DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code :1090

2012 Annual Report

contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Keming *(Chairman)*
Ms. Xu Xia
Mr. Zou Xiaoping
Mr. Tang Zhonghai
Mr. Kang In Soo

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

PRINCIPAL 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

PRINCIPAL BANKERS

In Hong Kong

China CITIC Bank International Limited
China Construction Bank Hong Kong Branch

In China

Agricultural Bank of China, Xishan Sub-branch
China CITIC Bank, Wuxi Guangrui Road Sub-branch
Bank of China, Xishan District Dongbei Tang Sub-branch
China Everbright Bank, Wuxi Branch

STOCK CODE

1090

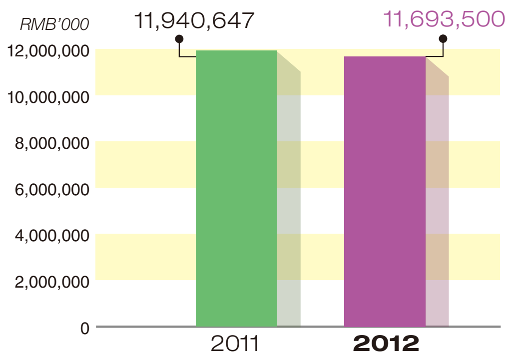
WEBSITE

http://www.dmssc.net

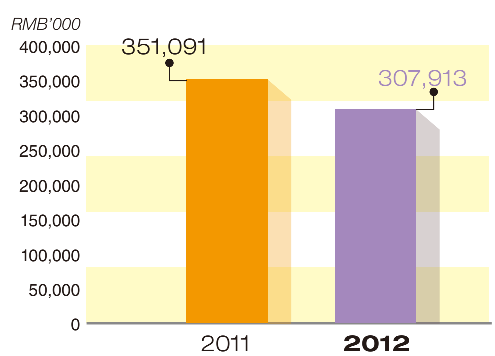
Financial and Operating Highlights

	2012 RMB'000	2011 RMB'000	% change
FINANCIAL HIGHLIGHTS			
Revenue	**11,693,500**	11,940,647	-2.1%
Gross profit	**307,913**	351,091	-12.3%
Profit attributable to equity holders of the Company	**30,585**	103,641	-70.5%
Gross profit per tonne	**RMB438**	RMB595	-26.4%

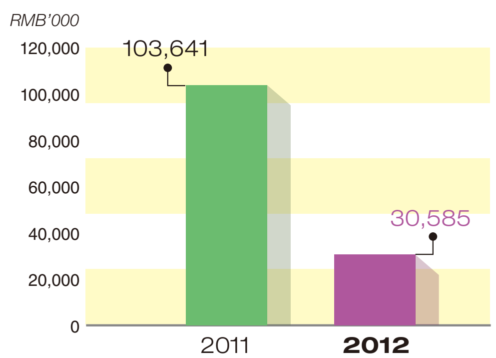
Revenue



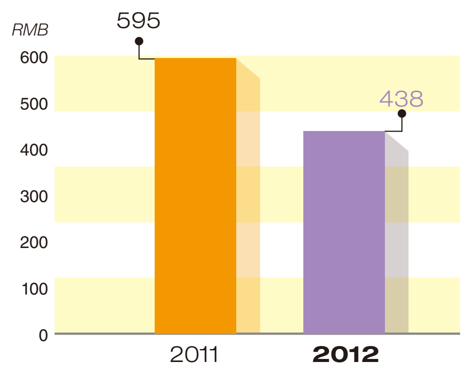
Gross profit



Profit attributable to equity holders of the Company



Gross profit per tonne

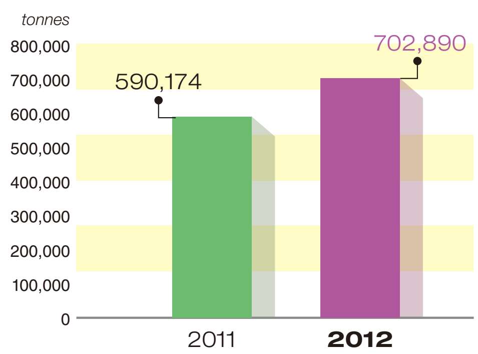


Financial and Operating Highlights

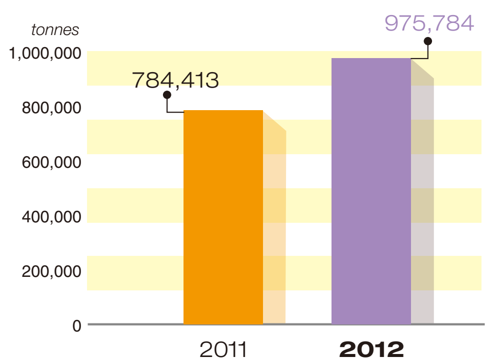
	2012	2011	% change
OPERATING HIGHLIGHTS			
Sales volume	**702,890 tonnes**	590,174 tonnes	+19.1%
Processing volume	**975,784 tonnes**	784,413 tonnes	+24.4%
Processing multiple (note)	**1.39**	1.33	+4.5%

Note: Processing multiple = Processing volume/Sales volume

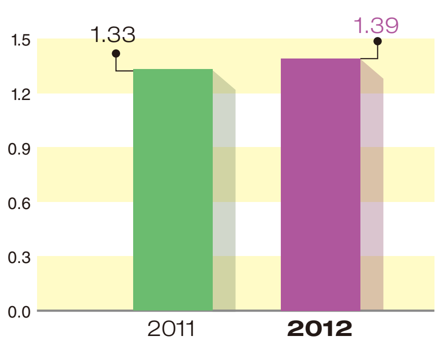
Sales volume



Processing volume



Processing multiple



Financial and Operating Highlights

The sales volume and processing volume of our processing centres for the years ended 31 December 2012 and 2011 are as follows:

Sales volume

	Year ended 31 December		
	2012	2011	
Processing centre	***tonnes***	*tonnes*	*% change*
Wuxi	**457,496**	387,298	+18.1%
Wuhan	**31,605**	30,340	+4.2%
Hangzhou	**112,587**	91,557	+23.0%
Tianjin	**101,202**	80,979	+25.0%
	702,890	590,174	+19.1%

Processing volume

	Year ended 31 December		
	2012	2011	
Processing centre	***tonnes***	*tonnes*	*% change*
Wuxi	**764,499**	622,411	+22.8%
Wuhan	**13,442**	13,162	+2.1%
Hangzhou	**115,144**	87,733	+31.2%
Tianjin	**82,699**	61,107	+35.3%
	975,784	784,413	+24.4%

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 annual report of the Company for the year ended 31 December 2012.

BUSINESS REVIEW

2012 was another challenging year for the Group. The continual decline in the market price of the stainless steel materials adversely affected the results of the Group during the first half of 2012 and we reported a net loss of approximately RMB53 million in our interim report. In view of the unfavourable market condition, we have collaborated with major stainless steel manufacturers more closely to increase both our sales volume and processing volume in the second half of the year. With the stabilization of the market price of stainless steel materials in the third quarter of 2012, our results turned around and we were able to achieve a net profit for both the second half of 2012 as well as for the full year.

In spite of these unfavourable factors, the sales volume and the processing volume of the Group in 2012 had reached a record high of 702,890 tonnes and 975,784 tonnes respectively.

The annual sales volume of the Group increased from 590,174 tonnes in 2011 to 702,890 tonnes in 2012 representing an increase of approximately 19.1%. The total processing volume of our four processing centres increased from 784,413 tonnes to 975,784 tonnes in 2012 representing an increase of approximately 24.4%. Processing multiple increased from 1.33 in 2011 to 1.39 in 2012 which reflected an increase in demand for our advance processing services.

The Group has launched its welding processing service in its

Chairman's Statement

Welding processing service

Wuxi processing centre during 2012. The welding processing service strengthens the Group's abilities in serving customers in the construction machineries, petrochemical and ship building industries. Together with the other processing services we provided, our Wuxi processing centre will be able to develop into a spare parts supplier for our manufacturing customers. The second phase of our Hangzhou processing centre was also completed in 2012 and more advance processing equipments will be installed in order to expand the overall processing capacities and capabilities. We saw a satisfactory growth in the processing volume in our Tianjin processing centre in 2012. In view of its special geographical location, the Group will expand the export business in our Tianjin processing centre. There had been strong demands of our stainless steel processing services in the Wuhan area in the past years. With an aim to consolidate the businesses of Hunan and Hubei provinces, a new processing centre will be built in Wuhan instead of in Changsha as initially planned. This new processing centre equipped with enhanced processing facilities will take over the businesses of our existing processing centre in Wuhan. The building infrastructure of our Taiyuan processing centre has been substantially completed and machineries installation has been started in the last quarter of 2012.

Taiyuan processing centre

In November 2012, the Group signed a strategic cooperation framework agreement with Baosteel Group, the largest steel corporation in the PRC, whereas Baosteel Group and our Group will join our efforts to explore new markets especially for the high-end users. We will provide advance processing services on stainless steel materials produced by Baosteel Group. Through this strategic cooperation, the Group is able to broaden its supply chain of stainless steel materials.

OUTLOOK

The anticipated growth in demand for stainless steel materials in 2013 will not be as rapid as previous years. However, the Group will benefit from the development of high-end manufacturing industries in the PRC since we are able to provide advance stainless steel processing services to these high-end manufacturing customers as a consequence of our continual investment in modern processing equipments and improvement in processing techniques in recent years.

In addition to the stainless steel processing services, we shall extend our processing services to other metals especially carbon steel in 2013. We will also start the Jingjiang project which includes a large scale logistics complex in Jingjiang, Jiangsu province capable of providing processing services for both stainless steel and non-stainless steel metals.

APPRECIATION

On behalf of the Board, I would like to thank the management and staff for their dedication, effort and contribution towards the Company. I would also like to thank the shareholders for their support to the Company.

GROUP PROFILE

We are a leading stainless steel processing service provider in China which provides processing services to manufacturers across different industries.

BUSINESS MODEL

Stainless steel producers typically sell their products in the form of standard sized coils and plates. As stainless steel production is capital-intensive, stainless steel producers generally do not provide direct supply and delivery to manufacturing customers with small orders. On the other hand, the numerous manufacturing customers have their own individualized requirements and specifications which the stainless steel producers cannot satisfy due to efficiency concerns.

We are an important link within the manufacturing value chain. By aggregating the demand from the numerous downstream manufacturing customers, we purchase the stainless steel raw materials in large volume from upstream producers and then process them according to the individual specification of these customers. In addition to sourcing services, we also provide technical advices to our customers on choices of stainless steel materials as well as scientific solutions to increase their material utilization rate.

With the comprehensive processing facilities in our processing centres and a team of experienced engineers, we are able to process the stainless steel raw materials according to the individual specifications of different manufacturing customers. By outsourcing their sourcing and processing operations to us, our customers can reduce their material costs and manufacturing costs.

PROCESSING SERVICES

We have a network of four processing centres situated in Wuxi, Wuhan, Hangzhou and Tianjin. The fifth processing centre of our Group situated in Taiyuan is expected to commence business in the second half of 2013. We provide a wide variety of processing services to our customers, including coil cutting, surface polishing, plate cutting, forming, machining and welding services.

We have more than 8,000 active customers covering different 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


Parts for energy saving and environmental protection projects

Our production process includes coil cutting, surface polishing, plate cutting, forming, machining and welding. Coil cutting includes cutting to length and slitting. Cutting to length involves the cutting of stainless steel coils into stainless steel plates of lengths specified by the customers. Slitting involves the cutting of stainless steel coils into strips of different widths according to customers' requirements. Surface polishing includes coil polishing and plate polishing. Plate cutting involves the cutting of stainless steel plates into different shapes and cutting holes and patterns specified by our customers. Our plate cutting machines include laser cutting, plasma cutting and water jet cutting which cater for different needs of our customers. Forming involves the bending and transforming of stainless steel plates into three-dimensional shapes. Machining is currently the most in-depth processing service we provide to our customers which involves the processing of stainless steel raw materials into large-size parts and structures by our machining platforms. Welding involves the joining of different small spare parts into a larger spare parts by means of heating.

PRICING

Our pricing method is based on the prevailing market price of stainless steel raw material as at the date of the sales orders plus processing fees and the costs of packaging and delivery. Processing fees to be charged by us depend on the complexity of the processing services required. Higher processing fees will be charged for more complicated or time-consuming processing services.


Parts for anti-theft system

The processing multiple, which is defined as the processing volume divided by the sales volume during a period, indicates the average number of rounds of processing services our customers require from us. A higher processing multiple implies that more in-depth processing services are provided which, in turn, implies that higher processing fees will be charged to our customers.

FINANCIAL REVIEW AND ANALYSIS

During the year under review, we recorded a revenue of approximately RMB11,694 million, gross profit of approximately RMB308 million and the profit attributable to equity holders of the Company of approximately RMB31 million. Total assets of the Group as at 31 December 2012 amounted to approximately RMB4,191 million while equity attributable to equity holders of the Company amounted to approximately RMB1,518 million.

Revenue

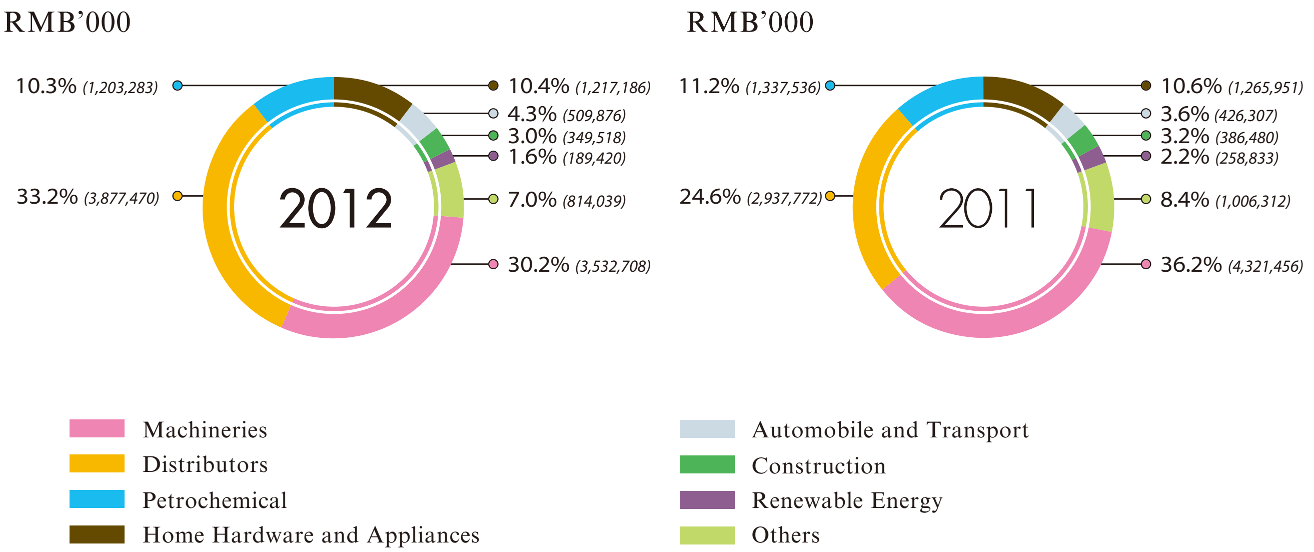
Our revenue decreased by approximately RMB247 million, or 2.1%, from approximately RMB11,941 million in 2011 to approximately RMB11,694 million in 2012. Such decrease was due to a decrease in the average selling prices of our stainless steel products from RMB20,232 per tonne in 2011 to RMB16,636 per tonne in 2012. The effect of decrease in average selling prices was almost fully offset by an increase in sales volume from 590,174 tonnes in 2011 to 702,890 tonnes in 2012.

Analysis of revenue by key industry segments

During the years ended 31 December 2012 and 2011, our revenue by key industry segments are shown below:

	Revenue For the year ended 31 December			
	2012		2011	
Industry	***RMB'000***	*%*	*RMB'000*	*%*
Machineries	**3,532,708**	**30.2**	4,321,456	36.2
Distributors	**3,877,470**	**33.2**	2,937,772	24.6
Petrochemical	**1,203,283**	**10.3**	1,337,536	11.2
Home Hardware and Appliances	**1,217,186**	**10.4**	1,265,951	10.6
Automobile and Transport	**509,876**	**4.3**	426,307	3.6
Construction	**349,518**	**3.0**	386,480	3.2
Renewable Energy	**189,420**	**1.6**	258,833	2.2
Others	**814,039**	**7.0**	1,006,312	8.4
Total	**11,693,500**	**100.0**	11,940,647	100.0

Management Discussion and Analysis

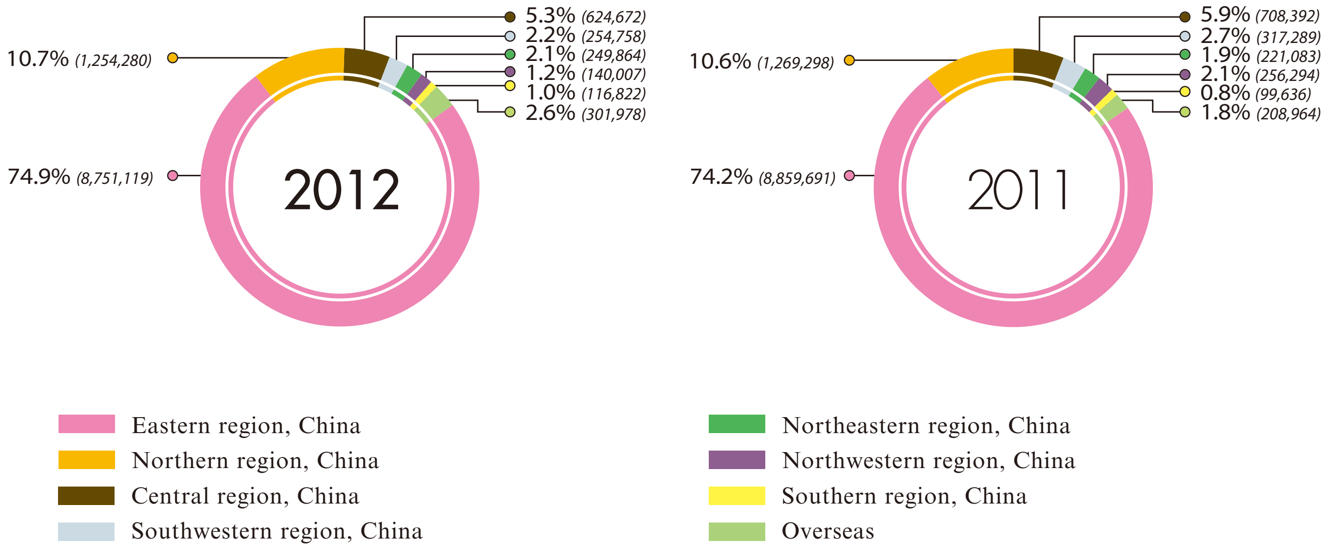


The four largest customer segments during the years ended 31 December 2012 and 2011 were machineries, distributors, petrochemical and home hardware and appliances which, in aggregate, accounted for over 80% of our total revenue.

Analysis of revenue by geographic regions

	Revenue For the year ended 31 December			
	2012		2011	
Region	***RMB'000***	*%*	*RMB'000*	*%*
Eastern region, China	**8,751,119**	**74.9**	8,859,691	74.2
Northern region, China	**1,254,280**	**10.7**	1,269,298	10.6
Central region, China	**624,672**	**5.3**	708,392	5.9
Southwestern region, China	**254,758**	**2.2**	317,289	2.7
Northeastern region, China	**249,864**	**2.1**	221,083	1.9
Northwestern region, China	**140,007**	**1.2**	256,294	2.1
Southern region, China	**116,822**	**1.0**	99,636	0.8
Overseas	**301,978**	**2.6**	208,964	1.8
	11,693,500	**100.0**	11,940,647	100.0

RMB'000 RMB'000



Our stainless steel products are sold mainly to domestic customers. As illustrated above, a majority of our sales during the years ended 31 December 2012 and 2011 was derived from the Eastern region of China, which was in line with where the majority of stainless steel was consumed in China.

Gross profit

Gross profit decreased from approximately RMB351.1 million in 2011 to approximately RMB307.9 million in 2012 due to the continual decline in market price of stainless steel. Gross profit per tonne decreased from RMB595 in 2011 to RMB438 in 2012 representing a decrease of approximately 26.4%.

Other income

Other income increased from approximately RMB12.8 million in 2011 to approximately RMB13.7 million in 2012. The increase in other income was mainly due to the increase in subsidy income from local government of approximately RMB2.8 million which was partially offset by a decrease in sales of scraps and packaging materials of approximately RMB2.0 million.

Other losses, net

Other losses increased from approximately RMB1.7 million in 2011 to approximately RMB4.9 million in 2012. The increase in other losses was mainly due to an increase in exchange losses incurred.

Distribution costs

Distribution costs increased from approximately RMB74.9 million in 2011 to approximately RMB81.0 million in 2012. The increase was mainly attributable to an increase in staff salaries and employee benefit expenses due to an increase in sales staff. Additional sales staff were recruited and trained in the headquarter for assignment to new processing centres in future.

Administrative expenses

Administrative expenses increased from approximately RMB80.3 million in 2011 to approximately RMB95.6 million in 2012 mainly attributable to the increases in staff salaries and employee benefit expenses due to the employment of additional senior management staff. Additional senior management staff were employed to monitor and manage new processing centres as well as new businesses.

Finance costs, net

Finance costs increased from approximately RMB66.7 million in 2011 to approximately RMB94.9 million in 2012 mainly due to the increase in interest expenses on bank borrowings as a result of the increase in interest rate.

Income tax expense

Income tax expense decreased from approximately RMB35.8 million in 2011 to approximately RMB13.8 million in 2012 mainly attributable to the decrease in operating profit in 2012.

Profit for the year

Profit for the year decreased from approximately RMB103.2 million in 2011 to approximately RMB30.1 million in 2012 representing a decrease of approximately 70.8%. The decrease in profit was attributable to the continual decline in market price of stainless steel, higher staff salaries and employee benefit expenses, higher depreciation expenses and higher finance costs incurred to cater for larger operation scale.

Capital expenditure

In 2012, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB353.1 million (2011: RMB381.6 million) and the additions of land use rights of approximately RMB70.9 million (2011: nil).

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 deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar, EURO and Hong Kong Dollar, which are exposed to foreign currency translation risk.

Our 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 AND FINANCIAL RESOURCES

As at 31 December 2012, the bank loans of the Group amounted to approximately RMB1,524.5 million. Notes payable amounted to approximately RMB689.4 million as at 31 December 2012 while the bank balances were approximately RMB380.3 million of which approximately RMB197.7 million were pledged mainly for the issuance of notes payable 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 ratio as at 31 December 2012 and 2011 calculated on this basis was 44.7% and 50.0% respectively.

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 31 December 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. Approximately RMB139.1 million had been invested in the Jingjiang processing and logistics complex. To consolidate the demand in the Wuhan and Changsha area, approximately RMB65.0 million had been allocated for the development of a new processing centre in Wuhan. 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.

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 complied the former Code on Corporate Governance Practices (effective until 31 March 2012) and the new Corporate Governance Code (the "CG Code") (effective from 1 April 2012) set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 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 officer were held by Mr. Zhou Keming. Section headed "Chairman and Chief Executive Officer" explains the deviation. The Company adopted the CG Code as its own code of corporate governance.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all 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 year ended 31 December 2012.

BOARD OF DIRECTORS

Composition

The Board of Directors (the "Board") comprises 5 executive directors, 1 non-executive director and 3 independent non-executive directors. As of 31 December 2012, the directors of the Company 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. Zou Xiaoping		Mr. Cheuk Wa Pang
Mr. Tang Zhonghai		
Mr. Kang In Soo		

On 22 March 2012, Mr. Kang In Soo was appointed as a director of the Company and Mr. Qian Li resigned as a director of the Company.

The biographical details of the Directors are set out on pages 27 to 29 of this Annual Report. Save as Mr. Zhou Keming is the spouse of Ms. Xu Xia, none of the members of the Board is related to one another.

BOARD MEETING

The Board meets regularly and board meetings are held at least four times a year at approximately quarterly intervals. All the Directors are given opportunities to include matter in the agenda for regular board meetings. Notices of regular board meetings are given to all Directors at least 14 days before the meeting. 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.

Seven board meetings were held in the financial year ended 31 December 2012. 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	Attendance rate
Executive directors		
Mr. Zhou Keming *(Chairman)*	7/7	100%
Ms. Xu Xia	7/7	100%
Mr. Zou Xiaoping	7/7	100%
Mr. Tang Zhonghai	7/7	100%
Mr. Qian Li	2/2 [a]	100%
Mr. Kang In Soo	5/5 [b]	100%
Non-executive director		
Mr. Jiang Changhong	6/7	85.7%
Independent non-executive directors		
Prof. Hua Min	5/7	71.4%
Mr. Chen Xuedong	7/7	100%
Mr. Cheuk Wa Pang	6/7	85.7%

[a] Mr. Qian Li resigned as a director with effect from 22 March 2012.

[b] Mr. Kang In Soo was appointed as a director with effect from 22 March 2012.

During the year, a meeting of the chairman of the Board (the "Chairman") and the non-executive directors (including independent non-executive directors) without the presence of other executive directors and the management was held to discuss and review the performance of the executive directors and the management.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

To ensure all Directors' contribution to the Board remain informed and relevant, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills.

During the year, the Company had organised a training seminar for the Directors. The training seminar covered topics including the responsibilities and requirements of a listed company's director, the new CG Code and board functions. Eight out of nine Directors, namely Mr. Zhou Keming, Ms. Xu Xia, Mr. Zou Xiaoping, Mr. Tang Zhonghai, Mr. Kang In Soo, Mr. Jiang Changhong, Mr. Chen Xuedong and Mr. Cheuk Wa Pang attended the training seminar. In addition, individual directors also participated in other courses to update their knowledge in new codes, rules, requirements and their focused professional area.

All Directors had provided their training records for the year 2012 to the Company.

Furthermore, each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of his/her responsibilities under the relevant laws, rules, codes and regulations.

MONTHLY UPDATE

Management provided all members of the Board with monthly report including monthly financial and operating updates, proposed projects and latest development of the Group. Through the monthly report, Board members are able to follow closely the Group's latest development.

BOARD OPERATIONS

The Board is accountable to the shareholders and has responsibility for strategic leadership, directing and overseeing all major matters of the Group. Day-to-day management, administration and operation of the Company is delegated to senior management or the officer in charge of each division and they are required to report to the Board. Some key decisions, however, were taken by the Board, including but not limited to:

- The Group's strategy and management
- Corporate structure and capital
- Financial reporting and controls
- Internal controls
- Agreements/business transactions/financial commitment
- Shareholders communication
- Board membership and senior management appointments
- Remuneration
- Corporate governance matters
- Board policies

Directors and senior management hold regular meetings to ensure the strategies and policies set out by the Directors are implemented effectively. The Board has also delegated some of its functions to the board committees, details of which are set out in sub-sections headed Remuneration Committee, Nomination Committee and Audit Committee.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions of the Company. A summary of the work performed by the Board relating to corporate governance functions is listed below:

- reviewed the Company's corporate governance policy and practices on corporate governance;
- reviewed, monitored and arranged training and continuous professional development of Directors and senior management;
- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- reviewed the code of conduct applicable to the Directors; and
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under CG Code provision A.2.1, the roles of chairman and chief executive should be separate 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, Tianjin and Taiyuan offices to assist the chief executive 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 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 DIRECTOR

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 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors ("INEDs") 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.

The Board met the requirements of the Listing Rules in relation to the appointment of at least three INEDs with at least one independent non-executive director ("INED") possessing appropriate professional accounting qualifications, or accounting, or related financial management expertise.

The Company has received, from each of the INED, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs 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 Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular 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 have been revised to comply with the revised CG Code effective on 1 April 2012, which 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 formal and transparent procedures for determination of such remuneration policies. The Remuneration Committee comprises the three INEDs, 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.

The Remuneration Committee refers to below policies when determining the remuneration of Directors:

1. No director or any of his/her associates is involved in deciding his/her own remuneration;

2. Remuneration levels should be sufficient to attract and retain directors to run the Company successfully but without paying more than necessary; and

3. Remuneration should reflect performance, complexity and responsibility.

The Remuneration Committee held one meeting during the financial year ended 31 December 2012. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Remuneration Committee Members	**No. of meeting attended/ No. of meeting held**	**Attendance rate**
Mr. Cheuk Wa Pang *(Chairman)*	1/1	100%
Prof. Hua Min	0/1	0%
Mr. Chen Xuedong	1/1	100%
Mr. Zou Xiaoping	1/1	100%

A summary of the work performed by the Remuneration Committee during the financial year is listed below:

(1) Reviewed the remuneration policy of the Company and determined the remuneration packages for the Board and senior management.

(2) Reviewed the Company's share options scheme and share award scheme.

(3) Reviewed the level of remuneration for non-executive director and INEDs. Ensured the remunerations are linked to their level of responsibilities, undertaken and contribution in terms of time commitment to the effective functioning of the Board.

(4) Reviewed the performance of the executive directors, chief executive officer and key senior management officers and recommend to the Board specific adjustments in remuneration.

The 2012 annual salary review and allocation of discretionary bonus had been noted and reviewed by the members of the Remuneration Committee.

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 have been revised to comply with the revised CG Code effective on 1 April 2012, which 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 INEDs, 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.

Appointments of directors are considered by the Nomination Committee initially before putting the recommendations to the full Board for decision. All Directors are subject to election by shareholders at the AGM in their first year of appointment.

The Nomination Committee held one meeting during the financial year ended 31 December 2012. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

Name of Nomination Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	1/1	100%
Prof. Hua Min	1/1	100%
Mr. Chen Xuedong	1/1	100%
Mr. Zou Xiaoping	1/1	100%

A summary of the work performed by the Nomination Committee during the financial year is listed below:

(1) Nomination of Mr. Kang In Soo as executive Director with effect from 22 March 2012;

(2) Reviewed the independence of all INEDs; and

(3) Reviewed the composition of the Board, skills, knowledge and qualifications of the Directors.

AUDIT COMMITTEE

The Audit Committee was established by the Board on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Audit Committee have been revised to comply with the revised CG Code effective on 1 April 2012, which are available on the Company's website. The Audit Committee comprises the three INEDs, they are Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong. Mr. Cheuk Wa Pang is the chairman of the Audit Committee.

The Audit Committee is responsible for reviewing and supervising the financial reporting process, the system of internal controls and risk management. It is also responsible for reviewing the terms of engagement of the Company's auditor as well as their independence.

The Audit Committee held three meetings during the financial year ended 31 December 2012. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Audit Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	3/3	100%
Prof. Hua Min	3/3	100%
Mr. Chen Xuedong	2/3	66.67%

A summary of the work performed by the Audit Committee during the financial year is listed below:

(1) Reviewed the Group's 2012 interim financial results;

(2) Reviewed the Group's 2012 final results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's auditor for the financial year ending 31 December 2013 at the forthcoming AGM of the Company;

(3) Reviewed the results of the audit on the continuing connected transactions;

(4) Granted authorisation of non-audit services for which the auditor provided;

(5) Reviewed the Group's internal control and risk management functions; and

(6) Reviewed the Group's financial and accounting policies and practices with the auditor.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the remuneration paid or payable by the Company and its subsidiaries to the auditor, PricewaterhouseCoopers in respect of their audit and non-audit services were as follows:

Type of services	Fees paid/payable
Audit services	RMB3,400,000
Non-audit services	HK$47,700

The amount for 2012 non-audit services comprised tax-related services fee for the Company and its subsidiaries operating in Hong Kong. The Audit Committee considered that the non-audit services in 2012 did not impair the independence of the Auditor.

COMPANY SECRETARY

Mr. Leung Man Fai has been appointed as company secretary of the Company since 2007. He has complied with Rule 3.29 of the Listing Rules in relation to professional training for the year ended 31 December 2012.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements that give a true and fair view of the Group for the year ended 31 December 2012.

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

SHAREHOLDER RIGHTS

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, pursuant to the Company's Articles of Association, an Extraordinary General Meeting (the "EGM") can be convened by any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company at our principal place of business in Hong Kong at Unit 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Shareholders who wish to put forward proposals at shareholders' meetings may follow the procedures set out in the preceding paragraph.

Shareholders may put their enquiries to the Board by contacting the Company Secretary by the following method:

The Company Secretary
Da Ming International Holdings Limited

Address	:	Unit 1007, Central Plaza 18 Harbour Road Wanchai, Hong Kong
Telephone	:	(852) 2511 0744
Facsimile	:	(852) 2511 4700
Email	:	info@jsdmss.com

Shareholders may also direct their enquiries at the general meeting of the Company.

Detailed procedures for shareholders to propose a person for election as a director are available on the Company's website www.dmssc.net or on request to the Company Secretary.

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 2012 AGM was held on 17 May 2012 at Regal Hongkong Hotel. The related notice and circular have been sent to shareholders in accordance with the applicable rules and regulations. Chairman of the Board and the chairman of the Audit, Remuneration and Nomination Committees attended at the 2012 AGM. In order to ensure shareholders are familiar with the detailed procedures for conducting a poll, an explanation has been given by the Chairman at the commencement of the meeting. The results of the poll have been published on the websites of the Company and Hong Kong Exchanges and Clearing Limited. In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the Chairman of that meeting.

There is no change in the Company's constitutional documents during the year ended 31 December 2012. A consolidation version of the Company's Memorandum and Articles of Association, Shareholder Communication Policy and Procedures for Shareholders' to Propose a Person for Election as a Director are available on the Company's website.

The Company's announcements, circulars and other information are also available on the Company's website www.dmssc.net, which provide with shareholders 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 controls systems. The management conducted review on financial, operation, and compliance controls as well as risk management from time to time and report to the Audit Committee. Audit Committee also oversaw the Group's financial reporting system, internal control procedures and risk management function during the year 2012 and reported to the Board. The Board considered the procedures of internal controls and the risk management systems have been implemented effectively.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhou Keming, aged 43, was appointed as an executive director on 14 February 2007. He is also the chairman of the Board 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 24 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 38, 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 13 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, executive director and Chairman of the Company.

Mr. Zou Xiaoping, aged 48, 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 10 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.

Mr. Tang Zhonghai, aged 54, 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 19 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.

Mr. Kang In Soo, aged 54, was appointed as an executive director on 22 March 2012. Mr. Kang is currently the general manager of Tianjin Taigang Daming Metal Product Co., Ltd. ("Tianjin Taigang Daming"), which is held as to 91% by the Group. He was the vice president of the sales department of Zhangjiagang Pohang Stainless Steel Co., Ltd., one of our key suppliers and an independent third party, from April 2008 to August 2010 and the manager of its sales department from April 2002 to March 2008. Mr. Kang worked in various departments of POSCO from January 1984 to March 2002. Mr. Kang has extensive experience in the stainless steel industry. He graduated from Han Yang University of Korea majoring in Science of Public Administration in February 1981.

NON-EXECUTIVE DIRECTOR

Mr. Jiang Changhong, aged 49, 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 23 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 62, 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 the Institute of World Economy of Fudan University and chief of the Academic Committee of School of Economics of Fudan University. He has over 22 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 48, 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 Zhejing 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 over 26 years of experience in engineering.

Mr. Cheuk Wa Pang, aged 48, was appointed as an independent non-executive director on 20 March 2007. Mr. Cheuk has been the chief financial officer, the qualified accountants 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. Mr. Cheuk has extensive 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 48, is the chief financial officer and company secretary of our Group. Mr. Leung joined our Group in 2007. He has over 20 years of experience in accounting and finance. Before joining our Group, Mr. Leung served as a financial controller and company secretary of a private company during 2003 to 2006. From 1996 to 2003, he served various roles including financial controller, company secretary and finance manager in several listed companies within the ITC Corporation (stock code: 372), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. He also worked as a senior accountant during 1992 to 1996 in Hopewell Holdings Limited (stock code: 54), the shares of which are listed on main board of The Stock Exchange of Hong Kong Limited. Mr. Leung received a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Profile of Directors and Senior Management

Mr. Situ Shunxin, aged 46, is the general manager of Taiyuan Taigang Daming Metal Products Company Limited, which is owned as to 60% by the Group, and is responsible for its management and operation. Mr. Situ joined our Group in 2007. He had been the deputy leader of the organising committee of the project management office of Tianjin Taigang Daming Metal Products Co., Ltd. since 2007 and the deputy general manger and general manager of Tianjin Taigang Daming Metal Products Co., Ltd. since 2009 and 2010 respectively. Mr. Situ has obtained over 23 years of experience in the steel industry. Mr. Situ graduated from Wuhan Steel College in 1989 with a Bachelor degree in Metal Pressure and Processing.

Mr. Zhou Xiaodong, aged 37, is the deputy general manager of Hangzhou Wanzhou Metal Products Co., Ltd. and is responsible for its management and operation. Mr. Zhou joined our Group in 1995. 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 17 years of experience in the steel industry.

Ms. Zhang Lihong, aged 32, is the general manager of Wuhan Fortune Express Metal Products Co., Ltd. and is responsible for its management and operation. Ms. Zhang joined our Group in 2003 and worked in various departments. She was promoted to her current position in September 2011. Ms. Zhang graduated from Nantong Institute of Technology with profession in information management and network technology.

Directors' Report

The Directors are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

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 24 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated comprehensive income statement on page 47.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK$0.010 per share, totalling HK$10,375,000 to shareholders whose names appear on the register of members of the Company on 7 June 2013. The proposed dividend will be paid on 19 June 2013 subject to the approval of the shareholders at the forthcoming AGM of the Company.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As of 31 December 2012, our reserves available for distribution, calculated in accordance with the Companies Law (2012 Revision) of the Cayman Islands amounted to RMB1,257.9 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 consolidated 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 2012.

PRINCIPAL PROPERTIES

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 17 to the consolidated 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 86.3% of the Group's total purchases for the year and the largest supplier accounted for approximately 43.1% 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 Group are set out in Note 22 to the consolidated financial statements.

FIVE-YEAR SUMMARY

A summary of the Group's results, assets, liabilities for the last five 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 Company's Articles of Association (the "Article") 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 SCHEME

The Company adopted a share options scheme on 9 November 2010. The major terms of the share options scheme are as follows:

The purpose of the share options scheme is to attract, retain and motivate talented Participants (as defined below) and to strive for future developments and expansion of our Group. The share options 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 share options 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 share options 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 share options 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 share options 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 daily quotation sheets of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 daily quotation sheets of the Stock Exchange for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares.

The share options 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.

As at 31 December 2012, there were a total of 5,500,000 outstanding share options granted to a director and certain employees of the Group. 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. Details of which are as follows:

			Number of share options					
Name or category of participant	Date of grant	Exercise price (HK$)	As at 1 January 2012	Granted during the year	Exercised during the year	Cancelled /lapsed during the year	As at 31 December 2012	Exercise period
Director								
Mr. Tang Zhonghai	21 December 2010	2.452	600,000	–	–	–	600,000	21 December 2013 to 20 December 2020
Other employees in aggregate	21 December 2010	2.452	4,900,000	–	–	–	4,900,000	21 December 2013 to 20 December 2020
Total			5,500,000	–	–	–	5,500,000	

Details of the valuation of share options during the year are set out in Note 19 to the consolidated financial statements.

SHARE AWARD SCHEME

The Company adopted a share award scheme on 25 August 2011. The major terms of the share award scheme are as follows:

The purpose of the share award scheme is to encourage and retain Selected Employees (including any directors, as defined below) to work with our Group and to provide incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of our Group and aligning the interests of the Selected Employees directly to the shareholders of the Company through ownership of shares.

Selected Employees include employees selected by the Remuneration Committee (after taking into consideration recommendations and suggestions made by the Chairman) and approved by the Board pursuant to the share award scheme rules and employees selected by the trustee after having taken into consideration recommendations made by the Chairman, considered and consented to by the Remuneration Committee and approved by the Board pursuant to the share award scheme rules for participation in the share award scheme.

Subject to any early termination in accordance with the share award scheme rules, the share award scheme shall be valid and effective for a period commencing on 25 August 2011 and ending on a date to be determined by the Board (both dates inclusive), after which no further award will be made but the provisions of the share award scheme shall remain in full force and effect to the extent necessary to give effect to any awards granted prior thereto.

Shares will be acquired by an independent trustee at the cost of the Company and be held in trust for the awarded persons until the end of each vesting period. Where any award is proposed to be made to any Selected Employee who is a director, supervisor or senior management of any member of the Group, or where the Board proposes to waive any conditions imposed on any award made to such Selected Employee, such award or waiver (as the case may be) must first be considered and approved by the Remuneration Committee and by the Board. Where a Selected Employee or his associate (within the meaning of the Listing Rule) is a director, such person shall abstain from voting on any approval by the Remuneration Committee and the Board of an award to such Selected Employee.

As at 31 December 2012, the independent trustee holds 13,336,000 shares of the Company for the share award scheme. No shares have been granted to the Selected Employees of the Group under the share award scheme up to the date of this Report.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to the framework agreement entered into between Jiangsu Daming Metal Products Company Limited ("Jiangsu Daming") and Shanxi Taigang Stainless Steel Co., Ltd. ("STSS") and its subsidiaries on 16 November 2011, Jiangsu Daming agrees to purchase, and STSS agrees to supply stainless steel to the Group. For the period from 1 January 2012 to 31 December 2012, RMB5,271.93 million was paid by the Group to STSS for the supply of 295,641.77 tonnes of stainless steel, not exceeding the proposed cap of RMB11,200 million.

Details of the above transactions were disclosed in the announcement of the Company dated 16 November 2011.

The above continuing connected transactions have been reviewed by the INEDs of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has issued an unqualified letter containing the findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules.

DIRECTORS

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

Executive Directors

Zhou Keming *(Chairman)*
Xu Xia
Zou Xiaoping
Tang Zhonghai
Kang In Soo (appointed on 22 March 2012)
Qian Li (resigned on 22 March 2012)

Non-Executive Directors

Jiang Changhong

Independent Non-Executive Directors

Cheuk Wa Pang
Hua Min
Chen Xuedong

In accordance with Article 84 of the Articles of Association of the Company, Mr. Tang Zhonghai, Mr. Chen Xuedong and Mr. Jiang Changhong will retire from office by rotation at the AGM. All the retiring directors, being eligible, offer themselves for re-election.

The biographical details of Directors are set out on pages 27 to 29 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 contracts 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.

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 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 pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interests	Number of shares/ underlying shares held	% of issued share capital
Mr. Zhou Keming (also Chief Executive Officer)	Corporate [(1)]	734,953,000	70.84%
Ms. Xu Xia	Corporate [(1)]	734,953,000	70.84%
Mr. Zou Xiaoping	Family [(2)]	5,000,000	0.48%
Mr. 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, Ms. Li Jun.

[(3)] The interest represents the underlying shares in respect of the share options granted pursuant to the share options scheme as disclosed under section headed share options scheme.

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

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

[(4)] As at 31 December 2012, Ally Good Group Limited is the holder of 70.84% of the issued share capital of the Company and is an associated corporation under SFO.

[(5)] 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 31 December 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 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 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:

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

Name of Shareholder	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Long position		
Ally Good Group Limited	734,953,000 (6)	70.84%

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2012.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 29 to the consolidated financial statements.

The Group employed a total of 1,510 staffs as at 31 December 2012 (2011: 1,209). There was a 24.9% growth in our workforce in 2012 as compared with 2011. The increase in headcounts was due to the 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 share options scheme and share award 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 in existence during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's issued shares as at 20 March 2013.

CORPORATE GOVERNANCE

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 16 to 26 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and reviewed the audited consolidated annual results of the Company for the year ended 31 December 2012 and considered that the Company has complied with all applicable accounting standards and requirements.

AUDITORS

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

During 3 January 2013 to 10 January 2013, 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 266,000 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 70.86% as at 20 March 2013.

As recommended by the Remuneration Committee and approved by the Board, directors' remuneration of the executive directors, non-executive director and independent non-executive directors were increased by HK$5,000 per month to HK$25,000 per month with effect from 1 January 2013.

By Order of the Board,

Zhou Keming
Chairman
Hong Kong, 20 March 2013

Independent Auditor's Report

pwc

羅兵咸永道

To the shareholders of
Da Ming International Holdings Limited
(incorporated in the 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 44 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated comprehensive income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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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 2012, 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, 20 March 2013

Consolidated Statement of Financial Position

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	*5*	**175,927**	108,863
Property, plant and equipment	*6*	**1,455,833**	1,188,133
Investment properties	*7*	**8,213**	8,668
Intangible assets	*8*	**2,560**	2,982
Deferred income tax assets	*10*	**12,748**	13,937
Other non-current assets	*11*	**64,355**	27,500
		1,719,636	1,350,083
Current assets			
Inventories	*12*	**1,707,925**	1,504,981
Trade receivables	*13*	**158,547**	469,726
Prepayments, deposits and other receivables	*14*	**224,652**	501,483
Restricted bank deposits	*15*	**197,737**	334,851
Cash and cash equivalents	*16*	**182,565**	282,854
		2,471,426	3,093,895
Total assets		**4,191,062**	4,443,978
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*17*	**89,215**	89,215
Reserves	*18*	**1,428,836**	1,426,210
		1,518,051	1,515,425
Non-controlling interests		**143,920**	64,449
Total equity		**1,661,971**	1,579,874

Consolidated Statement of Financial Position

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*22*	**140,000**	50,000
Deferred government grants	*23*	**16,732**	13,953
Deferred income tax liabilities	*10*	**2,811**	1,905
		159,543	65,858
Current liabilities			
Trade payables	*20*	**701,705**	740,995
Accruals, advances from customers and other current liabilities	*21*	**274,921**	240,214
Current income tax liabilities		**7,261**	5,624
Borrowings	*22*	**1,384,514**	1,810,346
Current portion of deferred government grants	*23*	**1,147**	1,067
		2,369,548	2,798,246
Total liabilities		**2,529,091**	2,864,104
Total equity and liabilities		**4,191,062**	4,443,978
Net current assets		**101,878**	295,649
Total assets less current liabilities		**1,821,514**	1,645,732

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 20 March 2013 and were signed on its behalf.

Zhou Keming	**Zou Xiaoping**
Director	*Director*

Company Statement of Financial Position

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*9(a)*	**924,285**	922,805
Due from subsidiaries	*9(b)*	**417,772**	396,443
		1,342,057	1,319,248
Current assets			
Other receivables		**–**	64
Cash and cash equivalents	*16*	**8,154**	21,875
		8,154	21,939
Total assets		**1,350,211**	1,341,187
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*17*	**89,215**	89,215
Reserves	*18*	**1,260,928**	1,251,422
Total equity		**1,350,143**	1,340,637
LIABILITIES			
Current liabilities			
Other payables	*21*	**68**	550
Total liabilities		**68**	550
Total equity and liabilities		**1,350,211**	1,341,187
Net current assets		**8,086**	21,389
Total assets less current liabilities		**1,350,143**	1,340,637

The notes on pages 50 to 119 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 March 2013 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

Consolidated Comprehensive Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	24	**11,693,500**	11,940,647
Cost of sales	27	**(11,385,587)**	(11,589,556)
Gross profit		**307,913**	351,091
Other income	25	**13,706**	12,828
Other expenses	27	**(1,291)**	(1,169)
Other losses – net	26	**(4,912)**	(1,742)
Distribution costs	27	**(81,027)**	(74,947)
Administrative expenses	27	**(95,584)**	(80,349)
Operating profit		**138,805**	205,712
Finance income	30	**11,356**	12,706
Finance costs	30	**(106,279)**	(79,402)
Finance costs – net	30	**(94,923)**	(66,696)
Profit before income tax		**43,882**	139,016
Income tax expense	31	**(13,826)**	(35,787)
Profit for the year		**30,056**	103,229
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**30,056**	103,229
Attributable to:			
Equity holders of the Company		**30,585**	103,641
Non-controlling interests		**(529)**	(412)
		30,056	103,229
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	**0.03**	0.10
– Diluted earnings per share	32	**0.03**	0.10

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

Dividends	33	**8,413**	29,439

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company		Non-controlling interests	Total equity
	Share Capital *(Note 17)* RMB'000	Reserves *(Note 18)* RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	89,215	1,337,377	24,861	1,451,453
Comprehensive income				
Profit/(Loss) for the year	–	103,641	(412)	103,229
Total comprehensive income for the year ended 31 December 2011	–	103,641	(412)	103,229
Transactions with owners				
Capital injection by a non-controlling shareholder	–	–	40,000	40,000
Employee share options scheme				
– value of employee services *(Note 19)*	–	1,480	–	1,480
Shares held for Share Award Scheme *(Note 18(c))*	–	(16,288)	–	(16,288)
Total transactions with owners	–	(14,808)	40,000	25,192
Balance at 31 December 2011	89,215	1,426,210	64,449	1,579,874
Balance at 1 January 2012	89,215	1,426,210	64,449	1,579,874
Comprehensive income				
Profit/(Loss) for the year	–	30,585	(529)	30,056
Total comprehensive income for the year ended 31 December 2012	–	30,585	(529)	30,056
Transactions with owners				
Capital injection by a non-controlling shareholder	–	–	80,000	80,000
Employee share options scheme				
– value of employee services *(Note 19)*	–	1,480	–	1,480
Dividends	–	(29,439)	–	(29,439)
Total transactions with owners	–	(27,959)	80,000	52,041
Balance at 31 December 2012	89,215	1,428,836	143,920	1,661,971

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	*34(a)*	**540,177**	(574,017)
Interest received		**10,825**	12,669
Interest paid		**(115,957)**	(81,478)
Income tax paid		**(10,094)**	(64,044)
Net cash generated from/(used in) operating activities		**424,951**	(706,870)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(389,117)**	(378,037)
Purchase of land use rights		**(73,227)**	(27,500)
Purchase of intangible assets		**–**	(726)
Cash received in relation to asset-related government grants	*23*	**4,000**	–
Proceeds from disposal of property, plant and equipment	*34(b)*	**152**	172
Net cash used in investing activities		**(458,192)**	(406,091)
Cash flows from financing activities			
Payments for share issuing costs and listing expenses		**–**	(14,007)
Proceeds from bank borrowings		**3,360,165**	2,957,000
Repayments of bank borrowings		**(3,697,658)**	(1,948,692)
Capital injection by a non-controlling shareholder		**80,000**	40,000
Decrease in restricted bank deposits as security for current bank borrowings		**149,889**	457
Repurchase of ordinary shares for Share Award Scheme *(Note 18(c))*		**–**	(16,288)
Dividends paid to the Company's shareholders		**(29,439)**	–
Proceeds from issuing bank acceptance notes		**697,000**	–
Payments relating to bank acceptance notes		**(627,000)**	–
Net cash (used in)/generated from financing activities		**(67,043)**	1,018,470
Net decrease in cash and cash equivalents		**(100,284)**	(94,491)
Cash and cash equivalents at beginning of year	*16*	**282,854**	379,036
Exchange losses on cash and cash equivalents		**(5)**	(1,691)
Cash and cash equivalents at end of year	*16*	**182,565**	282,854

The notes on pages 50 to 119 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 Company's shares have been listed on 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 20 March 2013.

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 the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

- The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred income tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred income tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

The Group has adopted this amendment for the financial year ended 31 December 2012, however, this amendment did not have material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	'Financial statements presentation' regarding other comprehensive income	1 July 2012
HKFRS 1 (Amendment)	'First time adoption', on government loans	1 January 2013
HKFRSs 10, 11 and 12 (Amendment)	Transition guidance	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 10*	Consolidated financial statements	1 January 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

		Effective for annual periods beginning on or after
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures on asset and liability offsetting	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation on asset and liability offsetting	1 January 2014
HKFRS 9	Financial instruments: Addresses the classification, measurement and recognition of financial assets and financial liabilities	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

* HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidation financial statements of the parent company. The standard provides additional guidance to assist in the determination of controls where this is difficult to assess. The Group has assessed HKFRS 10's full impact and concluded there is no significant impact on the consolidated financial statements. The Group intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. 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.

Impairment testing of the investments 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.

2.3 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 executive directors that makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements 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 statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 statement.

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the balance sheet date;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 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 costs for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method.

The costs of land use rights from capital contribution are measured at fair value.

2.6 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 losses, if any.

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 statement during the financial periods in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (Continued)

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

Buildings and plant	10 to 20 years
Machinery	10 years
Vehicles	4 to 5 years
Office equipment and others	3 to 5 years
Leasehold improvements	5 years

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

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 the proceeds with the carrying amount and are recognised within 'other losses – net' in the consolidated comprehensive income statement.

2.7 Investment properties

The investment property, comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment properties are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of investment property from capital contribution is measured at fair value.

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 statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Investment properties (Continued)

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 statement 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.

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.

2.8 Intangible assets

Intangible assets mainly comprised computer software purchased, which are carried at cost less accumulated amortisation 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 amortised using straight line method over their estimated useful lives of 10 years.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans 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 consolidated statement of financial position.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments 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 investments 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 amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method, except for inventory in-transit which is determined using the specific identification method. The cost of finished goods comprises raw materials, labour, other direct costs and related production overheads (based on normal operating capacity). It 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.

2.12 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 amortised 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 statement 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 statement.

2.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods, services and long-term assets that have been acquired in the ordinary course of business from suppliers, or to pay for accrued salary, pension and other social welfare. Trade and other 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 amortised cost using the effective interest method.

2.16 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 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 sale are capitalised as part of the cost of that asset, until such time as the asset is substantially ready for its intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the comprehensive income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

(c) *Offsetting*

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)

2.19 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 HKD1,000 per person per month before 1 June 2012 and HKD1,250 afterwards, 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 28(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 statement as incurred. The Group has no further payment obligations once the contributions have been paid.

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

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 conditions; and
- including the impact of any non-vesting conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

Non-market performance and service 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 Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service 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.

The Group also has a Share Award Scheme where from time to time, the independent trustee may purchase shares from the market and award shares to grantee. When the independent trustee purchases shares of the Company on the market under the scheme, the consideration paid including any directly attributable incremental costs is presented as shares held for Share Award Scheme in the consolidated statement of changes in equity and deducted from total equity. When the independent trustee transfers the Company's shares to the grantees upon vesting, the related costs of the awarded shares vested are credited to shares held for Share Award Scheme, with a corresponding adjustment to share premium.

(b) Share-based payment transactions among group entities

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 in the parent entity accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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.

2.22 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 statement 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 statement on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

(a) Revenue (Continued)

(i) Sales of goods

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.

(ii) Interest income

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

(iii) Rental income

Rental income from operating leases is recognised on a straight-line basis over the period of the lease.

2.24 Operating leases

(a) 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 statement on a straight-line basis over the period of the lease.

(b) As a lessor

Certain leasehold land and buildings is held for long-term operating rental yields, and is not occupied by the Group. Rental income from such investment property is recognised in the consolidated comprehensive income statement on a straight-line basis over the term of the lease.

2.25 Dividend distribution

Dividend distribution to equity holders of the Company is recognised as a liability in the Group's and the Company's financial statements 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: market risks (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity 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 departments within the Group like treasury and sales department, under policies approved by the board of directors. Periodic management information is summarized and reported 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.

(a) Market risk

(i) 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 deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar (USD), EURO (EUR), and Hong Kong Dollar (HKD), which are exposed to foreign currency translation risk. Details of the Group's trade receivables, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings are disclosed in Notes 13, 15, 16, 20, 21 and 22 respectively.

As at 31 December 2012, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB10,175,000 (2011: RMB16,277,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, cash and cash equivalents, trade payables, other payables and borrowings.

As at 31 December 2012, if RMB had strengthened/weakened by 10% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB4,554,000 (2011: RMB8,024,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2012, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the year would have been approximately RMB1,111,000 (2011: RMB3,809,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated restricted bank deposits, cash and cash equivalents, other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

Except for restricted bank deposits 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 deposits, cash and cash equivalents and borrowings have been disclosed in Notes 15, 16 and 22, respectively.

As at 31 December 2012, 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 year would have been RMB3,053,000 (2011: RMB4,938,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Stainless steel raw material price risk

The Group's results of operations may be significantly affected by fluctuation in prices of stainless steel which is a significant cost component of the Group.

Stainless steel raw material accounts for 98.8% of the Group's cost of sales (2011: 98.8%). The Group has followed a stainless steel raw material purchase price adjustment practice with the strategic suppliers Shanxi Taigang Stainless Steel Co., Ltd. and its subsidiaries ("STSS Group") and Zhangjiagang Pohang Stainless Steel Co., Ltd.("ZPSS"). Purchase transaction with STSS Group and ZPSS per annum accounts for 71.9% of the Group's annual purchase (2011: 81.8%). Pursuant to such practice, STSS Group and ZPSS shall reimburse the Group if the purchase price of the stainless steel raw materials that the Group paid to STSS Group and ZPSS is higher than the benchmark selling prices decided by STSS Group and ZPSS based on actual selling prices achieved by STSS Group's and ZPSS's key customers, including the Group (after adjusting for bulk purchase discounts and processing fee), subject to STSS Group's and ZPSS's sole discretion in determining the actual purchase credit amount and the time in which such purchasing credit would be given to the Group.

Currently, this price adjustment practice with STSS Group and ZPSS is the Group's main method used to mitigate the risks associated with the fluctuation of stainless steel prices.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, 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 highly reputable financial institutions, and limit the amount of credit exposure to any financial institution. As at 31 December 2012, most of the restricted bank deposits and cash and cash equivalents are placed with highly reputable financial institutions in Mainland China and Hong Kong.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group categorised the restricted bank deposits 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 the mainland PRC

Group 3 – Other banks in the PRC

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Group 1	**75,558**	321,932	**8,012**	21,733
Group 2	**301,186**	269,352	**142**	142
Group 3	**3,536**	26,379	**–**	–
	380,280	617,663	**8,154**	21,875

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 and bank acceptance notes. Bank acceptance notes are with maturity within 6 months, and are accepted and settled by bank.

For those key customers with long-term relationship, on some occasions the Group offers 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)

(c) 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 into relevant maturity groupings based on the remaining period at the balance sheet date 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.

	Less than 1 year *RMB'000*	**Between 1 year and 2 years** *RMB'000*	**Between 2 years and 5 years** *RMB'000*
At 31 December 2012			
Borrowings	1,384,514	–	140,000
Interests payment on borrowings *(a)*	25,019	8,698	5,914
Trade and other payables *(b)*	844,936	–	–
	2,254,469	8,698	145,914
At 31 December 2011			
Borrowings	1,810,346	–	50,000
Interests payment on borrowings *(a)*	30,024	3,540	3,491
Trade and other payables *(b)*	852,147	–	–
	2,692,517	3,540	53,491

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2012 and 2011 respectively, 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 2012 and 2011 respectively.

(b) Other payables include accruals and other payables as stated in Note 21.

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 deposits, trade and other receivables; and financial liabilities including trade and other payables, and borrowings, approximate their fair values. The carrying values less any estimated credit adjustments for financial assets are a reasonable approximation of their fair values.

3.3 Capital 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 total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Total borrowings *(Note 22)*	**1,524,514**	1,860,346
Less: cash and cash equivalents *(Note 16)*	**(182,565)**	(282,854)
Net debt	**1,341,949**	1,577,492
Total equity	**1,661,971**	1,579,874
Total capital	**3,003,920**	3,157,366
Gearing ratio	**44.67%**	49.96%

The decrease in the gearing ratio during 2012 resulted primarily from decrease in bank borrowings for reduction of financing required for capital expenditures.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 judgments and estimates.

Management judgment 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 statement.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Net realisable value of inventories

Net realisable value of inventories 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 changes of stainless steel raw material market price, technical innovations 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 current and deferred income tax assets and liabilities 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.

(e) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 19 to the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Impairment of the Group's assets

The Group follows the guidance of HKAS 36 to determine whether the Group's assets are impaired. As at 31 December 2012, the Group's market capitalisation was lower than the carrying amount of the Group's net assets, which is an impairment indicator requiring an estimate of the recoverable amount to be performed. The assessment requires significant judgments and estimates. In making these judgments and estimates, the Group evaluates and considers factors that affect the value-in-use of assets such as the extent of difference between the net assets' carrying amount and market capitalisation, composition of the Group's assets and results.

It is concluded that no impairment has been identified on the basis that there is no material changes in existing political, legal, fiscal or economic conditions in the respective areas in which the Group operates.

5. LAND USE RIGHTS – GROUP

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

	2012 ***RMB'000***	2011 *RMB'000*
Opening	**108,863**	111,396
Additions	**70,872**	–
Amortisation charge *(Note 34(a))*	**(3,808)**	(2,533)
	175,927	108,863

The Group's land use rights are located in Mainland China and the remaining lease periods were between 38 years to 49 years as at 31 December 2012.

As at 31 December 2012, none of land use rights is pledged for the Group's bank borrowings (2011: Nil).

For the year ended 31 December 2012, amortisation of the Group's land use rights amounted to RMB3,808,000 has been charged to administrative expenses in the consolidated comprehensive income statement (2011: RMB2,533,000).

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings and plant *RMB'000*	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 2011							
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
Year ended 31 December 2011							
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
At 31 December 2011							
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
Year ended 31 December 2012							
Opening net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
Additions	699	3,086	2,589	2,931	–	343,754	353,059
Transfer	42,120	189,821	389	2,600	–	(234,930)	–
Disposals *(Note 34(b))*	–	(12)	(27)	(111)	–	–	(150)
Depreciation *(Note 34(a))*	(12,677)	(67,930)	(1,970)	(2,531)	(101)	–	(85,209)
Closing net book amount	258,389	616,451	7,315	9,301	392	563,985	1,455,833
At 31 December 2012							
Cost	298,863	851,316	14,452	22,171	832	563,985	1,751,619
Accumulated depreciation	(40,474)	(234,865)	(7,137)	(12,870)	(440)	–	(295,786)
Net book amount	258,389	616,451	7,315	9,301	392	563,985	1,455,833

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

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

	2012	2011
	RMB'000	*RMB'000*
Cost of sales	**74,168**	57,532
Distribution costs	**460**	413
Administrative expenses	**10,581**	8,888
	85,209	66,833

As at 31 December 2012, none of property, plant and equipment is pledged for the Group's bank borrowings (2011: Nil).

For the year ended 31 December 2012, borrowing costs amounted to approximately RMB1,144,000 (2011: RMB3,887,000) were capitalised into the cost of property, plant and equipment at an average borrowing rate of 5.96% (2011: 5.81%).

7. INVESTMENT PROPERTIES – GROUP

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

	2012	2011
	RMB'000	*RMB'000*
Opening net book amount	**8,668**	9,123
Depreciation *(Note 34(a))*	**(455)**	(455)
Closing net book amount	**8,213**	8,668
Cost	**10,109**	10,109
Accumulated depreciation	**(1,896)**	(1,441)
Net book amount	**8,213**	8,668

7. INVESTMENT PROPERTIES – GROUP (CONTINUED)

For the year ended 31 December 2012, the rental income arising from investment properties amounted to approximately RMB500,000 (2011: RMB500,000) (Note 25).

The future aggregate minimum lease receivable under non-cancellable operating leases were as follows:

	2012 *RMB'000*	2011 *RMB'000*
Not later than 1 year	**500**	500

As at 31 December 2012, the management assessed the fair value of the investment properties to be approximately RMB17,663,000 (2011: RMB15,439,000) based on a valuation by an independent valuer.

8. INTANGIBLE ASSETS – GROUP

Intangible assets mainly consist of computer software purchased:

	2012 *RMB'000*	2011 *RMB'000*
At beginning of year		
Cost	**4,141**	3,415
Accumulated amortisation	**(1,159)**	(732)
Net book amount	**2,982**	2,683
Opening net book amount	**2,982**	2,683
Additions	**–**	726
Amortisation *(Note 34(a))*	**(422)**	(427)
Closing net book amount	**2,560**	2,982
At end of year		
Cost	**4,141**	4,141
Accumulated amortisation	**(1,581)**	(1,159)
Net book amount	**2,560**	2,982

8. INTANGIBLE ASSETS – GROUP (CONTINUED)

For the year ended 31 December 2012, amortisation of the Group's intangible assets amounted to RMB422,000 has been charged to administrative expenses in the consolidated comprehensive income statement (2011: RMB427,000).

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

(a) Investments in subsidiaries

	2012 *RMB'000*	2011 *RMB'000*
Unlisted investments – at cost	**921,273**	921,273
Capital contribution relating to share-based payments	**3,012**	1,532
	924,285	922,805

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

The capital contribution relating to share based payments relates to share options granted by the Company to employees of subsidiaries undertakings in the Group. Refer to Note 19 for further details on the Group's share options scheme.

As at 31 December 2012, the Company has direct or indirect interests in following subsidiaries.

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

(a) Investments in subsidiaries (Continued)

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.

Company name	Country/ Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company		Principal activities and place of operation
				Direct	Indirect	
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 68,500,000	–	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 26,000,000	–	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
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

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

(a) Investments 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
Jiangsu Daming Heavy Industry Co., Ltd. ("Daming Heavy Industry")	Mainland China 22 November 2010	Limited liability company	RMB 100,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming")	Mainland China 26 July 2011	Limited liability company	RMB 300,000,000	–	60%	Processing, distribution and sales of stainless steel products, in the PRC
Daming Heavy Industry Co., Ltd. ("Jingjiang Daming Heavy Industry")	Mainland China 14 March 2012	Limited liability company	USD 49,209,820	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Daming Metal Products Wuxi Co., Ltd. ("Qianzhou Daming")	Mainland China 11 April 2012	Limited liability company	RMB 30,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Hubei Daming Metal Technology Co., Ltd.("Hubei Daming")	Mainland China 22 October 2012	Limited liability company	RMB 37,500,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC

(b) Due from/to subsidiaries

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

10. DEFERRED INCOME TAX – GROUP

The analysis of deferred income tax assets and deferred income tax liabilities were as follows:

	2012 RMB'000	2011 RMB'000
Deferred income tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**4,452**	1,039
– Deferred tax assets to be recovered within 12 months	**8,296**	12,898
	12,748	13,937
Deferred income tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,743**	1,651
– Deferred tax liabilities to be settled within 12 months	**1,068**	254
	2,811	1,905

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

	Provision for write-down of inventories RMB'000	Deferred income RMB'000	Accrued expenses RMB'000	Provision for impairment of receivables RMB'000	Unrealised profit(loss) on inventories RMB'000	Pre-operating expenses RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2011	1,503	3,843	496	176	180	815	–	7,013
Recognised in the consolidated comprehensive income statement	9,868	(3,063)	498	57	(180)	(256)	–	6,924
At 31 December 2011	11,371	780	994	233	–	559	–	13,937
Recognised in the consolidated comprehensive income statement	(6,783)	(92)	860	10	–	(208)	5,024	(1,189)
At 31 December 2012	4,588	688	1,854	243	–	351	5,024	12,748

10. DEFERRED INCOME TAX – GROUP (CONTINUED)

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 RMB1,964,000 (2011: RMB1,491,000) in respect of accumulated losses amounting to RMB11,901,000 (2011: RMB8,872,000) that can be carried forward against future taxable income. These accumulated losses can be carried forward indefinitely.

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

	Interest expenses on notes payable *RMB'000*	Interest expenses on capitalised property, plant and equipment *RMB'000*	Total *RMB'000*
At 1 January 2011	2,308	1,032	3,340
Recognised in the consolidated comprehensive income statements	(2,136)	701	(1,435)
At 31 December 2011	172	1,733	1,905
Recognised in the consolidated comprehensive income statements	814	92	906
At 31 December 2012	986	1,825	2,811

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 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 2012, no deferred income tax liabilities have been recognised for withholding tax purpose (2011: Nil). Unremitted earnings of certain subsidiaries in Mainland China are expected to be reinvested in Mainland China. Unremitted earnings as at 31 December 2012 amounted to RMB515,836,000 (2011: RMB478,268,000).

11. OTHER NON-CURRENT ASSETS – GROUP

Other non-current assets represent prepayment for purchase of land use rights. As at 31 December 2012, the certificates of land use rights have not been issued.

12. INVENTORIES – GROUP

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**996,109**	776,778
Finished goods	**711,816**	728,203
	1,707,925	1,504,981

The cost of materials recognised as cost of sales amounted to approximately RMB11,248,837,000 (2011: RMB11,409,276,000).

The Group has reversed approximately RMB32,822,000 for the previous write-down of inventories to their net realisable value (2011: recognised a loss of RMB45,891,000) (Note 27). These amounts have been included in the cost of sales in the consolidated comprehensive income statement.

13. TRADE RECEIVABLES – GROUP

	2012	2011
	RMB'000	*RMB'000*
Accounts receivable	**115,871**	115,764
Notes receivable		
– bank acceptance notes	**38,972**	341,627
– commercial acceptance notes	**4,635**	13,377
	159,478	470,768
Less: provision for impairment	**(931)**	(1,042)
Trade receivables – net	**158,547**	469,726

The fair values of trade receivables approximate their carrying amounts.

13. TRADE RECEIVABLES – GROUP (CONTINUED)

The majority of the Group's sales are made on (i) cash on delivery; (ii) bank acceptance notes with maturity within 6 months; and (iii) credit terms of 1-90 days. At 31 December 2012 and 2011, the aging analysis of trade receivables was as follows:

	2012 *RMB'000*	2011 *RMB'000*
Accounts receivable		
– Within 30 days	**92,853**	92,613
– 30 days to 3 months	**21,112**	19,734
– 3 months to 6 months	**230**	2,691
– 6 months to 1 year	**21**	–
– 1 year to 2 years	**1,139**	–
– 2 years to 3 years	**–**	517
– 3 years to 4 years	**516**	209
	115,871	115,764
Notes receivable		
– Within 6 months	**43,607**	355,004
	159,478	470,768

As at 31 December 2012, trade receivables of approximately RMB68,966,000 (2011: RMB80,427,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables was as follows:

	2012 *RMB'000*	2011 *RMB'000*
Accounts receivable		
– Within 30 days	**57,313**	58,373
– 30 days to 3 months	**11,402**	19,734
– 3 months to 6 months	**230**	2,320
– 6 months to 1 year	**21**	–
	68,966	80,427

13. TRADE RECEIVABLES – GROUP (CONTINUED)

As at 31 December 2012, trade receivables of approximately RMB1,655,000 (2011: RMB1,097,000) were impaired and the amount of the provision for impairment was approximately RMB931,000 (2011: RMB1,042,000). The impairment was assessed individually for individual significant or long ageing balances. The ageing of these receivables was as follows:

	2012	2011
	RMB'000	*RMB'000*
Accounts receivable		
– 3 months to 6 months	**–**	371
– 1 year to 2 years	**1,139**	–
– 2 years to 3 years	**–**	517
– 3 years to 4 years	**516**	209
	1,655	1,097

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

	2012	2011
	RMB'000	*RMB'000*
RMB	**137,719**	450,522
USD	**21,759**	20,246
	159,478	470,768

13. 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

	2012	2011
	RMB'000	*RMB'000*
Group 1	**38,972**	341,627
Group 2	**118,851**	128,044
Group 3	**1,655**	1,097
	159,478	470,768

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

Movements of the provision for impairment of trade receivables were:

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**1,042**	766
Provision for trade receivables *(Note 27)*	**86**	316
Written off as uncollectible	**(197)**	(40)
At 31 December	**931**	1,042

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 the receivables.

The maximum exposure to the credit risk as at the balance sheet date is the carrying value of the trade receivables. The Group does not hold any collateral as security.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

	2012	2011
	RMB'000	*RMB'000*
Prepayment for purchase of raw materials	**128,489**	433,954
Value – added tax recoverable	**89,262**	60,705
Export tax refund	**1,336**	2,686
Deposits and other receivables	**5,565**	4,138
	224,652	501,483

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

15. RESTRICTED BANK DEPOSITS – GROUP

	2012	2011
	RMB'000	*RMB'000*
Restricted bank deposits denominated in:		
– RMB	**187,949**	333,672
– EUR	**3,357**	1,179
– HKD	**6,431**	–
	197,737	334,851

The nature of restricted bank deposits was as follows:

	2012	2011
	RMB'000	*RMB'000*
Deposits for issuing letter of credit	**9,632**	8,024
Deposits for issuing letter of indemnity	**–**	456
Deposits for pledged bank borrowings *(Note 22)*	**–**	149,889
Deposits for issuing notes payable *(Note 20)*	**181,674**	170,117
Deposits for customs duty	**–**	6,365
Deposits for letter of credit facility	**6,431**	–
	197,737	334,851

15. RESTRICTED BANK DEPOSITS – GROUP (CONTINUED)

As at 31 December 2012, the weighted average interest rate on restricted bank deposits was 3.05% (2011: 3.10%) per annum, and these deposits have an approximate average maturity 68 days (2011: 109 days).

The maximum exposure to credit risk at the reporting date approximates the carrying value of the restricted bank deposits.

The restricted bank deposits are deposited with banks in Mainland China and Hong Kong. The conversion of the RMB denominated balances in Mainland China 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.

16. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

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

Cash and cash equivalents were denominated in the following currencies:

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**142,799**	226,641	**–**	–
USD	**22,698**	20,754	**–**	–
HKD	**17,062**	35,438	**8,154**	21,875
EUR	**6**	21	**–**	–
	182,565	282,854	**8,154**	21,875

As at 31 December 2012, cash at bank were demand deposits and the weighted average interest rates was 0.28% per annum (2011: 0.41%).

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

17. SHARE CAPITAL – GROUP AND COMPANY

	Authorised share capital		
	Number of shares *'000*	*HKD'000*	*RMB'000*
As at 31 December 2011 and 2012 (ordinary shares of HKD0.10 each)	1,500,000	150,000	128,886

	Issued and fully paid up		
	Number of shares *'000*	*HKD'000*	*RMB'000*
As at 31 December 2011 and 2012 (ordinary shares of HKD0.10 each)	1,037,500	103,750	89,215

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18. RESERVES

– GROUP

	Share premium RMB'000	Merger reserves (a) RMB'000	Statutory reserves (b) RMB'000	Other reserves (c) RMB'000	Retained earnings (d) RMB'000	Total RMB'000
Balance at 1 January 2011	386,661	48,611	73,378	29,677	799,050	1,337,377
Comprehensive income						
Profit for the year	–	–	–	–	103,641	103,641
Total comprehensive income for the year ended 31 December 2011	–	–	–	–	103,641	103,641
Transaction with owners						
Appropriation to statutory reserves	–	–	9,153	–	(9,153)	–
Employee share options scheme- value of employee services *(Note 19)*	–	–	–	1,480	–	1,480
Shares held for Share Award Scheme	–	–	–	(16,288)	–	(16,288)
Total transaction with owners for the year ended 31 December 2011	–	–	9,153	(14,808)	(9,153)	(14,808)
Balance at 31 December 2011	386,661	48,611	82,531	14,869	893,538	1,426,210

18. RESERVES (CONTINUED)

– GROUP (Continued)

	Share premium *RMB'000*	Merger reserves (a) *RMB'000*	Statutory reserves (b) *RMB'000*	Other reserves (c) *RMB'000*	Retained earnings (d) *RMB'000*	Total *RMB'000*
Balance at 1 January 2012	386,661	48,611	82,531	14,869	893,538	1,426,210
Comprehensive income						
Profit for the year	–	–	–	–	30,585	30,585
Total comprehensive income for the year ended 31 December 2012	–	–	–	–	30,585	30,585
Transaction with owners						
Appropriation to statutory reserves	–	–	4,447	–	(4,447)	–
Employee share options scheme- value of employee services *(Note 19)*	–	–	–	1,480	–	1,480
Dividends	–	–	–	–	(29,439)	(29,439)
Total transaction with owners for the year ended 31 December 2012	–	–	4,447	1,480	(33,886)	(27,959)
Balance at 31 December 2012	386,661	48,611	86,978	16,349	890,237	1,428,836

18. RESERVES (CONTINUED)

– GROUP (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.

(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) Other reserves

Other reserves consist of shareholders' loans waived, employee share options scheme (Note 19) and shares held for Share Award Scheme.

Pursuant to a Board of Directors' resolution dated 25 August 2011, the Board approved the adoption of a Share Award Scheme (the "Scheme") under which shares of the Company may be awarded to selected employees in accordance with its provisions.

An aggregate of 13,336,000 shares of the Company's existing ordinary shares have been purchased by an independent trustee in the market out of cash HKD20,000,000 (equivalent to RMB16,288,000) contributed by the Company and held in trust for employees until such shares are vested in the relevant selected employees in accordance with the provisions of the Scheme.

No shares have been granted to any employees for the year ended 31 December 2012.

(d) Retained earnings

Retained earnings as at 31 December 2012 include proposed final dividend of RMB8,413,000 (2011: RMB29,439,000) (Note 33).

18. RESERVES (CONTINUED)

– COMPANY

	Share premium *RMB'000*	Contributed surplus (a) *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2011	386,661	921,264	52	(16,862)	1,291,115
Comprehensive income					
Loss for the year	–	–	–	(24,885)	(24,885)
Total comprehensive income for the year ended 31 December 2011	–	–	–	(24,885)	(24,885)
Transaction with owners					
Employee share options Scheme – value of employee services	–	–	1,480	–	1,480
Shares held for Share Award Scheme	–	–	(16,288)	–	(16,288)
Total transaction with owners for the year ended 31 December 2011	–	–	(14,808)	–	(14,808)
Balance at 31 December 2011	386,661	921,264	(14,756)	(41,747)	1,251,422

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18. RESERVES (CONTINUED)

– COMPANY (Continued)

	Share premium *RMB'000*	Contributed surplus (a) *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2012	386,661	921,264	(14,756)	(41,747)	1,251,422
Comprehensive income					
Profit for the year	–	–	–	37,465	37,465
Total comprehensive income for the year ended 31 December 2012	–	–	–	37,465	37,465
Transaction with owners					
Employee share options Scheme – value of employee services	–	–	1,480	–	1,480
Dividends	–	–	–	(29,439)	(29,439)
Total transaction with owners for the year ended 31 December 2012	–	–	1,480	(29,439)	(27,959)
Balance at 31 December 2012	386,661	921,264	(13,276)	(33,721)	1,260,928

18. RESERVES (CONTINUED)

– COMPANY (Continued)

(a) Contributed surplus

Contributed surplus arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with a reorganisation of the Group prior to the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

Contributed surplus is distributable to equity holders of the Company according to Companies Law of the Cayman Islands subject to solvency test.

19. SHARE-BASED PAYMENTS – GROUP AND COMPANY

As approved by the board of directors' meeting on 21 December 2010, 6,150,000 share options were granted to a director and certain employees at an exercise price of HKD2.452 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 for 5 trading days immediately preceding the date of grant. 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 were as follows:

	2012		2011	
	Average exercise price in HKD per share	**Number of options *('000)***	Average exercise price in HKD per share	Number of options *('000)*
At 1 January	**2.452**	**5,500**	2.452	6,150
Forfeited	**–**	**–**	2.452	(650)
At 31 December	**2.452**	**5,500**	2.452	5,500

19. SHARE-BASED PAYMENTS – GROUP AND COMPANY (CONTINUED)

Details of share options outstanding at the end of were as follows:

Exercisable from	Expiry date	Exercise price in HKD per share	Number of options ('000) 2012	2011
21 December 2013	20 December 2020	2.452	**1,650**	1,650
21 December 2014	20 December 2020	2.452	**1,650**	1,650
21 December 2015	20 December 2020	2.452	**2,200**	2,200
			5,500	5,500

The weighted average fair value of options granted in 2010 determined by using the Binomial Model was HKD1.31 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 agrees to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

For the year ended 31 December 2012, the attributable amount charged to the consolidated comprehensive income statement was approximately RMB1,480,000 (2011: RMB1,480,000).

20 TRADE PAYABLES – GROUP

	2012 *RMB'000*	2011 *RMB'000*
Accounts payable	**12,351**	35,195
Notes payable	**689,354**	705,800
	701,705	740,995

Notes payable of RMB612,554,000 (2011: RMB513,800,000) was secured by restricted bank deposits approximately RMB181,674,000 (2011: RMB170,117,000) (Note 15).

The aging analysis of the trade payables was as follows:

	2012 *RMB'000*	2011 *RMB'000*
Within 6 months	**701,698**	740,995
6 months to 1 year	**7**	–
	701,705	740,995

Trade payables were denominated in the following currencies:

	2012 *RMB'000*	2011 *RMB'000*
RMB	**692,167**	715,354
USD	**9,528**	25,641
EUR	**10**	–
	701,705	740,995

The fair values of trade payables approximate their carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**5,986**	18,377	**–**	–
Advances from customers	**129,823**	126,393	**–**	–
Value-added tax payable	**168**	489	**–**	–
Other taxes payables	**1,699**	2,180	**–**	–
Other payables *(a)*	**137,245**	92,775	**68**	550
	274,921	240,214	**68**	550

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Pension and other social welfare payables	**6,489**	6,580	**–**	–
Payables for purchase of property, plant and equipment and land use rights	**103,499**	64,467	**–**	–
Salary payables	**18,139**	13,571	**–**	–
Others	**9,118**	8,157	**68**	550
	137,245	92,775	**68**	550

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

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES – GROUP AND COMPANY (CONTINUED)

Accruals, advances from customers and other current liabilities were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**246,196**	196,365	**–**	–
EUR	**27,514**	36,061	**–**	–
USD	**978**	3,476	**–**	–
JPY	**–**	3,762	**–**	–
HKD	**233**	550	**68**	550
	274,921	240,214	**68**	550

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22. BORROWINGS – GROUP

	2012 RMB'000	2011 RMB'000
Non – current		
Bank borrowings	**140,000**	50,000
Current		
Bank borrowings	**1,384,514**	1,810,346
Representing:		
Unsecured	**1,524,514**	1,583,280
Secured – Pledged *(i)*	**–**	277,066
	1,524,514	1,860,346

(i) As at 31 December 2012, none of bank borrowings (2011: RMB111,066,000) were secured by bank deposits (2011: RMB133,289,000) in the bank. None of bank borrowings (2011: RMB166,000,000) were secured by letter of credit issued by a commercial bank, in lieu of which Jiangsu Daming has placed none of bank deposits (2011: RMB16,600,000) in the bank (Note 15).

22. BORROWINGS – GROUP (CONTINUED)

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

	2012	2011
	RMB'000	*RMB'000*
At fixed rates in RMB	**1,016,000**	1,102,205
At fixed rates in USD	**194,891**	53,881
At fixed rates in EUR	**21,378**	45,375
At fixed rates in JPY	**–**	4,078
	1,232,269	1,205,539
At floating rates in RMB	**250,000**	260,200
At floating rates in USD	**42,245**	283,541
At floating rates in HKD	**–**	111,066
	292,245	654,807
	1,524,514	1,860,346

The weighted average effective interest rates per annum at 31 December 2012 and 2011 were as follows:

	2012	2011
RMB	**6.19%**	5.81%
USD	**3.31%**	3.29%
EUR	**4.88%**	4.70%
HKD	**1.70%**	1.52%
JPY	**5.69%**	5.69%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22. BORROWINGS – GROUP (CONTINUED)

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

	2012	2011
	RMB'000	*RMB'000*
Within 6 months	**1,227,376**	1,793,252
6 months to 1 year	**197,138**	67,094
1 year to 5 years	**100,000**	–
	1,524,514	1,860,346

The fair values of borrowings approximate their carrying amounts.

23. DEFERRED GOVERNMENT GRANTS – GROUP

	2012	2011
	RMB'000	*RMB'000*
Deferred government grants	**17,879**	15,020
Less: Current portion included in current liabilities	**(1,147)**	(1,067)
	16,732	13,953

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

	2012	2011
	RMB'000	*RMB'000*
Beginning balance of the year	**15,020**	16,087
Granted during the year	**4,000**	–
Amortised as income *(Note 25)*	**(1,141)**	(1,067)
Ending balance of the year	**17,879**	15,020

Government grants were granted to support the Group's construction of factory buildings in Tianjin, land use rights in Taiyuan and purchase of machineries in Wuxi. These amounts have been deferred to match with depreciation of related assets and amortised over the relevant factory buildings' and machineries' expected useful life of 10 to 50 years.

24. REVENUE AND SEGMENT INFORMATION

	2012	2011
	RMB'000	*RMB'000*
Sales of goods	**11,693,500**	11,940,647

The chief operating decision-maker has been identified as the executive directors. 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.

The Group is domiciled in Mainland China. The revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue.

During the year ended 31 December 2012, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2011: None).

The result of its sales from external customers in different countries and regions was as follows:

	2012	2011
	RMB'000	*RMB'000*
– Mainland China	**11,391,522**	11,729,672
– Hong Kong and other overseas countries and regions *(i)*	**301,978**	210,975
Total sales	**11,693,500**	11,940,647

(i) Other overseas countries and regions mainly represented Australia, USA, South Korea and Indonesia.

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25. OTHER INCOME

	2012 *RMB'000*	2011 *RMB'000*
Subsidy income	**4,138**	1,300
Amortisation of deferred government grants *(Note 23)*	**1,141**	1,067
Sales of scraps and packaging materials	**7,927**	9,961
Rental income *(Note 36(b))*	**500**	500
	13,706	12,828

26. OTHER LOSSES – NET

	2012 *RMB'000*	2011 *RMB'000*
Gains/(Losses) on disposal of property, plant and equipment – net *(Note 34(a))*	**2**	(217)
Foreign exchange losses – net	**(5,841)**	(1,869)
Others	**927**	344
	(4,912)	(1,742)

27. EXPENSES BY NATURE

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

	2012 ***RMB'000***	2011 *RMB'000*
Changes in inventories of finished goods	**36,914**	(234,847)
Raw materials consumed	**11,211,923**	11,644,123
Stamp duty, property tax and other surcharges	**9,081**	8,276
Transportation costs	**56,085**	58,681
Employee benefit expenses, including directors' emoluments *(Note 28)*	**126,536**	89,982
Depreciation and amortisation *(Note 5, 6, 7, 8)*	**89,894**	70,248
Operating lease rental for buildings	**2,060**	1,859
Utilities charges	**10,284**	10,256
(Reversal of)/Provision for write-down of inventories *(Note 12, 34 (a))*	**(32,822)**	45,891
Auditors' remuneration	**3,400**	3,400
Provision for impairment of trade receivables *(Note 34 (a))*	**86**	316
Entertainment and travelling expenses	**21,161**	19,705
Professional service expenses	**1,262**	1,519
Bank charges	**7,836**	7,890
Others	**19,789**	18,722
	11,563,489	11,746,021

28. EMPLOYEE BENEFIT EXPENSES

	2012 RMB'000	2011 RMB'000
Salaries, bonus and other welfares	**117,504**	81,655
Share options granted to directors and employees	**1,480**	1,480
Pension – defined contribution plans *(a)*	**7,552**	6,847
	126,536	89,982

(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 2011 and 2012, the Group is required to make monthly defined contributions to these plans at rates from 12% to 22%, 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 before 1 June 2012 and HKD1,250 afterwards, 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.

29. 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*
2012						
Executive directors						
– Mr. Zhou Keming	195	660	150	30	30	1,065
– Ms. Xu Xia	195	499	70	30	30	824
– Mr. Zou Xiaoping	195	624	150	–	–	969
– Mr. Tang Zhonghai	195	960	150	30	30	1,365
– Mr. Kang In Soo*	146	839	130	–	–	1,115
– Mr. Qian Li*	49	120	28	7	7	211
	975	3,702	678	97	97	5,549
Non-executive director						
– Mr. Jiang Changhong	195	–	–	–	–	195
Independent non-executive directors						
– Mr. Cheuk Wa Pang	195	–	–	–	–	195
– Mr. Hua Min	195	–	–	–	–	195
– Mr. Chen Xuedong	195	–	–	–	–	195
	585	–	–	–	–	585
	1,755	3,702	678	97	97	6,329

* Pursuant to a board resolution dated 22 March 2012 and with immediate effect, Mr. Qian Li has resigned as an executive director of the Company and Mr. Kang In Soo has been appointed as an executive director of the Company.

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29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Name of director	Fees	Salaries	Discretionary bonus	Pension-defined contribution plans	Other benefits (i)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2011						
Executive directors						
– Mr. Zhou Keming	197	540	180	26	27	970
– Mr. Zou Xiaoping	197	504	180	–	–	881
– Mr. Qian Li*	197	360	115	26	27	725
– Ms. Xu Xia	197	418	117	26	27	785
– Mr. Tang Zhonghai	197	720	460	26	27	1,430
	985	2,542	1,052	104	108	4,791
Non-executive director						
– Mr. Jiang Changhong	197	–	–	–	–	197
Independent non-executive directors						
– Mr. Cheuk Wa Pang	197	–	–	–	–	197
– Mr. Hua Min	197	–	–	–	–	197
– Mr. Chen Xuedong	197	–	–	–	–	197
	591	–	–	–	–	591
	1,773	2,542	1,052	104	108	5,579

(i) Other benefits include social welfare benefits other than pension disclosed above.

No director of the Company waived any emolument for the year ended 31 December 2012 (2011: Nil).

29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 4 (2011: 3) directors, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining 1 (2011: 2) individual were as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries	**780**	1,539
Bonus	**180**	383
Pension costs	**27**	10
	987	1,932

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HKD1,000,001 to HKD1,500,000	**1**	2

For the years ended 31 December 2012 and 2011, 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

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30. FINANCE COSTS – NET

	2012 *RMB'000*	2011 *RMB'000*
Finance costs:		
Interest expenses on bank borrowings	**80,028**	68,611
Interest expenses on bank acceptance notes	**25,734**	32,047
Exchange loss/(gain) – net	**1,661**	(17,369)
	107,423	83,289
Less: amounts capitalised on qualifying assets *(Note 6)*	**(1,144)**	(3,887)
Total finance costs	**106,279**	79,402
Finance income:		
Interest income *(Note 34(a))*	**(11,356)**	(12,706)
Finance costs – net	**94,923**	66,696

31. INCOME TAX EXPENSE

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

	2012 *RMB'000*	2011 *RMB'000*
Current income tax		
– Mainland China corporate income tax	**11,731**	44,146
Deferred income tax *(Note 10)*	**2,095**	(8,359)
	13,826	35,787

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.

31. INCOME TAX EXPENSE (CONTINUED)

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.

Subsidiaries incorporated in Hong Kong are subject to income tax at the prevailing rates of 16.5%. 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 ("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, Daming Heavy Industry, Jinjiang Daming Heavy Industry, Qianzhou Daming, Hubei Daming and Taiyuan Taigang Daming are subject to corporate income tax rate of 25% for the year 2012. 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 for Hangzhou Wanzhou, Wuhan Fortune and Tianjin Taigang Daming was commenced on 2008, and the applicable tax rate for 2012 was 12.5%, 12.5% and 12.5%, respectively.

31. 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 rates applicable to profits of the consolidated entities as follows:

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**43,882**	139,016
Tax calculated at tax rates applicable to profits of the respective subsidiaries	**12,221**	39,576
Effect of tax concession	**(1,196)**	(5,943)
Effect of change of tax rate upon assessing deferred tax assets	**(1,649)**	–
Tax losses for which no deferred income tax asset was recognized	**473**	598
Expenses not deductible for tax purpose	**784**	1,556
Difference of prior year tax filing	**3,193**	–
Income tax expense	**13,826**	35,787
The weighted average applicable tax rates	**27.85%**	28.47%

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.

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**30,585**	103,641
Weighted average number of ordinary shares in issue (thousands)	**1,037,500**	1,037,500

32. EARNINGS PER SHARE (CONTINUED)

(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.

	2012 ***RMB'000***	2011 *RMB'000*
Earnings		
Profit used to determine diluted earnings per share	**30,585**	103,641
Weighted average number of ordinary shares in issue (thousands)	**1,037,500**	1,037,500
Adjustments for:		
– Share options (thousands)	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,037,500**	1,037,500

33. DIVIDENDS

	2012 ***RMB'000***	2011 *RMB'000*
Proposed final dividend of HKD0.01 (2011:HKD0.035) per ordinary share	**8,413**	29,439

On 20 March 2013, the Company's Board of Directors has recommended payment of a final dividend of HKD0.01 per share, which is subject to the approval by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings during the year ending 31 December 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2012 *RMB'000*	2011 *RMB'000*
Profit after income tax	**30,056**	103,229
Adjustments for:		
– income tax expenses	**13,826**	35,787
– amortisation of land use rights *(Note 5)*	**3,808**	2,533
– depreciation of property, plant and equipment *(Note 6)*	**85,209**	66,833
– amortisation of intangible assets *(Note 8)*	**422**	427
– depreciation of investment properties *(Note 7)*	**455**	455
– amortisation of deferred income *(Note 23)*	**(1,141)**	(1,067)
– (gains)/losses on disposal of property, plant and equipment *(Note 26)*	**(2)**	217
– provision for impairment of trade receivables *(Note 27)*	**86**	316
– (reversal of)/provision for write down of inventories *(Note 27)*	**(32,822)**	45,891
– interest income *(Note 30)*	**(11,356)**	(12,706)
– finance costs *(Note 30)*	**106,279**	79,402
– Employee share options scheme- value of employee services *(Note 19)*	**1,480**	1,480
	196,300	322,797
Changes in working capital:		
– (increase)/decrease in restricted bank deposits	**(12,776)**	71,215
– decrease/(increase) in trade receivables, prepayments, deposits and other receivables	**629,053**	(256,723)
– increase in inventories	**(170,122)**	(348,516)
– decrease in trade payables, current income tax liabilities, accruals and other payables	**(102,278)**	(362,790)
Cash generated from/(used in) operations	**540,177**	(574,017)

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2012	2011
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	**150**	389
Gains/(Losses) on disposal of property, plant and equipment *(Note 26)*	**2**	(217)
Proceeds from disposal of property, plant and equipment	**152**	172

35. COMMITMENTS

(a) Capital commitments

	2012	2011
	RMB'000	*RMB'000*
Contracted but not provided for:		
Acquisition of property, plant and equipment	**305,271**	305,962

(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 were as follows:

	2012	2011
	RMB'000	*RMB'000*
Not later than 1 year	**1,624**	1,506
Later than 1 year and not later than 5 years	**2,881**	3,653
	4,505	5,159

36. RELATED PARTY TRANSACTIONS

(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	Controlling shareholder
Wuxi Daming Logistics Co., Ltd. ("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

(b) Transactions with related parties:

The following material transactions were carried out with related parties:

		2012 *RMB'000*	2011 *RMB'000*
(i)	Lease of property to Daming Logistics		
	Rental charged to	**500**	500

		2012 *RMB'000*	2011 *RMB'000*
(ii)	Loans received from Daming Logistics		
	Loans received	**395,270**	109,500

For the year ended 31 December 2012, loans received from Daming Logistics are unsecured, interest-free, and have no fixed repayment term.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (Continued):

	2012	2011
	RMB'000	*RMB'000*
(iii) Loans repaid to Daming Logistics		
Loans repaid	**395,270**	109,500

(iv) Key management compensation

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

	2012	2011
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**9,725**	7,837
Pension – defined contribution plans	**431**	370
	10,156	8,207

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

The Group had no significant balances with its related parties.

37. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events subsequent to the year end of 31 December 2012 which require adjustment or disclosure in the financial statements.

Financial Summary

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**11,693,500**	11,940,647	8,972,581	6,447,357	7,976,837
Gross profit	**307,913**	351,091	461,465	379,527	99,595
Operating profit	**138,805**	205,712	355,734	283,613	43,912
Profit/(Loss) for the year	**30,056**	103,229	237,606	203,377	(12,826)
Attributable to:					
Equity holders of the Company	**30,585**	103,641	235,507	203,498	(12,593)
Non-controlling interests	**(529)**	(412)	2,099	(121)	(233)
	30,056	103,229	237,606	203,377	(12,826)
ASSETS, LIABILITIES AND EQUITY					
Total assets	**4,191,062**	4,443,978	3,703,720	2,198,657	1,431,438
Total liabilities	**(2,529,091)**	(2,864,104)	(2,252,267)	(1,510,339)	(799,497)
	1,661,971	1,579,874	1,451,453	688,318	631,941
Equity attributable to equity holders of the Company	**1,518,051**	1,515,425	1,426,592	681,142	624,644
Non-controlling interests	**143,920**	64,449	24,861	7,176	7,297
Total equity	**1,661,971**	1,579,874	1,451,453	688,318	631,941