



# DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code :1090



## 2012 Interim Report



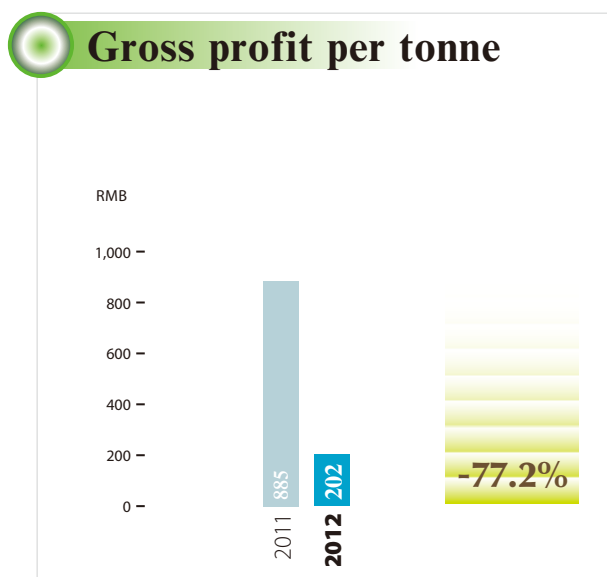
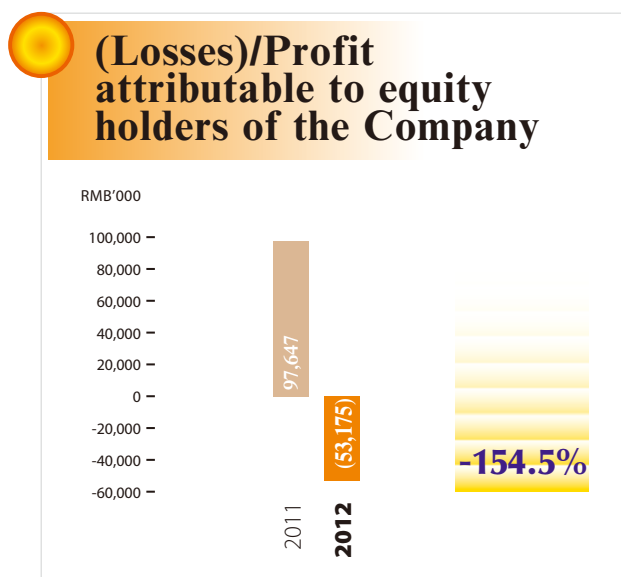
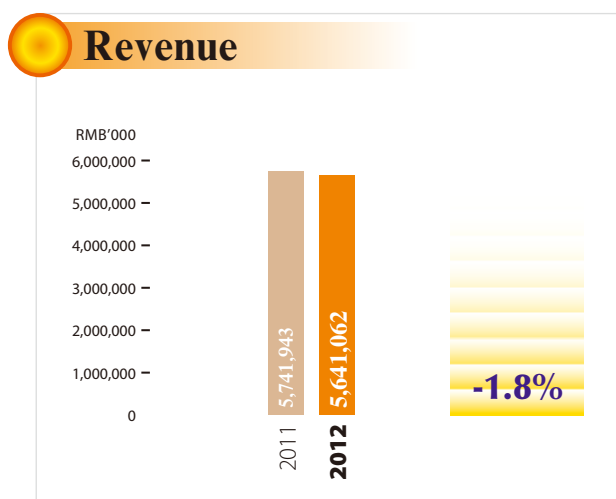
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# FINANCIAL AND OPERATING HIGHLIGHTS

## Financial Highlights

	Six months ended 30 June		% change
	2012	2011	
	RMB'000	RMB'000	
Revenue	5,641,062	5,741,943	-1.8%
Gross profit	65,901	236,278	-72.1%
(Losses)/Profit attributable to equity holders of the Company	(53,175)	97,647	-154.5%
Gross profit per tonne (note 1)	RMB202	RMB885	-77.2%

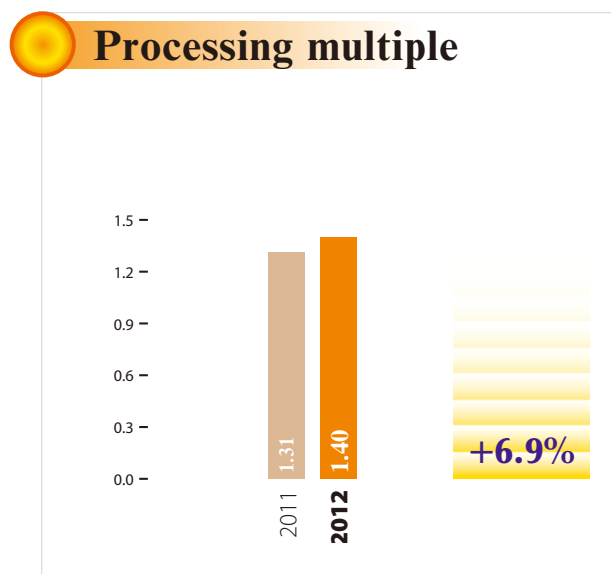
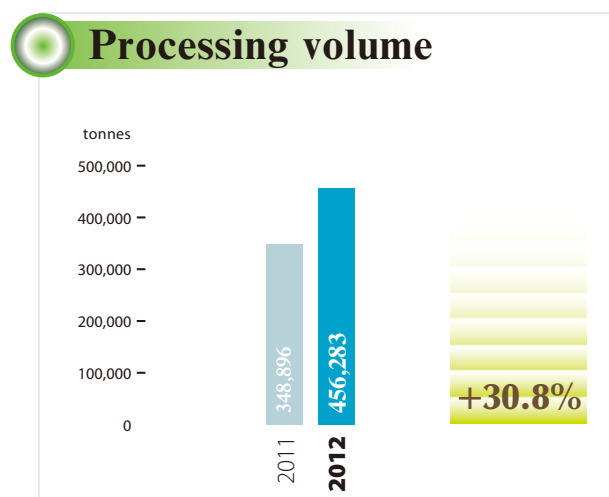
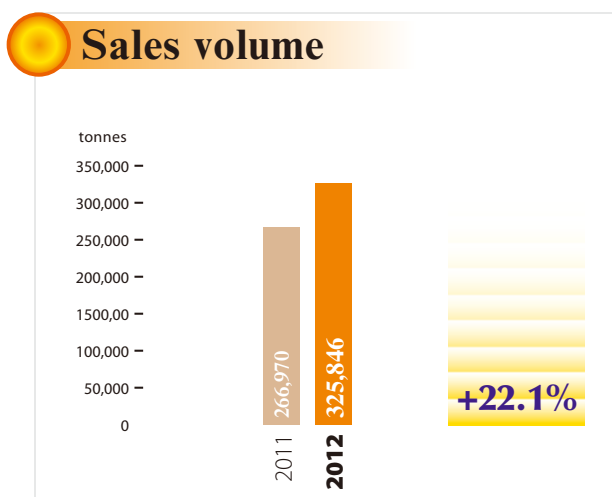


## Financial and Operating Highlights

### Operating Highlights

	Six months ended 30 June		% change
	2012	2011	
Sales volume (tonnes)	325,846	266,970	+22.1%
Processing volume (tonnes)	456,283	348,896	+30.8%
Processing multiple (note 2)	1.40	1.31	+6.9%

Note : 1. Gross profit per tonne = Gross profit/Sales volume  
 2. Processing multiple = Processing volume/Sales volume





# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Processing facilities enhancement

Pursuant to the shareholders' agreement dated 13 July 2011 entered into with 太原鋼鐵(集團)有限公司 (Taiyuan Iron & Steel (Group) Co., Ltd.), a processing centre is to be established in Taiyuan, Shanxi Province, the PRC. During the first six months of 2012, the building infrastructure of the processing centre was substantially completed. The processing machineries are expected to be installed from September 2012 onwards.



Taiyuan Processing Centre (under construction)



Taiyuan Processing Centre (under construction)

The second phase of our Hangzhou processing centre was also completed in March 2012. More advance processing equipments will be installed in order to enhance the overall processing capacities and capabilities of our Hangzhou processing centre.



Second phase of Hangzhou Processing Centre

### Recent development

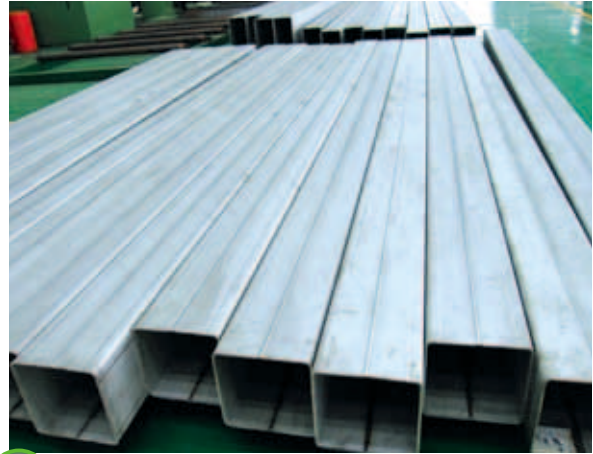
Our Tianjin processing centre grew satisfactorily both in terms of sales volume and processing volume for the six months ended 30 June 2012 as compared with the same period in 2011. In view of its special geographical location, the Group has planned to expand the export business in our Tianjin processing centre.

## Management Discussion and Analysis

The Group has also launched its sixth processing service namely, the welding processing service, during the first half of 2012. The welding processing service further enhances the Group's abilities in serving customers in the machineries, petrochemical and ship building industries.



Welding processing platform



Welding products

Our principal subsidiary, 江蘇大明金屬制品有限公司 (Jiangsu Daming Metal Products Co., Ltd.), once again was the 2011 largest stainless steel re-seller in terms of sales volume in China (中國不鏽鋼行業貿易量第一名) as announced by 中國金屬材料流通協會不鏽鋼分會 (Stainless Steel Division of the Metallic Materials Distribution Association of China).

### Outlook

The unfavourable business environment caused by the sovereign debt crisis in the Eurozone continues to affect the stainless steel industry as a whole. Stainless steel price dropped more than 10% during the six months ended 30 June 2012. Nevertheless, the Group recorded an increase in sales volume of over 20% during the six months ended 30 June 2012 as compared with the same period in 2011 despite the unfavorable business environment.

The Group will cautiously monitor the trend of the stainless steel price in the second half of 2012 and will implement a tight inventory control policy to mitigate the adverse effect of the stainless price fluctuation on the Group.

There have been no material changes in respect of the Group's business since the publication of the Company's annual report for the year ended 31 December 2011.

## FINANCIAL REVIEW AND ANALYSIS

During the six months ended 30 June 2012, we recorded a revenue of approximately RMB5,641 million, gross profit of approximately RMB66 million and losses attributable to equity holders of the Company of approximately RMB53 million. Total assets of the Group as at 30 June 2012 amounted to approximately RMB4,499 million while equity attributable to equity holders of the Company amounted to approximately RMB1,434 million.

### Revenue

Our revenue decreased by approximately RMB101 million, or 1.8%, from approximately RMB5,742 million for the six months ended 30 June 2011 to approximately RMB5,641 million for the six months ended 30 June 2012. Such decrease was mainly due to the decrease in average selling price of RMB21,508 per tonne for the six months ended 30 June 2011 to RMB17,312 per tonne for the six months ended 30 June 2012. On the other hand, the decrease was substantially offset by an increase in sales volume from 266,970 tonnes for the six months ended 30 June 2011 to 325,846 tonnes for the six months ended 30 June 2012.

## Management Discussion and Analysis

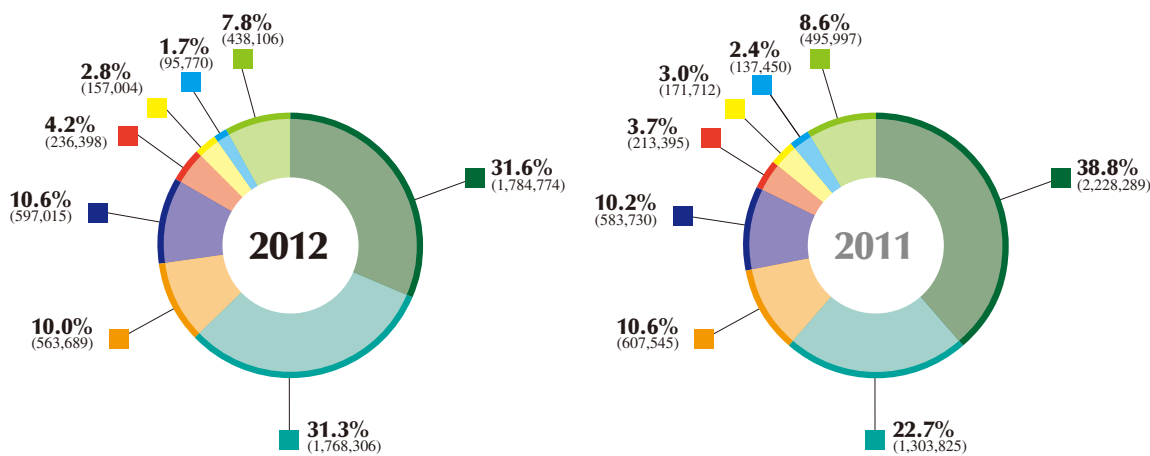
### Analysis of revenue by key industry segments

During the six months ended 30 June 2012 and the corresponding period in 2011, our revenue by key industry segments are shown below:

#### Revenue

Industry	Six months ended 30 June			
	2012		2011	
	RMB'000	%	RMB'000	%
Machineries	1,784,774	31.6	2,228,289	38.8
Distributors	1,768,306	31.3	1,303,825	22.7
Petrochemical	563,689	10.0	607,545	10.6
Home Hardware and Appliances	597,015	10.6	583,730	10.2
Automobile and Transport	236,398	4.2	213,395	3.7
Construction	157,004	2.8	171,712	3.0
Renewable Energy	95,770	1.7	137,450	2.4
Others	438,106	7.8	495,997	8.6
<b>Total</b>	<b>5,641,062</b>	<b>100.0</b>	<b>5,741,943</b>	<b>100.0</b>

RMB'000



Total = RMB 5,641,062,000

Total = RMB 5,741,943,000

■ Machineries	■ Automobile and Transport
■ Distributors	■ Construction
■ Petrochemical	■ Renewable Energy
■ Home Hardware and Appliances	■ Others

Machineries, distributors, petrochemical and home hardware and appliances remained the four largest customer segments during the six months ended 30 June 2012 and the corresponding period in 2011. In aggregate, these accounted for over 80% of our total revenue.

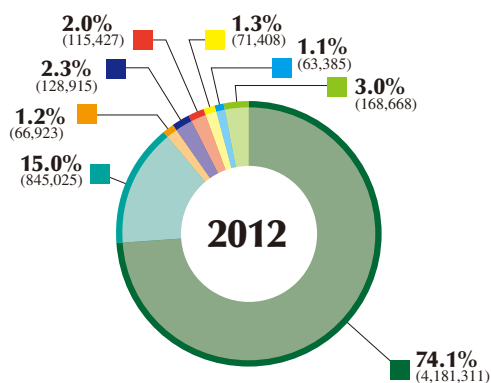
## Management Discussion and Analysis

### Analysis of revenue by geographical regions

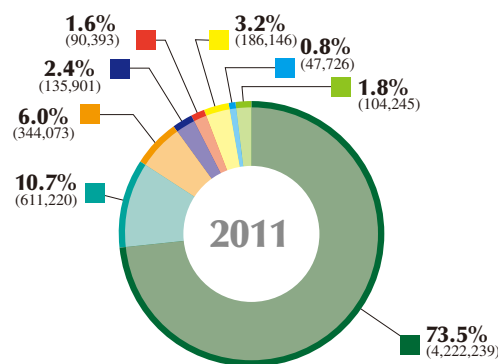
During the six months ended 30 June 2012 and the corresponding period in 2011, our revenue by geographical regions are shown below:

Region	Six months ended 30 June			
	2012		2011	
	RMB'000	%	RMB'000	%
Eastern region, China	4,181,311	74.1	4,222,239	73.5
Northern region, China	845,025	15.0	611,220	10.7
Central region, China	66,923	1.2	344,073	6.0
Southwestern region, China	128,915	2.3	135,901	2.4
Northeastern region, China	115,427	2.0	90,393	1.6
Northwestern region, China	71,408	1.3	186,146	3.2
Southern region, China	63,385	1.1	47,726	0.8
Overseas	168,668	3.0	104,245	1.8
<b>Total</b>	<b>5,641,062</b>	<b>100.0</b>	<b>5,741,943</b>	<b>100.0</b>

RMB'000



Total = RMB 5,641,062,000



Total = RMB 5,741,943,000

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

Eastern region of China, where the majority of stainless steel is consumed in China, remained the largest source of our revenue for the six months ended 30 June 2012 and the corresponding period in 2011.



## Management Discussion and Analysis

The sales volume and processing volume of our processing centres for the six months ended 30 June 2012 and the corresponding period in 2011 are as follows:

Processing centre	Sales volume		% change
	Six months ended 30 June		
	2012	2011	
	<i>tonnes</i>	<i>tonnes</i>	
Wuxi	211,798	179,727	17.8%
Wuhan	14,955	14,184	5.4%
Hangzhou	49,501	38,479	28.6%
Tianjin	49,592	34,580	43.4%
Total	<u>325,846</u>	<u>266,970</u>	22.1%

Processing centre	Processing volume		% change
	Six months ended 30 June		
	2012	2011	
	<i>tonnes</i>	<i>tonnes</i>	
Wuxi	366,208	278,789	31.4%
Wuhan	6,306	5,925	6.4%
Hangzhou	46,719	37,655	24.1%
Tianjin	37,050	26,527	39.7%
Total	<u>456,283</u>	<u>348,896</u>	30.8%

### Gross profit

Gross profit decreased from approximately RMB236.3 million for the six months ended 30 June 2011 to approximately RMB65.9 million for the six months ended 30 June 2012 mainly due to the decrease in average selling price as a result of the decline in market price of stainless steel. Gross profit per tonne decreased from RMB885 for the six months ended 30 June 2011 to RMB202 for the six months ended 30 June 2012 representing a decrease of approximately 77.2%.

### Other income – net

Other income decreased from approximately RMB2.4 million for the six months ended 30 June 2011 to approximately RMB1.2 million for the six months ended 30 June 2012 due to the decrease in government grant.

## Management Discussion and Analysis

### Distribution costs

Distribution costs increased from approximately RMB31.8 million for the six months ended 30 June 2011 to approximately RMB39.5 million for the six months ended 30 June 2012 mainly due to the increase in staff salaries and transportation expenses resulting from a higher sales volume in 2012.

### Administrative expenses

Administrative expenses increased from approximately RMB34.1 million for the six months ended 30 June 2011 to approximately RMB38.3 million for the six months ended 30 June 2012 mainly due to the increase in staff salaries.

### Finance costs – net

Finance costs increased from approximately RMB42.6 million for the six months ended 30 June 2011 to approximately RMB58.3 million for the six months ended 30 June 2012 due to the increase in interest expenses on bank borrowings as a result of the increased financing for larger operation scale.

### Income tax credit/(expense)

Income tax expense decreased from approximately RMB31.3 million for the six months ended 30 June 2011 to a tax credit of approximately RMB15.2 million for the six months ended 30 June 2012 mainly attributable to the decrease in operating profit.

### (Losses)/profit for the period

Our Group recorded a loss of approximately RMB53.8 million for the six months ended 30 June 2012 as compared with a profit of approximately RMB98.1 million for the six months ended 30 June 2011 representing a decrease of approximately 154.8%. Such decrease was mainly attributable to the continual decline in the market price of stainless steel which, in turn, adversely affected the profit margin of the Group.

### 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 30 June 2012, the short term bank borrowings of the Group amounted to approximately RMB1,231.7 million. Bank acceptance notes amounted to approximately RMB1,279.5 million as at 30 June 2012 while the bank balances were approximately RMB688.9 million of which approximately RMB490.9 million were pledged mainly for bank borrowings and the issuance of bank acceptance notes and letter of credit.

## **Management Discussion and Analysis**

As at 30 June 2012, the net current assets of the Group amounted to approximately RMB80.6 million as compared with approximately RMB295.6 million as at 31 December 2011. Such decrease in working capital was mainly attributable to the net loss for the period and the acquisitions of machineries.

The gearing ratios as at 30 June 2012 and 31 December 2011 were 41.2% and 50.0% respectively. The ratios are calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents while total capital is calculated as total equity plus net debt.

### **CONTINGENT LIABILITIES**

As at 30 June 2012, the Group did not have any material contingent liabilities.

### **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 "Global Offering"). The net proceeds from the global offering of approximately HK\$553.4 million were to be utilized in the manner as stated in the Company's prospectus dated 17 November 2010.

As at 30 June 2012, approximately RMB164.8 million had been applied towards the purchase of processing equipment and the construction of the fifth phase in our Wuxi processing centre and approximately RMB40.0 million had been used for the development of the second phase in our Hangzhou processing centre. The remaining balance 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 and the PRC.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Note</i>	As at <b>30 June 2012</b> <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		115,334	108,863
Property, plant and equipment	6	1,330,560	1,188,133
Investment properties		8,441	8,668
Intangible assets		2,772	2,982
Deferred income tax assets		32,421	13,937
Other non-current assets		30,308	27,500
		<b>1,519,836</b>	1,350,083
<b>Current assets</b>			
Inventories	7	1,595,555	1,504,981
Trade receivables	8	311,661	469,726
Prepayments, deposits and other receivables	9	382,707	501,483
Restricted bank deposits		490,859	334,851
Cash and cash equivalents		198,015	282,854
		<b>2,978,797</b>	3,093,895
<b>Total assets</b>		<b>4,498,633</b>	4,443,978
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	10	89,215	89,215
Reserves		1,344,340	1,426,210
		<b>1,433,555</b>	1,515,425
<b>Non-controlling interests</b>		<b>103,835</b>	64,449
<b>Total equity</b>		<b>1,537,390</b>	1,579,874



## Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	<i>Note</i>	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	45,000	50,000
Deferred government grants		13,419	13,953
Deferred income tax liabilities		4,596	1,905
		<u>63,015</u>	<u>65,858</u>
<b>Current liabilities</b>			
Trade payables	12	1,342,074	740,995
Accruals, advances from customers and other current liabilities		323,147	240,214
Current income tax liabilities		205	5,624
Borrowings	11	1,231,735	1,810,346
Current portion of deferred government grants		1,067	1,067
		<u>2,898,228</u>	<u>2,798,246</u>
<b>Total liabilities</b>		<u>2,961,243</u>	<u>2,864,104</u>
<b>Total equity and liabilities</b>		<u>4,498,633</u>	<u>4,443,978</u>
<b>Net current assets</b>		<u>80,569</u>	<u>295,649</u>
<b>Total assets less current liabilities</b>		<u>1,600,405</u>	<u>1,645,732</u>

## CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended 30 June 2012

	<i>Note</i>	Six months ended 30 June	
		2012	2011
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	13	5,641,062	5,741,943
Cost of sales	14	(5,575,161)	(5,505,665)
<b>Gross profit</b>		<b>65,901</b>	236,278
Other income – net		1,244	2,425
Other losses – net		(80)	(788)
Distribution costs	14	(39,492)	(31,788)
Administrative expenses	14	(38,259)	(34,059)
<b>Operating (losses)/profit</b>		<b>(10,686)</b>	172,068
Finance income	15	5,117	5,465
Finance costs	15	(63,440)	(48,093)
Finance costs – net	15	(58,323)	(42,628)
<b>(Losses)/Profit before income tax</b>		<b>(69,009)</b>	129,440
Income tax credit/(expense)	16	15,220	(31,328)
<b>(Losses)/Profit for the period</b>		<b>(53,789)</b>	98,112
Other comprehensive income for the period		–	–
<b>Total comprehensive income for the period</b>		<b>(53,789)</b>	98,112
<b>Attributable to:</b>			
Equity holders of the Company		(53,175)	97,647
Non-controlling interests		(614)	465
		<b>(53,789)</b>	98,112
<b>(Losses)/Earnings per share for profit attributable to equity holders of the Company during the period</b> (expressed in RMB per share)			
– basic (losses)/earnings per share	17	(0.05)	0.09
– diluted (losses)/earnings per share	17	(0.05)	0.09
<b>Interim dividends</b>		–	–

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to equity holders of the Company		Non-controlling interests	Total equity
	Share Capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2012</b>	89,215	1,426,210	64,449	1,579,874
<b>Comprehensive income</b>				
Losses for the period	–	(53,175)	(614)	(53,789)
<b>Total comprehensive income for the period</b>	–	(53,175)	(614)	(53,789)
<b>Transaction with owners</b>				
Employee share options scheme	–	744	–	744
Capital injection by a non-controlling shareholder	–	–	40,000	40,000
Dividend paid	–	(29,439)	–	(29,439)
<b>Total transaction with owners</b>	–	(28,695)	40,000	11,305
<b>Balance at 30 June 2012</b>	<u>89,215</u>	<u>1,344,340</u>	<u>103,835</u>	<u>1,537,390</u>

	Attributable to equity holders of the Company		Non-controlling interests	Total equity
	Share Capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2011</b>	89,215	1,337,377	24,861	1,451,453
<b>Comprehensive income</b>				
Profit for the period	–	97,647	465	98,112
<b>Total comprehensive income for the period</b>	–	97,647	465	98,112
<b>Transaction with owners</b>				
Employee share options scheme	–	860	–	860
<b>Total transaction with owners</b>	–	860	–	860
<b>Balance at 30 June 2011</b>	<u>89,215</u>	<u>1,435,884</u>	<u>25,326</u>	<u>1,550,425</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities	<b>678,682</b>	(250,948)
Cash flows from investing activities	<b>(219,910)</b>	(177,183)
Cash flows from financing activities	<b>(543,611)</b>	175,620
Net decrease in cash and cash equivalents	<b>(84,839)</b>	(252,511)
Cash and cash equivalents at beginning of the period	<b>282,854</b>	379,036
Cash and cash equivalents at end of the period	<b>198,015</b>	126,525



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 1. GENERAL INFORMATION

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

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

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

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

### (a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

Amendment to HKFRS 7 "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The adoption of this amendment will result in additional disclosures where necessary.

### (b) Standards, amendments and interpretations to existing standards effective in 2012 but not relevant to the Group

HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
HKFRS 12 (Amendment)	Deferred tax: Recovery of underlying assets

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2012 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
HKFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

### 4. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 5. FINANCIAL RISK MANAGEMENT

#### 5.1 Financial risk factors

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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

#### 5.2 Fair value estimation

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

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 6. PROPERTY, PLANT AND EQUIPMENT

	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'00
<b>At 1 January 2011</b>							
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
<b>Year ended 31 December 2011</b>							
Opening net book amount	180,035	333,625	4,262	7,895	594	347,298	873,709
Additions	3,295	6,397	3,187	1,029	–	367,738	381,646
Transfer	54,398	205,068	369	40	–	(259,875)	–
Disposals	(203)	(74)	(34)	(78)	–	–	(389)
Depreciation	(9,278)	(53,530)	(1,450)	(2,474)	(101)	–	(66,833)
Closing net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
<b>At 31 December 2011</b>							
Cost	256,044	658,490	11,747	16,999	832	455,161	1,399,273
Accumulated depreciation	(27,797)	(167,004)	(5,413)	(10,587)	(339)	–	(211,140)
Net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
<b>Six months ended 30 June 2012</b>							
Opening net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
Additions	2,036	1,102	2,344	2,156	6,430	166,534	180,602
Transfer	2,917	9,042	–	333	–	(12,292)	–
Disposals	–	(607)	–	(209)	–	–	(816)
Depreciation	(5,801)	(29,484)	(932)	(1,091)	(51)	–	(37,359)
Closing net book amount	227,399	471,539	7,746	7,601	6,872	609,403	1,330,560
<b>At 30 June 2012</b>							
Cost	260,997	667,988	14,091	19,257	7,262	609,403	1,578,998
Accumulated depreciation	(33,598)	(196,449)	(6,345)	(11,656)	(390)	–	(248,438)
Net book amount	227,399	471,539	7,746	7,601	6,872	609,403	1,330,560



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 7. INVENTORIES

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Raw materials	824,514	776,778
Finished goods	771,041	728,203
	<u>1,595,555</u>	<u>1,504,981</u>

For the six months ended 30 June 2012, the Group has recognised a loss of approximately RMB3,544,000 (2011: RMB8,708,000) for the write-down of inventories to their net realisable value. These amounts have been included in the cost of sales in the consolidated comprehensive income statements.

### 8. TRADE RECEIVABLES

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Accounts receivable	116,895	115,764
Notes receivable		
– bank acceptance notes	183,958	341,627
– commercial acceptance notes	11,850	13,377
	<u>312,703</u>	470,768
Less: provision for impairment	<u>(1,042)</u>	<u>(1,042)</u>
Trade receivables – net	<u>311,661</u>	<u>469,726</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 8. TRADE RECEIVABLES (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:

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Accounts receivable		
– Within 30 days	113,367	92,613
– 30 days to 3 months	1,083	19,734
– 3 months to 6 months	171	2,691
– 6 months to 1 year	2,065	–
– 1 year to 2 years	–	–
– 2 years to 3 years	–	517
– 3 years to 4 years	209	209
	<u>116,895</u>	<u>115,764</u>
Notes receivable		
– Within 6 months	195,808	355,004
	<u>312,703</u>	<u>470,768</u>

### 9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Prepayment for purchase of raw materials	270,917	433,954
Value Added Tax recoverable	102,150	60,705
Custom duties recoverable	1,574	2,686
Deposits and other receivables	8,066	4,138
	<u>382,707</u>	<u>501,483</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 10. SHARE CAPITAL

	Number of shares '000	HKD'000	RMB'000
Authorised share capital			
As at 31 December 2011 and 30 June 2012	<u>1,500,000</u>	<u>150,000</u>	<u>128,886</u>
Issued and fully paid up			
As at 31 December 2011 and 30 June 2012	<u>1,037,500</u>	<u>103,750</u>	<u>89,215</u>

### 11. BORROWINGS

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Non-current		
Bank borrowings	<b>45,000</b>	50,000
Current		
Bank borrowings	<u>1,231,735</u>	<u>1,810,346</u>
Representing :		
Unsecured	<b>1,025,216</b>	1,583,280
Pledged	<u>251,519</u>	<u>277,066</u>
	<u><b>1,276,735</b></u>	<u>1,860,346</u>

As at 30 June 2012, bank borrowings of RMB111,519,000 were secured by pledged bank deposits of RMB113,750,000 in the bank. Bank borrowings of RMB140,000,000 were secured by letter of credit issued by a commercial bank, in lieu of which the Group has placed pledged bank deposits of RMB14,000,000 in the bank.

As at 31 December 2011, bank borrowings of RMB111,066,000 were secured by pledged bank deposits of RMB133,289,000 in the bank. Bank borrowings of RMB166,000,000 were secured by letter of credit issued by a commercial bank, in lieu of which the Group has placed pledged bank deposits of RMB16,600,000 in the bank.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 12. TRADE PAYABLES

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Accounts payable	62,535	35,195
Notes payable	1,279,539	705,800
	<u>1,342,074</u>	<u>740,995</u>

The ageing analysis of the trade payable is as follows:

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Within 6 months	1,342,067	740,995
6 months to 1 year	7	–
	<u>1,342,074</u>	<u>740,995</u>

### 13. SALES AND SEGMENT INFORMATION

	Six months ended 30 June 2012 <i>RMB'000</i>	30 June 2011 <i>RMB'000</i>
Sales of goods	5,641,062	5,741,943

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

Based on these reports, the decision-maker has determined that single business segment information is presented as all of the Group's sales and operating profits are derived from the sales of stainless steel 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 13. SALES AND SEGMENT INFORMATION (Continued)

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

	Six months ended	
	30 June 2012 <i>RMB'000</i>	30 June 2011 <i>RMB'000</i>
– Mainland China	5,472,394	5,637,698
– Hong Kong and other overseas countries and regions*	168,668	104,245
Total sales	<u>5,641,062</u>	<u>5,741,943</u>

\* Other overseas countries and regions for the six months ended 30 June 2012 mainly represented Australia, Korea, India, Malaysia, USA and Russia.

Other overseas countries and regions for the six months ended 30 June 2011 mainly represented Singapore, Korea, USA and Russia.

### 14. EXPENSES BY NATURE

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

	Six months ended	
	30 June 2012 <i>RMB'000</i>	30 June 2011 <i>RMB'000</i>
Changes in inventories of finished goods	33,813	(167,389)
Raw materials consumed	5,453,719	5,605,757
Stamp duty, property tax and other surcharges	6,919	4,530
Transportation costs	29,556	27,369
Employee benefit expenses, including directors' emoluments	54,301	34,429
Depreciation and amortisation	37,460	31,759
Operating lease rental for buildings	774	983
Utilities charges	6,477	3,438
Provision for write-down of inventories	3,544	8,708
Provision for impairment of trade receivables	–	509
Entertainment and travelling expenses	11,231	10,450
Professional service expenses	838	1,244
Others	14,280	9,725
Total cost of sales, distribution costs and administrative expenses	<u>5,652,912</u>	<u>5,571,512</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 15. FINANCE COSTS – NET

	Six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings	55,144	24,127
Interest expenses on bank acceptance notes	5,026	22,860
Exchange losses, net	3,270	1,106
Total finance costs	63,440	48,093
Interest income from bank deposit	(5,117)	(5,465)
	<b>58,323</b>	<b>42,628</b>

### 16. INCOME TAX CREDIT/(EXPENSE)

	Six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
– Mainland China corporate income tax	(635)	(32,190)
Deferred income tax credit	15,855	862
	<b>15,220</b>	<b>(31,328)</b>

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

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

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

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

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 17. (LOSSES)/EARNINGS PER SHARE

(a) **Basic**

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

	Six months ended	
	30 June 2012 RMB'000	30 June 2011 RMB'000
(Losses)/Profit attributable to equity holders of the Company	(53,175)	97,647
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	1,037,500	1,037,500

(b) **Diluted**

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

	Six months ended	
	30 June 2012 RMB'000	30 June 2011 RMB'000
(Losses)/profit used to determine diluted (losses)/earnings per share	(53,175)	97,647
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	1,037,500	1,037,500
Adjustments for:		
– Share options ( <i>thousands</i> )	–	–
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	1,037,500	1,037,500



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

### 18. COMMITMENTS

#### (a) Capital commitments

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Contracted but not provided for:		
Acquisition of property, plant and equipment	<u>336,973</u>	<u>305,962</u>

#### (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:

	As at 30 June 2012 <i>RMB'000</i>	As at 31 December 2011 <i>RMB'000</i>
Not later than 1 year	2,058	1,506
Later than 1 year and not later than 5 years	<u>3,713</u>	<u>3,653</u>
	<u>5,771</u>	<u>5,159</u>

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE**

The Company adopted the Corporate Governance Code (the “CG Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. The Company has complied with the CG Code during the six months ended 30 June 2012 except for the deviation from code provision A.2.1, which stipulates that the roles of chairman and chief executive 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 were held by Mr. Zhou Keming. The Company is of the view that Mr. Zhou Keming, with his extensive knowledge in the stainless steel industry, shall continue his dual capacity as the chairman and the chief executive of the Company. The Board would nevertheless review this arrangement from time to time in light of prevailing circumstances. For detailed information, please refer to the Corporate Governance Report in the Company’s 2011 Annual Report.

### **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 six months ended 30 June 2012.

### **SHARE CAPITAL**

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

### **INTERIM DIVIDENDS**

The Directors do not recommend payment of an interim dividend in respect of the six months ended 30 June 2012 (2011: nil).

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

There was no purchase, sale or redemption of the Company’s listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2012.

### **AUDIT COMMITTEE**

The Audit Committee of the Company has discussed with the management and reviewed the unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2012 and considered that the Company has complied with all applicable accounting standards and requirements.

## CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2011 Annual Report of the Company are set out below:

Name of Director	Details of Changes
Zhou Keming	Appointed as the chairman of the board of 大明重工有限公司 (Daming Heavy Industry Company Limited).  Appointed as the authorised representative and the director of 大明金屬製品無錫有限公司 (Daming Metal Products Wuxi Company Limited).
Tang Zhonghai	Appointed as a director of 大明重工有限公司 (Daming Heavy Industry Company Limited).
Xu Xia	Appointed as a director of 大明重工有限公司 (Daming Heavy Industry Company Limited).

## SHARE OPTION SCHEME

The Company adopted a Share Option Scheme on 9 November 2010. Principal terms of the Share Option Scheme were set out in our 2011 Annual Report.

Particulars of share options outstanding under the Share Option Scheme at the beginning and at the end of the financial period for the six months ended 30 June 2012 and share options granted, exercised, cancelled or lapsed under the Share Option Scheme during such period are as follows:

Name or category of participant	Date of grant	Exercise price (HK\$)	Number of share options				As at 30 June 2012	Exercise period
			As at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period		
<b>Director</b>								
Mr. Tang Zhonghai	21 December 2010	2.452	600,000 <sup>(1)</sup>	-	-	-	600,000	21 December 2013 to 20 December 2020
<b>Other employees in aggregate</b>	21 December 2010	2.452	4,900,000 <sup>(1)</sup>	-	-	-	4,900,000	21 December 2013 to 20 December 2020
Total			5,500,000	-	-	-	5,500,000	

<sup>(1)</sup> 30% of share options are exercisable on the third anniversary date of the date of grant; 60% of share options are exercisable on the fourth anniversary date of the date of grant; and all share options are exercisable on the fifth anniversary date of the date of grant.

## Other Information

### SHARE AWARD SCHEME

The Company adopted a Share Award Scheme on 25 August 2011. Principal terms of the Share Award Scheme were set out in our 2011 Annual Report.

For the period ended 30 June 2012, no shares were granted to the selected employees.

### EMOLUMENT POLICY

The Group employed a total of 1,492 staffs as at 30 June 2012 (2011: 1,089).

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

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

As at 30 June 2012, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interests	Number of shares/ underlying shares held	% of issued share capital
Mr. Zhou Keming (also Chief Executive Officer)	Corporate <sup>(2)</sup>	709,275,000	68.36%
Ms. Xu Xia	Corporate <sup>(2)</sup>	709,275,000	68.36%
Mr. Zou Xiaoping	Family <sup>(3)</sup>	7,350,000	0.71%
Mr. Tang Zhonghai	Personal <sup>(4)</sup>	600,000	0.06%

<sup>(2)</sup> 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.

<sup>(3)</sup> The shares are held by Mr. Zou Xiaoping's spouse, Ms. Li Jun.

<sup>(4)</sup> The interest represents the underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed Share Option Scheme.

## Other Information

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

Name of Director	Name of associated corporation <sup>(5)</sup>	Nature of interests	Number of shares held	% of issued share capital of associated corporation
Mr. Zhou Keming	Ally Good Group Limited	Personal <sup>(6)</sup>	1,000	100%
Ms. Xu Xia	Ally Good Group Limited	Personal <sup>(6)</sup>	1,000	100%

<sup>(5)</sup> As at 30 June 2012, Ally Good Group Limited is the holder of 68.36% of the issued share capital of the Company and is an associated corporation under SFO.

<sup>(6)</sup> 772 shares are held by Mr. Zhou Keming and 228 shares are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

Save as disclosed above, as at 30 June 2012, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2012, 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:

Name of Shareholder	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
<i>Long position</i>		
Ally Good Group Limited	709,275,000 <sup>(7)</sup>	68.36%
Deutsche Bank Aktiengesellschaft	56,904,078 <sup>(8)</sup>	5.48%
<i>Short position</i>		
Deutsche Bank Aktiengesellschaft	23,004,078 <sup>(8)</sup>	2.21%

## Other Information

<sup>(7)</sup> As Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, they have interest in these shares as disclosed under the previous section.

<sup>(8)</sup> The shares held by Deutsche Bank Aktiengesellschaft are held in the following capacities:

Capacity	No. of shares
Beneficial owner	23,004,078 (Long position)
	23,004,078 (Short position)
Person having a security interest in shares	33,900,000 (Long position)

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2012.

### EVENT AFTER THE END OF THE REPORTING PERIOD

During 18 July 2012 to 20 July 2012 and 23 August 2012 to 31 August 2012, Ally Good Group Limited, a substantial shareholder of the Company and a company owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, acquired 6,596,000 ordinary shares of the Company on exchange. Therefore, the deemed interests of Mr. Zhou Keming and Ms. Xu Xia in the Company increased to approximately 69.00% as at 31 August 2012.