The remaining balances of the proceeds from the global offering which were not immediately required for the above purposes were held in short-term deposits with licensed banks in Hong Kong.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Company has, save as disclosed below, complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period from 1 December 2010 (the date of listing of the Company) to 31 December 2010.

## MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the period from 1 December 2010 (the date of listing of the Company) to 31 December 2010.

## BOARD OF DIRECTORS

### Composition

The board of Directors of the Company (the "Board") comprises 5 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. As of 31 December 2010, the Directors are as follows:

| *Executive Directors* | *Non-executive Director* | *Independent Non-executive Directors* |
|---|---|---|
| Mr. Zhou Keming *(Chairman)* | Mr. Jiang Changhong | Prof. Hua Min |
| Ms. Xu Xia | | Mr. Chen Xuedong |
| Mr. Qian Li | | Mr. Cheuk Wa Pang |
| Mr. Zou Xiaoping | | |
| Mr. Tang Zhonghai | | |

The biographical details of the Directors are set out on pages 25 to 27 of this Annual Report. Save as Ms. Xu Xia is the spouse of Mr. Zhou Keming, none of the members of the Board is related to one another.

# Corporate Governance Report

## BOARD MEETING

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

Since the listing of the Company on 1 December 2010 and up to the date of this report, two Board meetings were convened. The individual attendance record of each Director at the meetings of the Board is set out below:

| | **No. of meeting attended/ No. of meeting held** |
|---|---|
| **Executive Directors** | |
| Mr. Zhou Keming *(Chairman)* | 1/2 |
| Ms. Xu Xia | 1/2 |
| Mr. Qian Li | 1/2 |
| Mr. Zou Xiaoping | 2/2 |
| Mr. Tang Zhonghai | 2/2 |
| **Non-executive Director** | |
| Mr. Jiang Changhong | 1/2 |
| **Independent Non-executive Directors** | |
| Mr. Cheuk Wa Pang | 1/2 |
| Prof. Hua Min | 1/2 |
| Mr. Chen Xuedong | 1/2 |

## BOARD OPERATIONS

The Board is accountable to the shareholders and has responsibility for strategic leadership, directing and overseeing all major matters of the Group. The day-to-day management, administration and operation of the Company are delegated to the senior management of the Company. Directors and senior management hold regular meetings to ensure the strategies and policies set out by the Board are implemented effectively.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the reporting period, the positions of the chairman and the chief executive officer were held by Mr. Zhou Keming.

Mr. Zhou is the founder of the Group and has extensive knowledge in the stainless steel industry. Having considered the current development of the Group and be responsive to the fast and myriad changes in the business environment, the Board believes that vesting the dual roles in the same person provides the Company with strong and consistent leadership in the development and execution of long term business strategies.

In addition, there is a general manager in each of our Wuhan, Hangzhou and Tianjin offices to assist the chief executive officer to manage the daily operations of the respective processing centres.

Furthermore, each business operating unit has one or more executive Directors or senior officers responsible for implementing the policies and strategies set out by the Board in order to ensure the smooth day-to-day management of the Group.

With the above reasons, the Company is of the view that Mr. Zhou Keming, with his profound expertise in the stainless steel industry, shall continue in his dual capacity as the chairman and chief executive officer of the Company. The Board would nevertheless review this arrangement from time to time in light of prevailing circumstances.

## NON-EXECUTIVE DIRECTORS

The terms of office of the non-executive Director and independent non-executive Directors have been fixed for a specific term for three years commencing from the listing date i.e. 1 December 2010. They are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company (the "Articles").

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

From 1 December 2010 (the date of listing of the Company), the Board met the requirements of the Listing Rules in relation to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional accounting qualifications, or accounting, or related financial management expertise.

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

## BOARD COMMITTEES

The Board has set up three board committees, namely, the audit committee, the remuneration committee and the nomination committee, for overseeing different aspects of the Company's affairs.

## REMUNERATION COMMITTEE

The remuneration committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the remuneration committee are available on the Company's website. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The remuneration committee comprises the three independent non-executive Directors, namely, Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the remuneration committee.

As the Company was only listed on 1 December 2010, no meeting was held by the remuneration committee during the year ended 31 December 2010.

From 2011 onwards, the remuneration committee will conduct meeting at least once a year.

## NOMINATION COMMITTEE

The nomination committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the nomination committee are available on the Company's website. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of Directors and senior management. The nomination committee comprises the three independent non-executive Directors, namely, Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the nomination committee.

As all of the present Directors were appointed prior to the date of listing of the Company, no meeting was held by the nomination committee during the year ended 31 December 2010.

From 2011 onwards, the nomination committee will conduct meeting at least once a year.

## AUDIT COMMITTEE

The audit committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the audit committee are available on the Company's website. The primary duties of the audit committee are to review and supervise our Group's financial reporting process and internal control system. The audit committee comprises the three independent non-executive Directors, namely, Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong. Mr. Cheuk Wa Pang is the chairman of the audit committee.

As the Company was only listed on 1 December 2010, no meeting was held by the audit committee during the year ended 31 December 2010.

The audit committee has reviewed the Group's 2010 results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending 31 December 2011 at the forthcoming AGM. From 2011 onwards, the audit committee will conduct meeting at least twice a year.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2010, the remuneration paid or payable to the auditor of the Company, PricewaterhouseCoopers in respect of their audit services were RMB1,980,000.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the consolidated financial statements of the Group for the year ended 31 December 2010.

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

Corporate Governance Report

## SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

The chairman of the Board will attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees to be available to answer questions at the AGM.

In respect of each substantial issue at a general meeting, a separate resolution will be proposed by the chairman of that meeting.

In order to ensure shareholders are familiar with the detailed procedures for conducting a poll, an explanation will be given by the chairman at the commencement of the meeting. The results of the poll will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited.

The Company's announcements, circulars and other information are available on the Company's website http://www.dmssc.net, which provide the shareholders with the latest information of the Company.

## INTERNAL CONTROL

To safeguard the shareholders' investment and the Company's assets, the Board is aware of the importance of maintaining sound and effective internal control systems. The management has reviewed the effectiveness of financial, operation and compliance controls as well as risk management from time to time and the Board has reviewed those results during the year ended 31 December 2010. The Board considered the procedures of internal controls and the risk management systems were implemented effectively.

From 2011 onwards, the audit committee will oversee the Group's financial reporting system, internal control procedures as well as risk management function and report to the Board at least once annually.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Zhou Keming**, aged 41, was appointed as an executive Director on 14 February 2007. He is also the chairman of the Company and the chief executive officer of our Group. Mr. Zhou is one of the founders of our Group and is responsible for our Group's overall business strategy. He has over 22 years of experience in the steel industry. Mr. Zhou was qualified as a senior economist in 2007 by The Appraisal Committee for Senior Economic Technical Qualification of Jiangsu. He is the husband of Ms. Xu Xia, executive Director of the Company.

**Ms. Xu Xia**, aged 36, was appointed as an executive Director on 14 February 2007. She is one of the founders of our Group. Ms. Xu joined our Group in 1998 and is responsible for the overall sales and business development of our Group. She has over 11 years of experience in the steel industry. Ms. Xu graduated from China Textile University (currently known as Donghua University) in 1995 with a diploma in Trading Operation. She is the wife of Mr. Zhou Keming, chairman of the Company.

**Mr. Qian Li**, aged 36, was appointed as an executive Director on 9 March 2007. Mr. Qian joined our Group in 1998 and is responsible for procurement, stainless steel raw materials cost monitoring and quality assurance of our Group. He is also responsible for the import and export trading of our Group and the coordination with the relevant authorities and institutions. He has over 11 years of experience in the steel industry. Mr. Qian graduated from Nanjing Chemical School (currently known as Nanjing College of Chemical Technology) in 1994 with a diploma in Computer Science and Computer Application.

**Mr. Zou Xiaoping**, aged 46, was appointed as an executive Director on 9 March 2007. Mr. Zou joined our Group in 2002 and is responsible for our Group's overall management, administration and operation. Prior to joining our Group, Mr. Zou worked at Local Tax Bureau, Qianzhou Town, Xishan District from 1986 to 2002 on taxation matters and was granted a certificate for having undergone the in-service taxation training offered to the civil servants in 2000, when serving as the assistant to the head of the Bureau. Mr. Zou has over 16 and 8 years of experience in taxation and corporate management respectively. He graduated from Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party with a Bachelor of Laws degree in 2004 and obtained a Master of Business Administration degree from Asia International Open University (Macau) (currently known as City University of Macau) in 2005.

# Profile of Directors and Senior Management

**Mr. Tang Zhonghai**, aged 52, was appointed as an executive Director on 3 July 2010. Mr. Tang joined our Group in 2003 and is responsible for the management of stainless steel processing and manufacturing technology as well as the operation of our Group. Prior to joining our Group, Mr. Tang was the deputy factory director of Jiangmen City Rixin Stainless Steel Material Factory Co., Ltd from 1993 to 2001. He has over 17 years of experience in the steel industry. Mr. Tang graduated from Rocket and Missile Discipline of Eastern China Engineering Institute (currently known as Nanjing University of Science and Technology) in 1982. He was qualified as a mechanical engineer in 1988 by National Machinery Industry Committee and a senior economist in 2007 by The Appraisal Committee for Senior Economic Technical Qualification of Jiangsu.

## NON-EXECUTIVE DIRECTOR

**Mr. Jiang Changhong**, aged 47, was appointed as a non-executive Director on 26 July 2010. He has served Shanxi Taigang Stainless Steel Co., Ltd. ("STSS"), one of our key suppliers, since 1986 to present. He is currently the manager of the sales department of STSS. He has over 21 years of experience in the steel industry. Mr. Jiang graduated from Beijing Steel and Iron Institute (currently known as University of Science and Technology Beijing) with a Bachelor of Engineering degree in Computer Science in 1986. He further obtained a Master of Engineering degree in Computer Application in 1992. Mr. Jiang was accredited by department of Human Resources, Shanxi Province in 1997 as a senior engineer.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor Hua Min**, aged 60, was appointed as an independent non-executive Director on 20 March 2007. He is a professor and doctoral candidates adviser and has taught and conducted research in world economics, China economics and finance at Fudan University since 1990. Currently he is the chairman of Institute of World Economy of Fudan University and chief of the Academic Committee of School of Economics of Fudan University. He has over 20 years of experience in economics. Professor Hua graduated from Fudan University with a Bachelor degree in Political Economics in 1982 and obtained a Doctoral degree in Economics from Fudan University in 1993. Since 2004, Professor Hua has also been an independent non-executive director and a member of the audit committee of Shanghai International Shanghai Growth Investment Limited (stock code: 770), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited.

**Mr. Chen Xuedong**, aged 46, was appointed as an independent non-executive Director on 3 July 2010. He is currently the head of research department and the head of research institute of Hefei General Machinery Research Institute and has been serving as the party secretary of the same institute since 2009. Mr. Chen has attained the qualification of professor level senior engineer in 1999 and was qualified as a researcher in 2002. Since 2003, Mr. Chen has served as head of National Safety Engineering Technology Research Centre for Pressure Vessels and Pipelines. Mr. Chen graduated from Zhejiang University with a Bachelor degree in Chemical Engineering in 1986. He then obtained a Master degree and Doctoral degree in Chemical Engineering at Zhejiang University in 1995 and 2004, respectively. Mr. Chen has obtained over 24 years of experience in engineering.

**Mr. Cheuk Wa Pang**, aged 46, was appointed as an independent non-executive Director on 20 March 2007. Mr. Cheuk has been the chief financial officer, the qualified accountant and the company secretary of Lee Kee Holdings Limited (stock code: 637), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited. He was also appointed as a financial controller of Lee Kee Group Ltd, a wholly-owned subsidiary of Lee Kee Holdings Limited. He has over 15 years of experience in accounting and auditing. Mr. Cheuk holds a Bachelor of Science degree in Engineering from the University of Hong Kong, a Master degree in Applied Finance and a Master degree in Business Administration from Macquarie University in Australia. Mr. Cheuk is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants of England and Wales.

## SENIOR MANAGEMENT

**Mr. Leung Man Fai**, aged 46, is the chief financial officer and company secretary of our Group. Mr. Leung joined our Group in March 2007. He has over 20 years of experience in accounting and finance. Mr. Leung received a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

**Mr. Zhou Xiaodong**, aged 35, is the general manager of Wuhan Fortune Express Metal Products Co., Ltd. and is responsible for its management and operation. Mr. Zhou joined our Group in 1995 and was appointed to his current position in January 2010. Prior to this, he had served as the project manager and deputy general manager in 2006 and 2007 respectively. In 2007 he was also appointed as the general manager of Jiangsu Daming Wuhan Branch and has been responsible for its overall management and operation. Mr. Zhou has over 15 years of experience in the steel industry.

**Mr. Lv Shihui**, aged 37, is the general manager of Hangzhou Wanzhou Metal Products Co., Ltd. ("Hangzhou Wanzhou") and is responsible for its overall management and operation. Mr. Lv graduated from the Metal Pressure and Processing profession of Wuhan Steel College. Mr. Lv joined our Group in 2006 and was appointed to his current position in 2010. Prior to this, he had been the deputy general manager of Hangzhou Wanzhou since 2007. He was awarded first class honour in Science Technology of China Mechanical Industry jointly by China Mechanical Engineering Society and China Machinery Industry Federation in 2001. In 2008, Mr. Lv was granted a patent by State Intellectual Property Office of the PRC for the specific device invented for automatic checking of stow capacity and malfunction. Mr. Lv has obtained over 16 years of experience in the steel industry.

## Profile of Directors and Senior Management

**Mr. Situ Shunxin**, aged 44, is the general manager of Tianjin Taigang Daming Metal Products Co., Ltd. ("Tianjin Taigang Daming") and is responsible for its management and operation. Mr. Situ joined our Group in 2007 and is appointed to his current position in January 2010. He had been the deputy leader of the organising committee of the project management office of Tianjin Taigang Daming since 2007 and the deputy general manger of Tianjin Taigang Daming since 2009. Mr. Situ has obtained over 21 years of experience in the steel industry. Mr. Situ graduated from Wuhan Steel College in 1989 with a bachelor's degree in Metal Pressure and Processing.

# DIRECTORS' REPORT

The Directors are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by operating segment is set out in note 23 to the financial statement.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2010 are set out in the consolidated comprehensive income statement on page 42.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2010.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 17 to the financial statements.

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus, options and accumulated losses which in aggregate amounted to RMB1,291.1 million as at 31 December 2010. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

## DONATIONS

Donations made by the Group during the year amounted to RMB0.9 million.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the Financial Statements.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

## PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in note 7 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 16 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The five largest suppliers accounted for approximately 84.2% of the Group's total purchases for the year and the largest supplier accounted for approximately 45.5% of the Group's total purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major customers or suppliers.

## BORROWINGS

Particulars of borrowings of the Company and its subsidiary companies are set out in Note 21 to the financial statements.

## FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four years is set out in the section headed "Financial summary" on page 120.

## PRE-EMPTIVE RIGHTS

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

## SHARE OPTIONS

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

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

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

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

The exercise price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares.

The Scheme will remain valid and effective for a period of 10 years from 9 November 2010 and the share options granted have a 10-year exercise period. On 21 December 2010, options to subscribe for a total of 6,150,000 shares of the Company were granted pursuant to the Scheme. These options are conditional on the director or employees completing three to five years service. Commencing from the third, fourth and fifth anniversary dates of the date of grant, the relevant grantees may exercise up to 30%, 60% and 100%, respectively, of the shares comprised in his or her option.

# Directors' Report

Movement of the options granted under the Scheme during the year ended 31 December 2010 is as follows:–

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| Name of grantee | Date of grant | Exercise price per share (HK$) | granted | exercised during the year | cancelled/ lapsed during the year | Outstanding as at 31 December 2010 |
| Mr. Tang Zhonghai | 21 December 2010 | 2.452 | 600,000 | – | – | 600,000 |
| Employees | 21 December 2010 | 2.452 | 5,550,000 | – | – | 5,550,000 |
| Total | | | 6,150,000 | – | – | 6,150,000 |

Details of the valuation of share option during the year are set out in Note 18 to the financial statements.

## DIRECTORS

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

### Executive Directors

Zhou Keming *(Chairman)*
Xu Xia
Qian Li
Zou Xiaoping
Tang Zhonghai (appointed on 3 July 2010)
Yu Wenjun (resigned on 3 July 2010)

### Non-Executive Director

Jiang Changhong (appointed on 26 July 2010)

### Independent Non-Executive Directors

Cheuk Wa Pang
Hua Min
Chen Xuedong (appointed on 3 July 2010)
Li Cheng (resigned on 3 July 2010)
Zhu Daoli (resigned on 3 July 2010)

In accordance with Article 83(3) of the Articles, Mr. Zhou Keming, Ms. Xu Xia, Mr. Tang Zhonghai, Mr. Jiang Changhong and Mr. Chen Xuedong shall hold office till the Annual General Meeting ("AGM") and being eligible, will offer themselves for re-election.

In accordance with Article 84 of the Articles, Mr. Qian Li, Mr. Zou Xiaoping and Mr. Cheuk Wa Pang will retire at the forthcoming AGM, and being eligible, will offer themselves for re-election.

The biographical details of Directors are set out on pages 25 to 27 of this Annual Report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group during the year ended 31 December 2010.

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

As at 31 December 2010, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long 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 of the Company |
|---|---|---:|---:|
| Zhou Keming (also Chief Executive Officer) | Corporate [(1)] | 709,275,000 | 68.36% |
| Xu Xia | Corporate [(1)] | 709,275,000 | 68.36% |
| Qian Li | Personal | 7,350,000 | 0.71% |
| Zou Xiaoping | Personal [(2)] | 7,350,000 | 0.71% |
| Tang Zhonghai | Personal [(3)] | 600,000 | 0.06% |

(1) The 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.

(2) The shares are held by Mr. Zou Xiaoping's spouse, Li Jun.

(3) The interests represents the underlying shares in respect of the share options granted pursuant to the Scheme approved by shareholders on 9 November 2010 as disclosed under Share Options above.

(b) Long position in the shares of associated corporation

| Name of Director | Name of associated corporation [(4)] | Nature of interests | Number of shares held | % of issued share capital of associated corporation |
|---|---|---|---:|---:|
| Zhou Keming | Ally Good Group Limited | Personal [(5)] | 1,000 | 100% |
| Xu Xia | Ally Good Group Limited | Personal [(5)] | 1,000 | 100% |

(4) As at 31 December 2010, Ally Good Group Limited is the holder of 68.36% of the issued share capital of the Company and are associated corporations under the SFO.

(5) 772 shares are held by Mr. Zhou Keming and 228 shares are held by his spouse, Ms. Xu Xia.

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors and chief 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.

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

As at 31 December 2010, 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 | Nature of interests | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Ally Good Group Limited | Beneficial interests | 709,275,000 | 68.36%(L) |

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2010.

## EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 28 to the consolidated financial statements.

The Group employed a total of 945 staff as at 31 December 2010 (2009: 768). There was a 23% growth in our workforce in 2010 as compared with 2009. The increase in headcounts was due to business expansion of our Group.

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 a share option scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

## MANAGEMENT CONTRACTS

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

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at 25 March 2011.

## AUDIT COMMITTEE

The audit committee of the Company has discussed with the management and reviewed the audited consolidated annual results of the Company for the year ended 31 December 2010 and considered that the Company has complied with all applicable accounting standards and requirements.

## AUDITOR

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

On behalf of the Board,

**Zhou Keming**
*Chairman*
Hong Kong, 25 March 2011

# INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

**To the shareholders of**
**Da Ming International Holdings Limited**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Da Ming International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 119, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated comprehensive income statement, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 25 March 2011

# CONSOLIDATED BALANCE SHEET

As at 31 December 2010

| | | As at 31 December | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | *5* | **111,396** | 113,929 |
| Property, plant and equipment | *6* | **873,709** | 622,483 |
| Investment property | *7* | **9,123** | 9,578 |
| Intangible assets | *8* | **2,683** | 2,337 |
| Deferred income tax assets | *10* | **7,013** | 3,814 |
| | | **1,003,924** | 752,141 |
| **Current assets** | | | |
| Inventories | *11* | **1,202,356** | 768,397 |
| Trade receivables | *12* | **188,703** | 107,911 |
| Prepayments, deposits and other receivables | *13* | **521,698** | 110,189 |
| Restricted bank deposits | *14* | **408,003** | 380,851 |
| Cash and cash equivalents | *15* | **379,036** | 79,168 |
| | | **2,699,796** | 1,446,516 |
| **Total assets** | | **3,703,720** | 2,198,657 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | *16* | **89,215** | 1 |
| Reserves | *17* | **1,337,377** | 681,141 |
| | | **1,426,592** | 681,142 |
| **Non-controlling interest** | | **24,861** | 7,176 |
| **Total equity** | | **1,451,453** | 688,318 |

## Consolidated balance sheet (Continued)

As at 31 December 2010

| | Note | As at 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred government grants | *22* | **15,020** | 15,773 |
| Deferred income tax liabilities | *10* | **3,340** | 930 |
| | | **18,360** | 16,703 |
| **Current liabilities** | | | |
| Trade payables | *19* | **1,139,489** | 738,900 |
| Accruals, advances from customers and other current liabilities | *20* | **199,614** | 135,275 |
| Amounts due to related parties | *36(c)* | **–** | 179,008 |
| Current income tax liabilities | | **25,522** | 46,399 |
| Borrowings | *21* | **868,215** | 393,187 |
| Current portion of deferred government grants | *22* | **1,067** | 867 |
| | | **2,233,907** | 1,493,636 |
| **Total liabilities** | | **2,252,267** | 1,510,339 |
| **Total equity and liabilities** | | **3,703,720** | 2,198,657 |
| **Net current assets/(liabilities)** | | **465,889** | (47,120) |
| **Total assets less current liabilities** | | **1,469,813** | 705,021 |

The notes on pages 45 to 119 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

**Zhou Keming**
*Director*

**Zou Xiaoping**
*Director*

# COMPANY BALANCE SHEET

As at 31 December 2010

| | | As at 31 December | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | *9(a)* | **921,325** | – |
| | | **921,325** | – |
| **Current assets** | | | |
| Other receivables | | **328** | – |
| Due from subsidiaries | *9(b)* | **197,032** | – |
| Cash and cash equivalents | *15* | **283,437** | – |
| | | **480,797** | – |
| **Total assets** | | **1,402,122** | – |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | *16* | **89,215** | 1 |
| Reserves | *17* | **1,291,115** | (5,796) |
| **Total equity** | | **1,380,330** | (5,795) |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Due to subsidiaries | *9(b)* | **6,884** | 5,795 |
| Other payables | *20* | **14,908** | – |
| **Total liabilities** | | **21,792** | 5,795 |
| **Total equity and liabilities** | | **1,402,122** | – |
| **Net current assets/(liabilities)** | | **459,005** | (5,795) |
| **Total assets less current liabilities** | | **1,380,330** | (5,795) |

The notes on pages 45 to 119 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

**Zhou Keming**
*Director*

**Zou Xiaoping**
*Director*

# CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the year ended 31 December 2010

| | Note | Year ended 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Revenue | 23 | **8,972,581** | 6,447,357 |
| Cost of sales | 26 | **(8,511,116)** | (6,067,830) |
| **Gross profit** | | **461,465** | 379,527 |
| Other income, net | 24 | **25,880** | 5,045 |
| Other (losses)/gains, net | 25 | **(6,291)** | 463 |
| Distribution costs | 26 | **(52,476)** | (50,412) |
| Administrative expenses | 26 | **(72,844)** | (51,010) |
| **Operating profit** | | **355,734** | 283,613 |
| Finance income | 29 | **10,535** | 6,165 |
| Finance costs | 29 | **(51,580)** | (26,556) |
| Finance costs – net | 29 | **(41,045)** | (20,391) |
| **Profit before income tax** | | **314,689** | 263,222 |
| Income tax expense | 30 | **(77,083)** | (59,845) |
| **Profit for the year** | | **237,606** | 203,377 |
| Other comprehensive income | | **–** | – |
| **Total comprehensive income for the year** | | **237,606** | 203,377 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **235,507** | 203,498 |
| Non-controlling interest | | **2,099** | (121) |
| | | **237,606** | 203,377 |
| **Earnings per share for profit attributable to equity holders of the Company during the year** (expressed in RMB per share) | | | |
| – basic earnings per share | 32 | **0.30** | 0.27 |
| – diluted earnings per share | 32 | **0.30** | 0.27 |
| **Dividends** | 33 | **–** | – |

The notes on pages 45 to 119 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Attributable to equity holders of the Company | | Non-controlling interest | Total equity |
|---|---|---|---|---|
| | Share Capital *(note 16)* *RMB'000* | Reserve *(note 17)* *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2009** | 1 | 624,643 | 7,297 | 631,941 |
| **Comprehensive income** | | | | |
| Profit for the year | – | 203,498 | (121) | 203,377 |
| **Total comprehensive income for the year ended 31 December 2009** | – | 203,498 | (121) | 203,377 |
| **Transactions with owners** | | | | |
| Acquisition of equity interest in Jiangsu Daming by Fortune Express | – | (147,000) | – | (147,000) |
| **Total transactions with owners** | – | (147,000) | – | (147,000) |
| **Balance at 31 December 2009** | 1 | 681,141 | 7,176 | 688,318 |
| **Balance at 1 January 2010** | 1 | 681,141 | 7,176 | 688,318 |
| **Comprehensive income** | | | | |
| Profit for the year | – | 235,507 | 2,099 | 237,606 |
| **Total comprehensive income for the year ended 31 December 2010** | – | 235,507 | 2,099 | 237,606 |
| **Transactions with owners** | | | | |
| Capital injection by non-controlling shareholder | – | – | 15,586 | 15,586 |
| Capital injection by equity holders of the Company | – | 34,016 | – | 34,016 |
| Issue of shares | 89,214 | 386,661 | – | 475,875 |
| Employee share option scheme *(Note 18)* | – | 52 | – | 52 |
| **Total transactions with owners** | 89,214 | 420,729 | 15,586 | 525,529 |
| **Balance at 31 December 2010** | 89,215 | 1,337,377 | 24,861 | 1,451,453 |

The notes on pages 45 to 119 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2010

| | Note | Year ended 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | *34(a)* | **(39,742)** | 195,586 |
| Interest received | | **9,172** | 6,165 |
| Interest paid | | **(55,772)** | (25,680) |
| Income tax (paid)/refund | | **(98,749)** | 2,785 |
| Net cash (used in)/generated from operating activities | | **(185,091)** | 178,856 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(269,453)** | (200,122) |
| Purchase of land use rights | | **–** | (26,455) |
| Purchase of intangible assets | | **(660)** | (2,079) |
| Cash received in relation to asset-based government grants | | **330** | 3,340 |
| Proceeds from disposal of property plant and equipment | *34(b)* | **630** | 144 |
| Net cash used in investing activities | | **(269,153)** | (225,172) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | *16* | **519,165** | – |
| Payment for share issuing costs and listing expenses | | **(34,172)** | – |
| Capital injection from equity holders of the Company | *17(a)* | **34,016** | – |
| Payment for acquisition of equity interest in Jiangsu Daming | *36(c)* | **(78,718)** | (68,282) |
| Proceeds from bank borrowings | | **1,617,011** | 746,703 |
| Repayments of bank borrowings | | **(1,138,718)** | (685,585) |
| (Repayment to)/proceeds from related parties, net | *36(c)* | **(100,290)** | 49,748 |
| Capital injection by non-controlling shareholder | | **15,586** | – |
| Increase in restricted bank balances pledged as security for current bank borrowings | | **(79,316)** | (71,030) |
| Net cash generated from/(used in) financing activities | | **754,564** | (28,446) |
| **Net increase/(decrease) in cash and cash equivalents** | | **300,320** | (74,762) |
| Cash and cash equivalents at beginning of year | *15* | **79,168** | 153,903 |
| Exchange (losses)/gains on cash and cash equivalents | | **(452)** | 27 |
| **Cash and cash equivalents at end of year** | *15* | **379,036** | 79,168 |

The notes on pages 45 to 119 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1. GENERAL INFORMATION OF THE GROUP

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

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 ultimate holding company of the Company is Ally Good Group Limited("Ally Good").

On 5 November 2010, the Company acquired the entire equity interests in Allybest Investments Limited ("Allybest") by the allotment and issue of an aggregate of 100,000 shares of Hong Kong Dollars ("HKD") 0.10 each, all credited as fully paid as to 94,570 shares to Ally Good, 980 shares to Mr. Yu Wenjun ("Mr. Yu"), 980 shares to Ms. Li Jun ("Ms. Li"), 980 shares to Mr. Qian Li ("Mr. Qian"), 490 shares to Ms. Zhou Mingya ("Ms. Zhou") and 2,000 shares to Mitsui Ventures Global Fund ("Mitsui") and became the holding company of the subsidiaries. The reorganisation has been accounted for using the principles of merger accounting under Hong Kong Accounting Guideline 5, "Merger Accounting for Comment Control Combinations", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Accordingly, the consolidated financial statements of the Group for the years ended 31 December 2010 and 2009 present the financial position, results and cash flows of the Group as if the Group resulted from the reorganisation had been in existence throughout the years 2009 and 2010, or since the respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the board of directors on 25 March 2011.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### 2.2 Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated comprehensive income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The adoption of this revised standards has no impact on the Group and the Company financial statements, as there have been no business combination in current year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

*(a) New and amended standards adopted by the group (continued)*

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has no impact on the current year, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. The adoption of this revised standards has no impact on the Group and the company financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

*(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)*

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

*(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events) (continued)*

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions' effective form 1 January 2010. In addition to incorporating HK(IFRIC) 8, "Scope of HKFRS 2", and HK(IFRIC) 11, HKFRS 2-Group and treasury share transactions", the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretaion.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarificaties that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

*(c) New and amended standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted*

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

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| Amendments to HKAS 32 | Classification of rights issues | 1 February 2010 |
| HK (IFRIC) – Int 19 | Extinguishing financial liabilities with equity instruments | 1 July 2010 |
| HKAS 24 (revised) | Related party disclosures | 1 January 2011 |
| Amendments to HK (IFRIC) – Int 14 | Prepayments of a minimum funding requirement | 1 January 2011 |
| HKFRS 9 | Financial instruments | 1 January 2013 |

Apart from the above, the HKICPA has issued the third annual improvements project (2010) in May 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wordings. The Group has not applied the following revised HKFRSs published in the third annual improvements project.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy and disclosures (continued)

*(c) New and amended standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted (continued)*

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 3 (Revised) | Business combinations | 1 July 2010 |
| HKAS 27 | Consolidated and separate financial statements | 1 July 2010 |
| HKFRS 1 | First time adoption of Hong Kong Financial Reporting Standards | 1 January 2011 |
| HKFRS 7 | Financial instruments: Disclosure | 1 January 2011 |
| HKAS 1 | Presentation of financial statements | 1 January 2011 |
| HKAS 34 | Interim financial reporting | 1 January 2011 |
| HK (IFRIC) – Int 13 | Customer loyalty programmes | 1 January 2011 |

The Group is in the process of making assessment of the impact of those new or revised HKFRSs upon initial adoption. While it is not expected that the adoption of these new or revised HKFRSs will have a significant impact on the Group or the Company financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Consolidation

*(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries of the Group, except for those acquisitions that qualify as business combinations under common control, which are accounted for using merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated comprehensive income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Consolidation (continued)

*(a) Subsidiaries (continued)*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.10). The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

*(b) Business combinations under common control*

The consolidated financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognized directly in equity as part of the capital reserve.

The consolidated comprehensive income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been consolidated at the previous balance sheet date or when they first came under common control, whichever is the later.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Consolidation (continued)

*(b) Business combinations under common control (continued)*

Intra-group transactions, balances and unrealized gains on transactions between the combining entities or businesses are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as expenses in the year in which they are incurred.

### 2.4 Segment reporting

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

### 2.5 Foreign currency translation

*(a) Functional and presentation currency*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Foreign currency translation (continued)

*(b) Transactions and balances*

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

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

### 2.6 Land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortized over the lease periods using the straight-line method.

The land use rights from capital contribution are recognised initially at fair value and amortized on a straight-line basis over the remaining periods of the lease.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Property, plant and equipment

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

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

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

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

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

| | |
|---|---|
| Buildings | 20 years |
| Plant and machinery | 10 years |
| Vehicles | 4 to 5 years |
| Office equipment and others | 3 to 5 years |
| Leasehold improvements | 5 to10 years |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Property, plant and equipment (continued)

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

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

### 2.8 Investment property

The property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property from capital contribution is recognised initially at fair value. After initial recognition, investment property is carried at depreciated cost less accumulated impairment.

Fair value is determined and disclosed based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors. Changes in fair values are not recognised in the consolidated comprehensive income statements.

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Investment property (continued)

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

Rental income from investment property is recognised in the consolidated comprehensive income statements on a straight-line basis over the term of the lease.

### 2.9 Intangible assets

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

### 2.10 Impairment of investment in subsidiaries and non-financial assets

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Financial assets – loan and receivables

The Group's financial assets are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'prepayments, deposits and other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheets.

Purchases and sales of financial assets are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

### 2.12 Inventories

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated comprehensive income statements within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated comprehensive income statements.

### 2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.15 Share capital

Ordinary shares are classified as equity.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 Trade and other payables

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

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

### 2.17 Borrowings

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

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

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

### 2.18 Borrowing costs

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Current and deferred income tax

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.20 Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar 1,000 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the Mainland China, the Group has arranged for its employees from Mainland China to join a defined contribution retirement benefit plan organised by the People's Republic of China ("PRC") government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 27(a) of this section. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

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

### 2.21 Share-based payments

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Share-based payments (continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated comprehensive income statement, with a corresponding adjustment to equity.

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

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

### 2.22 Provisions

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.23 Government grants

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

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

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

### 2.24 Revenue recognition

(a) *Revenue*

Revenue comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Sales of goods are recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time when the Group has delivered goods to the customers and collectability of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) *Rental income*

Rental income is recognised on a straight-line basis.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated comprehensive income statements on a straight-line basis over the period of the lease.

### 2.26 Dividend distribution

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

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (continued)

*(i) Cash flow and fair value interest rate risk*

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

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

Details of the Group's restricted bank balances, cash and cash equivalents, borrowings and amounts due to related parties have been disclosed in Notes 14, 15, 21 and 36, respectively.

As at 31 December 2010, if the interest rates on bank borrowings had been 100 basis-points higher/lower with all other variables held constant, profit before income tax for the years would have been RMB1,850,000 (2009: RMB898,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on bank borrowings.

*(ii) Credit risk*

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

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2010, most of the restricted bank balances and cash and cash equivalents are placed with major financial institutions in Mainland China and Hong Kong.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (continued)

*(ii) Credit risk (continued)*

The Group categorise the restricted cash and cash and cash equivalent as follows:

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

Group 2 – Other listed banks in mainland PRC

Group 3 – Other banks in the PRC

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Group 1 | **515,402** | 196,123 | **267,188** | – |
| Group 2 | **264,989** | 259,330 | **16,249** | – |
| Group 3 | **6,648** | 4,566 | **–** | – |
| | **787,039** | 460,019 | **283,437** | – |

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

The Group generally requires customers to pay a certain amount of deposit when orders are made and settle full purchase price before delivery of goods. Majority of the sales transactions are settled by telegraphic transfer. The Group also accepts bank acceptance notes with maturity within 6 months, which are accepted and settled by bank.

For those key customers with long term relationship, on some occasions the Group offered credit terms up to 90 days. The granting or extension of any credit period must be appropriately approved. There is no recent history of default in relation to those customers.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (continued)

*(iii) Liquidity risk*

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

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

| | **2010** | 2009 |
|---|---|---|
| | **Within 1 year** | Within 1 year |
| | ***RMB'000*** | *RMB'000* |
| Borrowings | **868,215** | 393,187 |
| Amounts due to related parties | – | 179,008 |
| Interests payment on borrowings *(a)* | **14,993** | 4,943 |
| Trade and other payables *(b)* | **1,239,338** | 794,093 |
| | **2,122,546** | 1,371,231 |

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2010 and 2009 without taking into account any subsequent changes in the amount of borrowings. Floating-rate interest is estimated using current interest rate as at 31 December and 2010 and 2009 respectively.

(b) Other payables include accruals and other payables as stated in Note 20.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (continued)

*(iv) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade receivables, restricted bank balances, cash and cash equivalents, trade payables and borrowings denominated in foreign currencies, mainly Hong Kong Dollar (HKD), United States Dollar(USD) and EURO(EUR), which are exposed to foreign currency translation risk. Details of the Group's trade receivables, restricted bank balances, cash and cash equivalents, trade payables and borrowings are disclosed in Notes 12, 14, 15, 19 and 21 of this section respectively.

As at 31 December 2010, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the years would have been approximately RMB7,881,000 (2009: Nil) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated trade receivables, cash and cash equivalents, trade payables and borrowings.

As at 31 December 2010, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the years would have been approximately RMB3,708,000(2009: RMB2,905,000) higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, cash and cash equivalents, trade payables and borrowings.

As at 31 December 2010, if RMB had strengthened/weakened by 10% against the EURO with all other variables held constant, profit before income tax for the years would have been approximately RMB3,237,000(2009: RMB496,000) higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated restricted bank balances, cash and cash equivalents, trade payables and borrowings.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables; and financial liabilities including trade and other payables, and borrowings, approximate their fair values due to their short maturities. The carrying values less any estimated credit adjustments for financial assets with a maturity of less than one year are a reasonable approximation of their fair values.

### 3.3 Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings less cash and cash equivalents as shown in the consolidated balance sheet. Total capital is calculated as 'total equity' as shown in the consolidated balance sheet plus net debt.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Capital risk management (continued)

The gearing ratios at 31 December 2010 and 2009 were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Borrowings *(note 21)* | **868,215** | 393,187 |
| Less: cash and cash equivalents *(note15)* | **(379,036)** | (79,168) |
| Net debt | **489,179** | 314,019 |
| Total equity | **1,451,453** | 688,318 |
| Total capital | **1,940,632** | 1,002,237 |
| Gearing ratio | **25.21%** | 31.33% |

The decrease in the gearing ratio during 2010 resulted primarily from the issue of shares through placing and public offer of the Company's shares in Hong Kong (the "New Issue") (Notes 16).

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

### (a) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and the practice in similar industry. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The directors will increase the depreciation charge where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

**(b) Impairment of property, plant and equipment and land use rights (continued)**

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

**(c) Net realisable value of inventories**

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

**(d) Income taxes and deferred income tax**

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

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

## 5. LAND USE RIGHTS – GROUP

The Group's interest in land use rights represents prepaid operating lease payment for land and its net book value was analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Opening | **113,929** | 89,529 |
| Additions | **–** | 26,455 |
| Amortisation charge *(Note 34(a))* | **(2,533)** | (2,055) |
| | **111,396** | 113,929 |

The Group's land use rights are located in Mainland China and the remaining lease periods were between 40 years to 49 years as at 31 December 2010.

As at 31 December 2009, the book value of land use rights pledged for the Group's bank borrowings amounted to approximately RMB10,020,000.

For the year ended 31 December 2010, amortisation of the Group's land use rights amounted to RMB2,533,000 has been charged to administrative expenses in the consolidated comprehensive income statements (2009: RMB2,055,000).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 6. PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Buildings *RMB'000* | Plant and machinery *RMB'000* | Vehicles *RMB'000* | Office equipment and others *RMB'000* | Leasehold improvements *RMB'000* | Construction–in-progress *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | | | | | | | |
| Cost | 149,756 | 295,584 | 5,556 | 9,936 | 505 | 58,388 | 519,725 |
| Accumulated depreciation | (2,192) | (47,014) | (2,640) | (3,718) | (114) | – | (55,678) |
| Net book amount | 147,564 | 248,570 | 2,916 | 6,218 | 391 | 58,388 | 464,047 |
| **Year ended 31 December 2009** | | | | | | | |
| Opening net book amount | 147,564 | 248,570 | 2,916 | 6,218 | 391 | 58,388 | 464,047 |
| Additions | 17,473 | 7,253 | 320 | 2,642 | 44 | 172,635 | 200,367 |
| Transfer | 19,033 | 107,020 | – | 1,241 | – | (127,294) | – |
| Transfer to intangible assets | – | – | – | – | – | (1,899) | (1,899) |
| Disposals *(Note 34(b))* | (173) | – | – | (4) | – | – | (177) |
| Depreciation *(Note 34(a))* | (7,313) | (29,572) | (849) | (2,069) | (52) | – | (39,855) |
| Closing net book amount | 176,584 | 333,271 | 2,387 | 8,028 | 383 | 101,830 | 622,483 |
| **At 31 December 2009** | | | | | | | |
| Cost | 186,075 | 409,857 | 5,876 | 13,812 | 549 | 101,830 | 717,999 |
| Accumulated depreciation | (9,491) | (76,586) | (3,489) | (5,784) | (166) | – | (95,516) |
| Net book amount | 176,584 | 333,271 | 2,387 | 8,028 | 383 | 101,830 | 622,483 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | 176,584 | 333,271 | 2,387 | 8,028 | 383 | 101,830 | 622,483 |
| Additions | 691 | 3,129 | 3,180 | 2,452 | 15 | 295,161 | 304,628 |
| Transfer | 11,809 | 37,576 | – | 38 | 270 | (49,693) | – |
| Disposals *(Note 34(b))* | – | (1,382) | (132) | (75) | – | – | (1,589) |
| Depreciation *(Note 34(a))* | (9,049) | (38,969) | (1,173) | (2,548) | (74) | – | (51,813) |
| Closing net book amount | 180,035 | 333,625 | 4,262 | 7,895 | 594 | 347,298 | 873,709 |
| **At 31 December 2010** | | | | | | | |
| Cost | 198,575 | 448,644 | 8,543 | 16,094 | 832 | 347,298 | 1,019,986 |
| Accumulated depreciation | (18,540) | (115,019) | (4,281) | (8,199) | (238) | – | (146,277) |
| Net book amount | 180,035 | 333,625 | 4,262 | 7,895 | 594 | 347,298 | 873,709 |

## 6. PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of sales | **41,440** | 33,885 |
| Distribution costs | **401** | 266 |
| Administrative expenses | **9,972** | 5,704 |
| | **51,813** | 39,855 |

As at 31 December 2009, the book value of buildings pledged for the Group's bank borrowings amounted to approximately RMB 17,127,000.

For the year ended 31 December 2010, borrowing costs amounted to approximately RMB558,000 (2009:Nil) were capitalised into the cost of buildings at an average borrowing rate of 4.60%.

## 7. INVESTMENT PROPERTY – GROUP

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Opening net book amount | **9,578** | 10,033 |
| Depreciation *(Note 34(a))* | **(455)** | (455) |
| Closing net book amount | **9,123** | 9,578 |
| Cost | **10,109** | 10,109 |
| Accumulated depreciation | **(986)** | (531) |
| Net book amount | **9,123** | 9,578 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 7. INVESTMENTS IN PROPERTY – GROUP (CONTINUED)

For the year ended 31 December 2010, the rental income arising from investment properties amounted to approximately RMB500,000 (2009: RMB500,000) (Note 24).

As at 31 December 2010, the directors of the Company assessed the fair value of the investment properties to be approximately RMB12,586,000 (2009: RMB12,807,000) based on a valuation by an independent valuer.

## 8. INTANGIBLE ASSETS – GROUP

Intangible assets mainly consist of computer software purchased:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At beginning of year | | |
| Cost | **2,755** | 676 |
| Accumulated amortisation | **(418)** | (146) |
| Net book amount | **2,337** | 530 |
| Opening net book amount | **2,337** | 530 |
| Additions | **660** | 2,079 |
| Amortisation *(Note 34(a))* | **(314)** | (272) |
| Closing net book amount | **2,683** | 2,337 |
| At end of year | | |
| Cost | **3,415** | 2,755 |
| Accumulated amortisation | **(732)** | (418) |
| Net book amount | **2,683** | 2,337 |

Amortisation has been included in administrative expenses.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 9. INVESTMENTS IN AND DUE FROM/TO SUBSIDIARIES – COMPANY

### (a) Investment in subsidiaries

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Investments, at cost: | | |
| – Unlisted shares | **921,325** | – |

As at 31 December 2010, the Company has direct or indirect interests in following subsidiaries:

| Company name | Country/Place and date of incorporation | Type of legal entity | Paid-up capital | Attributable equity interest to the Company Direct | Attributable equity interest to the Company Indirect | Principal activities and place of operation |
|---|---|---|---|---|---|---|
| Allybest Investments Limited ("Allybest") | British Virgin Islands 10 July 2006 | Limited liability company | USD 20,000 | 100% | – | Investment holding in BVI |
| Fortune Express Industrial Limited ("Fortune Express ") | Hong Kong 14 July 2003 | Limited liability company | HKD 10,000 | – | 100% | Investment holding, in Hong Kong |
| Jiangsu Daming Metal Products Co., Ltd. ("Jiangsu Daming") | Mainland China 21 June 2002 | Limited liability company | USD 40,000,000 | – | 100% | Processing, distribution and sales of stainless steel products, in the PRC |
| Hangzhou Wanzhou Metal Products Co., Ltd ("Hangzhou Wanzhou") | Mainland China 8 December 2005 | Limited liability company | USD 16,000,000 | – | 100% | Processing, distribution and sales of stainless steel products, in the PRC |
| Wuhan Fortune Express Metal Products Co., Ltd. ("Wuhan Fortune") | Mainland China 28 September 2005 | Limited liability company | USD 3,000,000 | – | 100% | Processing, distribution and sales of stainless steel products, in the PRC |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 9. INVESTMENTS IN AND DUE FROM/TO SUBSIDIARIES – COMPANY (CONTINUED)

### (a) Investment in subsidiaries (continued)

| Company name | Country/Place and date of incorporation | Type of legal entity | Paid-up capital | Attributable equity interest to the Company Direct | Attributable equity interest to the Company Indirect | Principal activities and place of operation |
|---|---|---|---|---|---|---|
| Tianjin Taigang Daming Metal Products Co., Ltd ("Tianjin Taigang Daming") | Mainland China 15 February 2007 | Limited liability company | USD 36,500,000 | – | 91% | Processing, distribution and sales of stainless steel products, in the PRC |
| Daming Metals (Hong Kong) Company Limited ("Hong Kong Daming") | Hong Kong 30 November 2009 | Limited liability company | USD 2,000,000 | – | 100% | Purchase and sales of metal materials, in Hong Kong |

The English names of certain subsidiaries represent the best effort by the Group's management to translate their Chinese names as they do not have official English names.

### (b) Due from/to subsidiaries

These balance are unsecured, non-interest bearing without fixed repayment terms.Due from/to subsidiaries are denominated in HKD.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 10. DEFERRED INCOME TAX – GROUP

The analysis of deferred tax assets and deferred tax liabilities are as follows:

| | 2010<br>*RMB'000* | 2009<br>*RMB'000* |
|---|---|---|
| **Deferred tax assets:** | | |
| – Deferred tax assets to be recovered after more than 12 months | **3,667** | 822 |
| – Deferred tax assets to be recovered within 12 months | **3,346** | 2,992 |
| | **7,013** | 3,814 |
| **Deferred tax liabilities:** | | |
| – Deferred tax liabilities to be recovered after more than 12 months | **986** | 907 |
| – Deferred tax liabilities to be recovered within 12 months | **2,354** | 23 |
| | **3,340** | 930 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 10. DEFERRED INCOME TAX – GROUP (CONTINUED)

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

| | Provision for write-down of inventories *RMB'000* | Deferred government grants *RMB'000* | Accrued expenses *RMB'000* | Provision for impairment of trade receivables *RMB'000* | Unrealised profit on inventories *RMB'000* | Pre–operating expenses *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 8,992 | – | 351 | 164 | – | 850 | 10,357 |
| Recognised in the consolidated comprehensive income statements | (8,266) | 835 | 248 | (21) | 315 | 346 | (6,543) |
| At 31 December 2009 | 726 | 835 | 599 | 143 | 315 | 1,196 | 3,814 |
| Recognised in the consolidated comprehensive income statements | 777 | 3,008 | (103) | 33 | (135) | (381) | 3,199 |
| At 31 December 2010 | 1,503 | 3,843 | 496 | 176 | 180 | 815 | 7,013 |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB 893,000 (2009: RMB 681,000) in respect of accumulated losses amounting to RMB 5,414,000 (2009: RMB 4,125,000) that can be carried forward against future taxable income. These accumulated losses can be carried forward indefinitely.

## 10. DEFERRED INCOME TAX – GROUP (CONTINUED)

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

| | Interest expenses on notes payable *RMB'000* | Capitalised interest *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 January 2009 | – | 930 | 930 |
| Recognised in the consolidated comprehensive income statements | – | – | – |
| At 31 December 2009 | – | 930 | 930 |
| Recognised in the consolidated comprehensive income statements | 2,308 | 102 | 2,410 |
| At 31 December 2010 | 2,308 | 1,032 | 3,340 |

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings generated after 31 December 2007. The Group's subsidiaries in Mainland China are held by Fortune Express, a company incorporated in Hong Kong and is subject to 5% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2010, no deferred income tax liabilities have been recognised for withholding tax purpose. Unremitted earnings of certain subsidiaries in Mainland China are expected to be reinvested in Mainland China. Unremitted earnings as at 31 December 2010 amounted to RMB 384,264,000 (2009: RMB 164,452,000).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 11. INVENTORIES – GROUP

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **677,518** | 475,537 |
| Finished goods | **524,838** | 292,860 |
| | **1,202,356** | 768,397 |

For the year ended 31 December 2010, the cost of inventories recognised as cost of sales amounted to approximately RMB8,498,836,000 (2009: RMB6,075,037,000).

In 2010, the Group has recognised a loss of approximately RMB 3,889,000 for the write-down of inventories to their net realisable value (2009: reversal of write-down of inventories of approximately RMB34,938,000) (Note 26). These amounts have been included in the cost of sales in the consolidated comprehensive income statements.

### 12. TRADE RECEIVABLES – GROUP

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | **102,938** | 80,249 |
| Notes receivable | | |
| – bank acceptance notes | **82,531** | 21,251 |
| – commercial acceptance notes | **4,000** | 7,000 |
| | **189,469** | 108,500 |
| Less: provision for impairment | **(766)** | (589) |
| Trade receivables – net | **188,703** | 107,911 |

The fair values of trade receivables approximate their carrying amounts.

## 12. TRADE RECEIVABLES – GROUP (CONTINUED)

The Group's sales are mainly made on (i) cash on delivery; (ii) notes receivable with maturity within 6 months; and (iii) credit terms of 1-90 days. Ageing analysis of trade receivables is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | | |
| – Within 30 days | **97,178** | 68,580 |
| – 30 days to 3 months | **3,970** | 8,382 |
| – 3 months to 6 months | **503** | 1,516 |
| – 6 months to 1 year | **19** | 731 |
| – 1 year to 2 years | **847** | 693 |
| – 2 years to 3 years | **421** | 347 |
| | **102,938** | 80,249 |
| Notes receivable | | |
| – Within 6 months | **86,531** | 28,251 |
| | **189,469** | 108,500 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 12. TRADE RECEIVABLES – GROUP (CONTINUED)

As at 31 December 2010, trade receivables of approximately RMB66,839,000 (2009: RMB49,245,000), respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables was as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | | |
| – Within 30 days | **61,079** | 39,044 |
| – 30 days to 3 months | **3,970** | 7,438 |
| – 3 months to 6 months | **503** | 1,516 |
| – 6 months to 1 year | **19** | 731 |
| – 1 year to 2 years | **847** | 516 |
| – 2 years to 3 years | **421** | – |
| | **66,839** | 49,245 |

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| RMB | **186,845** | 106,931 |
| USD | **2,624** | 1,569 |
| | **189,469** | 108,500 |

## 12. TRADE RECEIVABLES – GROUP (CONTINUED)

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

Group 1 – Bank acceptance notes

Group 2 – Trade receivables and commercial acceptance notes due from customers with no defaults in the past

Group 3 – Trade receivables due from customers with some defaults in the past and with ageing more than 6 months

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Group 1 | **82,531** | 21,251 |
| Group 2 | **105,651** | 86,002 |
| Group 3 | **1,287** | 1,247 |
| | **189,469** | 108,500 |

None of the trade receivables that are fully performing have been renegotiated in the last financial year.

Movements of the provision for impairment of trade receivables are:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **589** | 668 |
| Provision for/(reversal of) trade receivables | **177** | (71) |
| Written off as uncollectible | **–** | (8) |
| At 31 December | **766** | 589 |

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

The maximum exposure to the credit risk as at the balance sheet date is the fair values of the trade receivables.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

| | 2010 *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Prepayment for purchase of raw materials | **434,290** | 59,688 |
| Value Added Tax recoverable | **63,944** | 45,152 |
| Amount due from a related party *(Note 36(c))* | **–** | 500 |
| Government grants receivables | **17,881** | – |
| Deposits and other receivables | **5,583** | 4,849 |
| | **521,698** | 110,189 |

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

## 14. RESTRICTED BANK DEPOSITS – GROUP

| | 2010 *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Pledged bank deposits denominated in: | | |
| – RMB | **404,810** | 379,914 |
| – EUR | **3,193** | 937 |
| | **408,003** | 380,851 |

The nature of pledged bank deposits is as follows:

| | 2010 *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Deposits for issuing letter of credit | **5,212** | 6,754 |
| Deposits for issuing letter of indemnity | **25** | 2,867 |
| Deposits for pledged bank borrowings *(Note 21)* | **150,346** | 71,030 |
| Deposits for issuing notes payable *(Note 19)* | **252,420** | 300,200 |
| | **408,003** | 380,851 |

## 14. RESTRICTED BANK DEPOSITS – GROUP (CONTINUED)

As 31 December 2010, the weighted average interest rate on pledged bank deposits was 1.98% (2009:1.95%) per annum, and these deposits have an approximate average maturity 178 days (2009: 86 days).

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

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

## 15. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents were denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| RMB | **85,840** | 60,516 | **–** | – |
| USD | **7,348** | 14,998 | **–** | – |
| HKD | **285,845** | 3,432 | **283,437** | – |
| EUR | **3** | 222 | **–** | – |
| | **379,036** | 79,168 | **283,437** | – |

As at 31 December 2010, cash at bank were demand deposits and the weighted average interest rates was 0.11% per annum (2009:0.30%).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 16. SHARE CAPITAL – COMPANY

| | Authorised share capital | | |
|---|---|---|---|
| | **Number of shares '000** | *HKD'000* | *RMB'000* |
| As at 31 December 2008 and 2009 | 380 | 380 | 376 |
| Sub-division on 26 July 2010 | 3,420 | – | – |
| Increase on 9 November 2010 | 1,496,200 | 149,620 | 128,510 |
| As at 31 December 2010 | 1,500,000 | 150,000 | 128,886 |

| | Issued and fully paid up | | |
|---|---|---|---|
| | **Number of shares '000** | *HKD'000* | *RMB'000* |
| Issued on 14 February 2007 *(a)* | 1 | 1 | 1 |
| Issued on 6 July 2010 *(b)* | 19 | 19 | 16 |
| Issued on 26 July 2010 *(c)* | 180 | – | – |
| Increase on 5 November 2010 *(d)* | 100 | 10 | 9 |
| Issue pursuant to the placing and public offer *(e)* | 287,500 | 28,750 | 24,722 |
| Capitalisation of share premium *(f)* | 749,700 | 74,970 | 64,467 |
| As at 31 December 2010 | 1,037,500 | 103,750 | 89,215 |

## 16. SHARE CAPITAL – COMPANY (CONTINUED)

The following changes in the Company's authorised and issued share capital took place during the period from 14 February 2007 (date of incorporation) to 31 December 2010:

(a) The Company was incorporated on 14 February 2007 with an initial authorised share capital of HKD 380,000 (equivalent to RMB376,000) divided into 380,000 ordinary shares with par value of HKD1.00 each. On the date of incorporation, 965 Shares, 10 Shares, 10 Shares, 10 Shares and 5 Shares were allotted and issued to Ally Good, Mr. Yu, Ms. Li, Mr. Qian and Ms. Zhou respectively.

(b) On 6 July 2010, 17,949 Shares, 186 Shares, 186 Shares, 186 Shares, 93 Shares and 400 Shares were allotted and issued for cash at par to Ally Good, Mr. Yu, Ms. Li, Mr. Qian, Ms. Zhou and Mitsui respectively.

(c) On 26 July 2010, the Company subdivided each of the existing and unissued Shares of nominal value HK$1.00 each in its share capital into 10 Shares of nominal value of HK$0.10 each.

(d) On 5 November 2010, the Company acquired the entire issued share capital of Allybest from Ally Good, Mr. Yu, Ms. Li, Mr. Qian, Ms. Zhou and Mitsui, the consideration of which was satisfied by the allotment and issue by the Company of 94,570 Shares, 980 Shares, 980 Shares, 980 Shares, 490 Shares and 2,000 Shares, all credited as fully paid, to Ally Good, Mr. Yu, Ms. Li, Mr. Qian, Ms. Zhou and Mitsui respectively.

(e) In November and December, the Company issued a total of 287,500,000 shares at HKD 2.1 per share("New issue"), in connection with its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 1 December 2010, and raised gross proceeds of approximately HKD 603,750,000 (equivalent to approximately RMB 519,165,000). Share issuing cost in relation to the global offering of approximately HKD 50,372,000 (equivalent to approximately RMB 43,315,000), were recorded as reduction from the share premium.

(f) Upon completion of the New Issue, a sum of HKD74,970,000 (approximately RMB64,467,000) was capitalised and applied in paying up in full at par 749,700,000 shares to the shareholder whose name was on the register of members of the Company on 5 November 2010.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 17. RESERVES

### – GROUP

| | Share premium | Merger reserve *(a)* | Statutory reserves *(b)* | Options *(c)* | Shareholders' loans waived *(d)* | Subtotal | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2009 | – | 161,595 | 29,162 | – | 29,625 | 220,382 | 404,261 | 624,643 |
| Profit for the year | – | – | – | – | – | – | 203,498 | 203,498 |
| Appropriations | – | – | 19,793 | – | – | 19,793 | (19,793) | – |
| Acquisition of equity interest in Jiangsu Daming by Fortune Express | – | (147,000) | – | – | – | (147,000) | – | (147,000) |
| At 31 December 2009 | – | 14,595 | 48,955 | – | 29,625 | 93,175 | 587,966 | 681,141 |
| Profit for the year | – | – | – | – | – | – | 235,507 | 235,507 |
| Appropriations | – | – | 24,423 | – | – | 24,423 | (24,423) | – |
| Capital injection by equity holders of the Company | – | 34,016 | – | – | – | 34,016 | – | 34,016 |
| Issue of share *(Note 16 (e))* | 494,443 | – | – | – | – | 494,443 | – | 494,443 |
| Share issuing costs *(Note 16 (e))* | (43,315) | – | – | – | – | (43,315) | – | (43,315) |
| Employee share option scheme *(Note 18)* | – | – | – | 52 | – | 52 | – | 52 |
| Capitalisation of share premium *(Note 16 (f))* | (64,467) | – | – | – | – | (64,467) | – | (64,467) |
| At 31 December 2010 | 386,661 | 48,611 | 73,378 | 52 | 29,625 | 538,327 | 799,050 | 1,337,377 |

## 17. RESERVES (CONTINUED)

### (a) Merger reserves

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

The additions of the merger reserves for the year ended 31 December 2010 represented the capital injections of USD5,000,000 by Mitsui.

The deduction of the merger reserves for the year ended 31 December 2009 represented the consideration paid to Daming Logistics for the acquisition of 25% equity interests of Jiangsu Daming.

### (b) Statutory reserves

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

### (c) Options

The company issued share options to certain director and employees (Note 18).

### (d) Shareholders' loans waived

Pursuant to an agreement entered into between Ms. Xu Xia and Fortune Express in December 2006, Ms. Xu Xia waived the repayment by Fortune Express of loan amounting to approximately RMB29,625,000 for its business expansion.

### (e) Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheet.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 17. RESERVES (CONTINUED)

### (e) Accounting adjustments under common control combination (continued)

The consolidated balance sheet as at 31 December 2010:

| | The Company | The Subsidiaries | Adjustments | Consolidated |
|---|---|---|---|---|
| | | | *(Note)* | |
| Investment in the subsidiaries | 921,325 | – | (921,325) | – |
| Intra-group balances | 190,148 | (190,148) | – | – |
| Other assets | 268,857 | 1,182,596 | – | 1,451,453 |
| Net assets | 1,380,330 | 992,448 | (921,325) | 1,451,453 |
| Share capital | 89,215 | 818,695 | (818,695) | 89,215 |
| Share premium | 386,661 | – | – | 386,661 |
| Contributed surplus | 921,264 | – | (921,264) | – |
| Merge reserve | – | (770,023) | 818,634 | 48,611 |
| Other reserve | 52 | – | – | 52 |
| Shareholder's loan waived | – | 29,625 | – | 29,625 |
| Statutory reserves | – | 73,378 | – | 73,378 |
| Retained earnings | (16,862) | 815,912 | – | 799,050 |
| Non-controlling interest | – | 24,861 | – | 24,861 |
| | 1,380,330 | 992,448 | (921,325) | 1,451,453 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 17. RESERVES (CONTINUED)

#### (e) Accounting adjustments under common control combination (continued)

The consolidated balance sheet as at 31 December 2009:

| | The Company | The Subsidiaries | Adjustments *(Note)* | Consolidated |
|---|---|---|---|---|
| Intra-group balances | (5,795) | 5,795 | – | – |
| Other assets | – | 688,318 | – | 688,318 |
| Net assets | (5,795) | 694,113 | – | 688,318 |
| Share capital | 1 | 637,749 | (637,749) | 1 |
| Merge reserve | – | (623,154) | 637,749 | 14,595 |
| Shareholder's loan waived | – | 29,625 | – | 29,625 |
| Statutory reserves | – | 48,955 | – | 48,955 |
| Retained earnings | (5,796) | 593,762 | – | 587,966 |
| Non-controlling interest | – | 7,176 | – | 7,176 |
| | (5,795) | 694,113 | – | 688,318 |

*Note:* The above adjustment represents an adjustment to eliminate the share capital of the combining entities against the investment cost. The difference of RMB818,634,000 (2009: 637,749,000) has been made to the merger reserve in the consolidated financial statements.

No adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 17. RESERVES (CONTINUED)

### – Company

| | Share premium *RMB'000* | Contributed surplus *RMB'000* | Options *RMB'000* | Accumulated losses *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2009 | – | – | – | (5,105) | (5,105) |
| Loss for the year | – | – | – | (691) | (691) |
| At 31 December 2009 | – | – | – | (5,796) | (5,796) |
| Effect of reorganisation | – | 921,264 | – | – | 921,264 |
| Issue of share pursuant to New Issue *(Note 16 (e))* | 494,443 | – | – | – | 494,443 |
| Share issuing costs | (43,315) | – | – | – | (43,315) |
| Employee share option scheme | – | – | 52 | – | 52 |
| Capitalisation of share premium *(Note 16 (f))* | (64,467) | – | – | – | (64,467) |
| Loss for the year | – | – | – | (11,066) | (11,066) |
| At 31 December 2010 | 386,661 | 921,264 | 52 | (16,862) | 1,291,115 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 18. SHARE-BASED PAYMENT – GROUP AND COMPANY

As approved by the board of directors' meeting on 21 December 2010, 6,150,000 share options were granted to certain director and employees at an exercise price of HK$2.452 per share, which represents the higher of (i) the closing price of the Share on the date of grant; and (ii) the average closing price of the Share of HK$2.452 for 5 trading days immediately preceding the date of grant. These options are conditional on the director or employees completing three to five years service. The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

| | 2010 | |
|---|---|---|
| | **Average exercise price in HK$ per share** | **Number of Options (thousands)** |
| At 1 January | – | – |
| Granted | 2.452 | 6,150 |
| At 31 December | 2.452 | 6,150 |

Details of share options outstanding at 31 December 2010 are as follows:

| **Exercisable from** | **Expiry date** | **Exercise price in HK$ per share** | **Number of Options (thousands)** |
|---|---|---|---|
| 21 December 2013 | 20 December 2020 | 2.452 | 1,845 |
| 21 December 2014 | 20 December 2020 | 2.452 | 1,845 |
| 21 December 2015 | 20 December 2020 | 2.452 | 2,460 |
| | | | 6,150 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 18. SHARE-BASED PAYMENT – GROUP AND COMPANY (CONTINUED)

The weighted average fair value of options granted in 2010 was determined by using the Binomial Model was HK$1.31 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 57.7%, expected dividend yield of 1.83% and risk-free interest rate of 2.89%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date. The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the listed companies with similar business to the Group. The expected dividend yield is measured based on the dividend yield per companies with similar business as projected by Bloomberg, which agree to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated comprehensive income statement for the year ended 31 December 2010 was approximately RMB 52,000 (note 27).

### 19. TRADE PAYABLES – GROUP

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts payable | **19,689** | 14,900 |
| Notes payable | **1,119,800** | 724,000 |
| | **1,139,489** | 738,900 |

As at 31 December 2010, notes payable of RMB899,800,000 was secured by pledged bank deposits approximately RMB252,420,000 (Note 14).

As at 31 December 2009, notes payable of RMB314,000,000 was secured by pledged bank deposits of approximately RMB106,200,000, and notes payable of RMB410,000,000 was secured by pledged bank deposits of approximately RMB194,000,000 and guaranteed by Daming Logistics and Mr. Zhou Keming collectively.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 19. TRADE PAYABLES – GROUP (CONTINUED)

The ageing analysis of the trade payables is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Up to 6 months | **1,137,969** | 737,821 |
| 6 months to 1 year | **1,520** | 1,043 |
| 1 year to 2 years | **–** | 36 |
| | **1,139,489** | 738,900 |

Trade payables are denominated in the following currencies:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| RMB | **1,139,489** | 738,896 |
| EURO | **–** | 4 |
| | **1,139,489** | 738,900 |

The fair values of trade payables approximate their carrying amounts.

## 20. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Accruals | **2,358** | 549 | **–** | – |
| Advances from customers | **97,763** | 78,596 | **–** | – |
| Value-added tax payable | **327** | 350 | **–** | – |
| Other taxes payables | **1,675** | 1,136 | **–** | – |
| Other payables *(a)* | **97,491** | 54,644 | **14,908** | – |
| | **199,614** | 135,275 | **14,908** | – |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 20. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES (CONTINUED)

(a) The breakdown of other payables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Pension and other social welfare payables | **5,992** | 5,021 | **–** | – |
| Payables for purchase of property, plant and equipment | **61,450** | 26,275 | **–** | – |
| Salary payables | **10,601** | 15,625 | **–** | – |
| Payable for share issuing cost and listing expenses | **14,007** | – | **14,007** | – |
| Others | **5,441** | 7,723 | **901** | – |
| | **97,491** | 54,644 | **14,908** | – |

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

### 21. BORROWINGS – GROUP

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings | **868,215** | 393,187 |
| Representing: | | |
| Unsecured | **630,642** | – |
| Secured – | | |
| Pledged *(i)* | **237,573** | 81,074 |
| Guaranteed *(ii)* | **–** | 312,113 |
| | **868,215** | 393,187 |

## 21. BORROWINGS – GROUP (CONTINUED)

(i) As at 31 December 2010, bank borrowings of RMB116,573,000 were secured by pledged bank deposits of RMB132,196,000 in the bank. Bank borrowings of RMB121,000,000 were secured by letter of credit issued by Bank of Communications, in lieu of which Jiangsu Daming has placed pledged bank deposits of RMB18,150,000 in the bank (Note 14).

As at 31 December 2009, bank borrowings of RMB12,000,000 were secured by pledged buildings (Note 6) and land use rights (Note 5) of the Group. Bank borrowings of RMB69,074,000 were secured by letter of credit issued by China Construction Bank Corporation, in lieu of which Jiangsu Daming has placed pledged bank deposits of RMB71,030,000 in the bank (Note 14).

(ii) As at 31 December 2009, the borrowings were guaranteed by:

| | **2010**<br>***RMB'000*** | 2009<br>*RMB'000* |
|---|---|---|
| Daming Logistics | – | 30,000 |
| Daming Logistics and Mr. Zhou Keming | – | 120,000 |
| Daming Logistics and Mr. Zhou Keming and Ms. Xu Xia | – | 162,113 |
| | – | 312,113 |

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

| | **2010**<br>***RMB'000*** | 2009<br>*RMB'000* |
|---|---|---|
| At fixed rates in RMB | **376,000** | 152,000 |
| At fixed rates in USD | **72,899** | 6,000 |
| At fixed rates in EUR | **4,042** | 6,113 |
| | **452,941** | 164,113 |
| At floating rates in RMB | **298,700** | 160,000 |
| At floating rates in USD | – | 69,074 |
| At floating rates in HKD | **116,574** | – |
| | **415,274** | 229,074 |
| | **868,215** | 393,187 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 21. BORROWINGS – GROUP (CONTINUED)

(ii) As at 31 December 2009, the borrowings were guaranteed by (continued):

The weighted average effective interest rates per annum at 31 December 2010 and 2009 were as follows:

| | **2010** | 2009 |
|---|---|---|
| RMB | **4.90%** | 4.97% |
| USD | **1.58%** | 1.54% |
| EUR | **2.04%** | 1.61% |
| HKD | **1.52%** | – |

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 6 months | **778,215** | 373,187 |
| 6 months to 1 year | **90,000** | 20,000 |
| | **868,215** | 393,187 |

The Group has the following undrawn borrowing facilities:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Expiring within one year | **421,838** | 110,886 |
| More than one year | **208,270** | 214,000 |
| | **630,108** | 324,886 |

The fair values of borrowings approximate their carrying amounts.

## 22. DEFERRED GOVERNMENT GRANTS – GROUP

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Deferred government grants | **16,087** | 16,640 |
| Less: Current portion included in current liabilities | **(1,067)** | (867) |
| | **15,020** | 15,773 |

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Beginning balance of the year | **16,640** | 13,755 |
| Granted during the year | **330** | 3,340 |
| Amortised as income *(Note 24)* | **(883)** | (455) |
| Ending balance of the year | **16,087** | 16,640 |

Government grants were granted to support the Group's construction of factory building in Tianjin and purchase of machineries in Wuxi. These amounts have deferred to match with depreciation of related assets and amortised over these assets' expected useful life of 10 to 20 years.

## 23. SALES AND SEGMENT INFORMATION

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of goods | **8,972,581** | 6,447,357 |

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 23. SALES AND SEGMENT INFORMATION (CONTINUED)

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 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 is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| – Mainland China | **8,879,001** | 6,434,193 |
| – Hong Kong and other overseas countries and regions* | **93,580** | 13,164 |
| Total sales | **8,972,581** | 6,447,357 |

* Other overseas countries and regions mainly represented Singapore, South Korea, USA, Russia and Canada.

### 24. OTHER INCOME, NET

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Subsidy income *(a)* | **17,623** | 152 |
| Amortisation of deferred income *(Note 22)* | **883** | 455 |
| Sales of packaging materials | **6,399** | 2,943 |
| Income from provision of loading service | **1,625** | 1,573 |
| Rental income *(Note 36(b))* | **500** | 500 |
| **Other income** | **27,030** | 5,623 |
| Other expenses | **(1,150)** | (578) |
| **Total** | **25,880** | 5,045 |

(a) Subsidy income primarily represents the income subsidy granted by local government to encourage the Group's business growth.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 25. OTHER (LOSSES)/GAINS, NET

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss on disposal of property, plant and equipment, net *(Note 34(a))* | **(959)** | (33) |
| Foreign exchange (losses)/gains, net *(Note 31)* | **(5,887)** | 268 |
| Others | **555** | 228 |
| | **(6,291)** | 463 |

## 26. EXPENSES BY NATURE

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Changes in inventories of finished goods | **(233,457)** | (94,814) |
| Raw materials consumed | **8,648,845** | 6,119,451 |
| Stamp duty, property tax and other surcharges | **6,421** | 4,633 |
| Transportation costs | **47,842** | 43,558 |
| Employee benefit expenses, including directors' emoluments *(Note 27)* | **59,641** | 56,991 |
| Depreciation and amortisation *(Note 5, 6,7,8)* | **55,241** | 42,637 |
| Operating lease rental for buildings | **1,828** | 2,833 |
| Utilities charges | **7,139** | 5,459 |
| Provision for/(reversal of) write-down of inventories *(Note 11, 34 (a))* | **3,889** | (34,938) |
| Auditors' remuneration | **1,980** | 1,792 |
| Provision for/(reversal of) impairment of trade receivables *(Note 34 (a))* | **177** | (71) |
| Entertainment and travelling expenses | **12,766** | 12,723 |
| Professional service expenses | **6,865** | 667 |
| Others | **17,259** | 8,331 |
| Total cost of sales, distribution costs and administrative expenses | **8,636,436** | 6,169,252 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 27. EMPLOYEE BENEFIT EXPENSES

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, bonus and other welfares | **53,866** | 52,492 |
| Share options granted to directors and employees | **52** | – |
| Pension – defined contribution plans *(a)* | **5,723** | 4,499 |
| | **59,641** | 56,991 |

**(a) Pensions – defined contribution plans**

The full time employees of the Mainland China subsidiaries of the Group participate in defined contribution retirement benefit plans organised by the relevant provincial government. For the years ended 31 December 2009 and 2010, the Group is required to make monthly defined contributions to these plans at rates from 12% to 20%, with the base of their total salary subject to a certain ceiling.

The Group has arranged for its Hong Kong employees to join the MPF Scheme, a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HKD1,000 and thereafter contributions are voluntary.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

# 28. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' emoluments

The emoluments of individual director of the Company were set out below:

| Name of Director | Fees *RMB'000* | Salaries *RMB'000* | Discretionary bonus *RMB'000* | Pension-defined contribution plans *RMB'000* | Other benefits (i) *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| *Executive Directors* | | | | | | |
| – Mr. Zhou Keming | 17 | 534 | – | 23 | 22 | 596 |
| – Mr. Zou Xiaoping | 17 | 498 | – | – | – | 515 |
| – Mr. Qian Li | 17 | 363 | – | 23 | 22 | 425 |
| – Ms. Xu Xia | 17 | 363 | – | 23 | 22 | 425 |
| – Ms. Yu Wenjun* | – | 421 | – | 23 | 22 | 466 |
| – Mr. Tang Zhonghai* | 17 | 1,114 | – | 23 | 27 | 1,181 |
| | 85 | 3,293 | – | 115 | 115 | 3,608 |
| *Non-executive director* | | | | | | |
| – Mr. Jiang Changhong** | 34 | – | – | – | – | 34 |
| *Independent non-executive director* | | | | | | |
| – Mr. Cheuk Wa Pang | 17 | – | – | – | – | 17 |
| – Prof. Hua Min | 34 | – | – | – | – | 34 |
| – Mr. Chen Xuedong* | 34 | – | – | – | – | 34 |
| – Mr. Li Cheng* | – | – | – | – | – | – |
| – Mr. Zhu Daoli* | – | – | – | – | – | – |
| | 85 | – | – | – | – | 85 |
| | 204 | 3,293 | – | 115 | 115 | 3,727 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 28. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (a) Directors' emoluments (continued)

| Name of Director | Fees<br>*RMB'000* | Salaries<br>*RMB'000* | Discretionary bonus<br>*RMB'000* | Pension-defined contribution plans<br>*RMB'000* | Other benefits (i)<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| *Executive Directors* | | | | | | |
| – Mr. Zhou Keming | – | 580 | – | 22 | 21 | 623 |
| – Mr. Zou Xiaoping | – | 544 | – | – | – | 544 |
| – Mr. Qian Li | – | 343 | – | 22 | 21 | 386 |
| – Ms. Xu Xia | – | 285 | – | 22 | 21 | 328 |
| – Ms. Yu Wenjun* | – | 544 | – | 22 | 21 | 587 |
| – Mr. Tang Zhonghai* | – | – | – | – | – | – |
| | – | 2,296 | – | 88 | 84 | 2,468 |
| *Non-executive director* | | | | | | |
| – Mr. Jiang Changhong** | – | – | – | – | – | – |
| *Independent non-executive director* | | | | | | |
| – Mr. Cheuk Wa Pang | – | – | – | – | – | – |
| – Prof. Hua Min | – | – | – | – | – | – |
| – Mr. Chen Xuedong* | – | – | – | – | – | – |
| – Mr. Li Cheng* | – | – | – | – | – | – |
| – Mr. Zhu Daoli* | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | 2,296 | – | 88 | 84 | 2,468 |

* Pursuant to a board resolution passed on 3 July 2010, Mr. Yu Wenjun, Mr. Zhu Daoli and Mr. Li Cheng resigned, and Mr. Tang Zhonghai and Mr. Chen Xuedong were appointed.

** Pursuant to a board resolution passed on 26 July 2010, Mr. Jiang Changhong was appointed.

## 28. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (a) Directors' emoluments (continued)

(i) Other benefits include share option (Note 18), and social welfare benefits other than pension disclosed above.

No director of the Company waived any emolument for the year ended 31 December 2010 (2009: Nil).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 2 (2009:2) directors, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining 3 (2009:3) individuals were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries | **1,844** | 1,987 |
| Bonus | **–** | – |
| Pension costs | **41** | 55 |
| | **1,885** | 2,042 |

The emoluments of the five highest paid individuals paid by the Group were below HKD 1,000,000 per annum (equivalent to approximately RMB850,900) individually.

For the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 29. FINANCE COSTS – NET

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Finance costs: | | |
| Interest expenses on bank borrowings | **25,335** | 13,520 |
| Interest expenses on borrowings from Daming Logistics *(Note 36(b))* | **–** | 797 |
| Interest expenses on bank acceptance notes | **31,836** | 12,170 |
| Exchange losses/(gains), net *(Note 31)* | **(5,033)** | 69 |
| | **52,138** | 26,556 |
| Less: amounts capitalised on qualifying assets *(Note 6)* | **(558)** | – |
| Total finance costs | **51,580** | 26,556 |
| Finance income: | | |
| Interest income from bank deposit *(Note 34(a))* | **(10,535)** | (6,165) |
| Finance costs net | **41,045** | 20,391 |

## 30. INCOME TAX EXPENSE

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – Mainland China corporate income tax | **77,872** | 53,302 |
| Deferred taxation *(Note 10)* | **(789)** | 6,543 |
| | **77,083** | 59,845 |

## 30. INCOME TAX EXPENSE (CONTINUED)

The Company was incorporated in 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 years ended 31 December 2010 and 2009.

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

Jiangsu Daming is subject to corporate income tax rate of 25% for the year 2010. Hangzhou Wanzhou, Wuhan Fortune and Tianjin Taigang Daming have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from CIT for the first two years and 50% reduction in CIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. The tax holiday commenced for Hangzhou Wanzhou, Wuhan Fortune and Tianjin Taigang Daming was 2008.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 30. INCOME TAX EXPENSE (CONTINUED)

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **314,689** | 263,222 |
| Tax calculated at tax rates applicable to profits of the respective subsidiaries | **86,600** | 66,548 |
| Effect of tax exemption | **(10,601)** | (8,080) |
| Tax losses for which no deferred income tax asset was recognized | **128** | 373 |
| Expenses not deductible for tax purpose | **956** | 1,004 |
| Income tax expense | **77,083** | 59,845 |
| The weighted average applicable tax rate | **24.49%** | 22.74% |

### 31. NET FOREIGN EXCHANGE (LOSSES)/GAINS

The exchange differences (charged)/credited in the consolidated comprehensive income statements are included as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Other (losses)/gains – net *(Note 25)* | **(5,887)** | 268 |
| Finance costs – net *(Note 29)* | **5,033** | (69) |
| | **(854)** | 199 |

## 32. EARNINGS PER SHARE

### (a) Basic

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the company | **235,507** | 203,498 |
| Weighted average number of ordinary shares in issue *(thousands)* | **773,596** | 750,000 |

### (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.

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Earnings | | |
| Profit used to determine diluted earnings per share | **235,507** | 203,498 |
| Weighted average number of ordinary shares in issue *(thousands)* | **773,596** | 750,000 |
| Adjustments for: | | |
| – Share options *(thousands)* | **–** | – |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | **773,596** | 750,000 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 33. DIVIDENDS

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2010.

### 34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOW

**(a) Cash (used in)/generated from operations**

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit after income tax | **237,606** | 203,377 |
| Adjustments for: | | |
| – income tax expenses | **77,083** | 59,845 |
| – amortisation of land use rights *(Note 5)* | **2,533** | 2,055 |
| – depreciation of property, plant and equipment *(Note 6)* | **51,813** | 39,855 |
| – amortisation of intangible assets *(Note 8)* | **314** | 272 |
| – depreciation of investment properties *(Note 7)* | **455** | 455 |
| – amortisation of deferred income *(Note 22)* | **(883)** | (455) |
| – loss on disposal of property, plant and equipment *(Note 25)* | **959** | 33 |
| – provision for/(reversal of) impairment of trade receivables *(Note 26)* | **177** | (71) |
| – provision for/(reversal of) write down of inventories *(Note 11, 26)* | **3,889** | (34,938) |
| – interest income *(Note 29)* | **(10,535)** | (6,165) |
| – finance costs *(Note 29)* | **51,580** | 26,556 |
| | **414,991** | 290,819 |
| Changes in working capital: | | |
| – decrease/(increase) in pledged bank deposits | **52,164** | (149,271) |
| – increase in trade receivables, prepayments, deposits and other receivables | **(485,740)** | (3,559) |
| – increase in inventories | **(437,848)** | (412,767) |
| – increase in trade payables, current income tax liabilities, accruals and other payables | **416,691** | 470,364 |
| Cash (used in)/generated from operations | **(39,742)** | 195,586 |

## 34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net book amount *(Note 6)* | **1,589** | 177 |
| Gain on disposal of property, plant and equipment *(Note 25)* | **(959)** | (33) |
| Proceeds from disposal of property, plant and equipment | **630** | 144 |

## 35. COMMITMENTS

**(a) Capital commitments**

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted but not provided for: | | |
| Acquisition of property, plant and equipment | **179,908** | 167,667 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 35. COMMITMENTS (CONTINUED)

### (b) Operating lease commitments

The Group leases certain office premises, plant and equipment under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Not later than 1 year | **1,438** | 1,129 |
| Later than 1 year and not later than 5 years | **3,214** | 3,196 |
| Over 5 years | **–** | 700 |
| | **4,652** | 5,025 |

## 36. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

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

| **Name** | **Relationship with the Group** |
|---|---|
| Ally Good | Parent of the Company |
| Daming Logistics | The controlling shareholders are Mr. Zhou Keming and Ms. Xu Xia |
| Mr. Zhou Keming | Chairman and chief executive officer of the Company and the Group |
| Ms. Xu Xia | The wife of Mr. Zhou Keming and a director of the Company |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties:

The following material transactions were carried out with related parties:

**Continuing transactions**

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| (i) Lease of property to Daming Logistics | | |
| Rental charged to | **500** | 500 |

**Non-continuing transactions**

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| (i) Lease of property and plant from Daming Logistics | | |
| Rental charged from | – | 857 |
| (ii) Loans received from related parties/interest charged | | |
| Loans received | **171,000** | 135,191 |
| Interest charged | – | 797 |
| | **171,000** | 135,988 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (continued):

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (iii) Loans repaid to related parties | | |
| Loans repaid | **350,008** | – |
| (iv) Purchase of construction in progress | | |
| Daming Logistics | **–** | 38,023 |

(v) Key management compensation

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, bonus and other welfares | **4,484** | 4,282 |
| Pension – defined contribution plans | **150** | 142 |
| | **4,634** | 4,424 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 36. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances arising from related party transactions:

The Group had the following significant balances with its related parties:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Due from related parties | | |
| Non-trade related | | |
| – Daming Logistics *(Note 13, 35(b))* | – | 500 |
| Due to related parties | | |
| Non-trade related | | |
| – Daming Logistics | | |
| – Loan from a related party *(i)* | – | 100,290 |
| – Payable for acquisition of equity interest in Jiangsu Daming *(ii)* | – | 78,718 |
| | – | 179,008 |

(i) Loans from a related party

As at 31 December 2009, loans from a related party of RMB15,000,000 bore interest rate at 5.31% per annum and have been repaid in May 2010.

Other loans from a related party as at 31 December 2009 were unsecured, non-interest bearing and had no fixed repayment terms. These loans have been settled by the end of September 2010.

The carrying amount of loans from a related party approximated their fair value as at balance sheet date.

(ii) As disclosed in Note 17 (a), Fortune Express acquired 25% equity interests of Jiangsu Daming from Daming Logistics. The balance as at 31 December 2009 represented the unsettled amount, which was unsecured, non-interest bearing and had no fixed repayment terms. This amount was settled in January 2010.

# FINANCIAL SUMMARY

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* |
| **RESULTS** | | | | |
| Revenue | **8,972,581** | 6,447,357 | 7,976,837 | 9,034,622 |
| Gross profit | **461,465** | 379,527 | 99,595 | 135,347 |
| Operating profit | **355,734** | 283,613 | 43,912 | 81,229 |
| Profit/(loss) for the year | **237,606** | 203,377 | (12,826) | 30,041 |
| Attributable to: | | | | |
| Equity holders of the Company | **235,507** | 203,498 | (12,593) | 30,238 |
| Non-controlling interest | **2,099** | (121) | (233) | (197) |
| | **237,606** | 203,377 | (12,826) | 30,041 |
| **ASSETS, LIABILITIES AND EQUITY** | | | | |
| Total assets | **3,703,720** | 2,198,657 | 1,431,438 | 1,649,180 |
| Total liabilities | **(2,252,267)** | (1,510,339) | (799,497) | (1,149,140) |
| | **1,451,453** | 688,318 | 631,941 | 500,040 |
| Equity attributable to equity holders of the Company | **1,426,592** | 681,142 | 624,644 | 492,510 |
| Non-controlling interest | **24,861** | 7,176 | 7,297 | 7,530 |
| Total equity | **1,451,453** | 688,318 | 631,941 | 500,040 |