

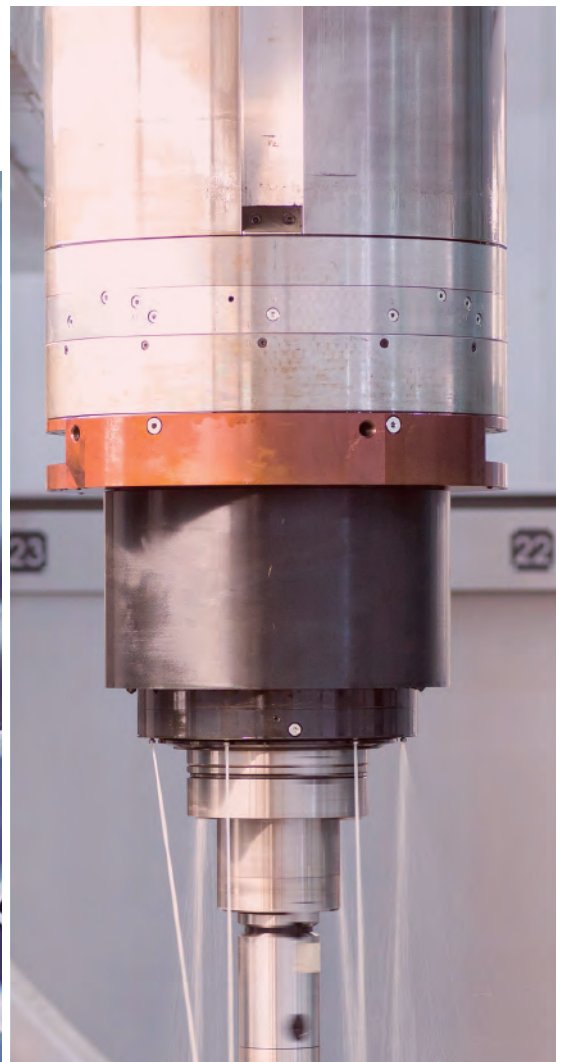


DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

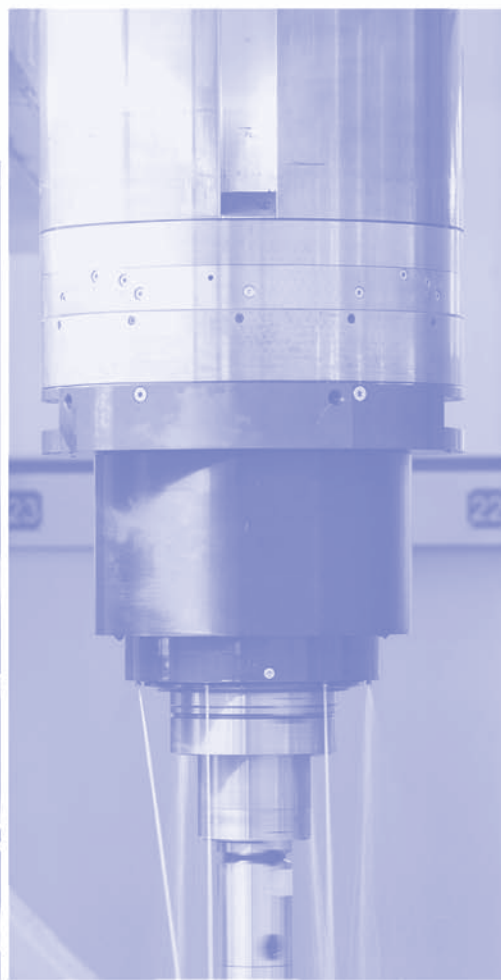
Stock code :1090

2016 Interim Report



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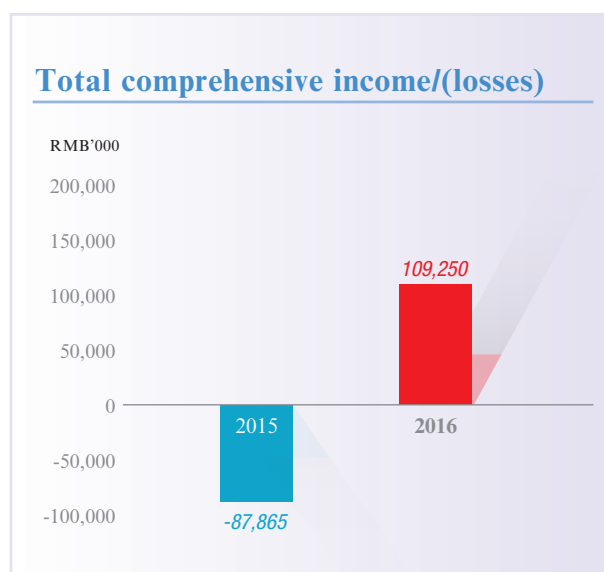
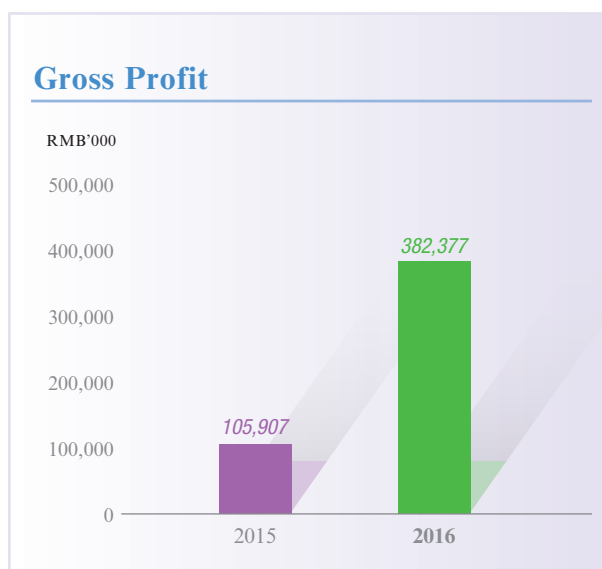
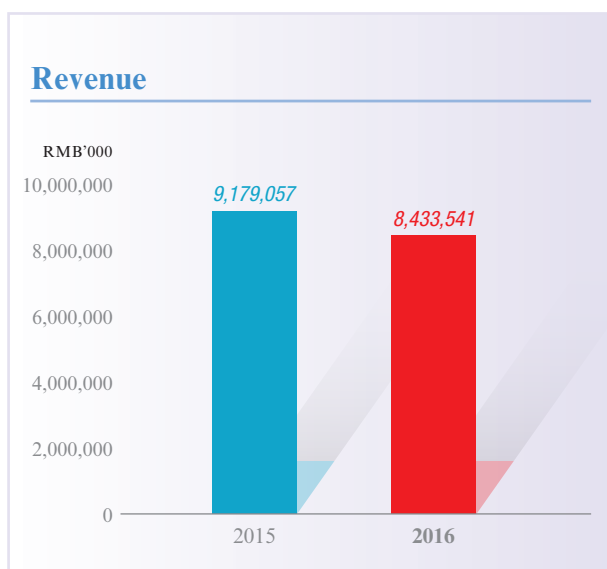
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FINANCIAL AND OPERATING HIGHLIGHTS

Financial Highlights

| | Six months ended 30 June | | % change |
|--|--------------------------|-----------------|----------|
| | 2016 RMB'000 | 2015 RMB'000 | |
| Revenue | 8,433,541 | 9,179,057 | -8.1% |
| Gross profit | 382,377 | 105,907 | +261.0% |
| Total comprehensive income/(losses) for the period | 109,250 | (87,865) | +224.3% |



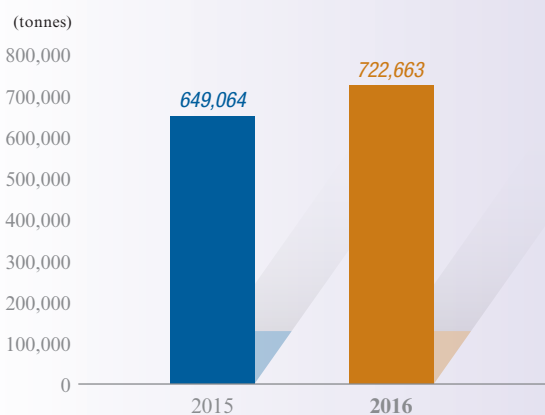
FINANCIAL AND OPERATING HIGHLIGHTS

Operating Highlights

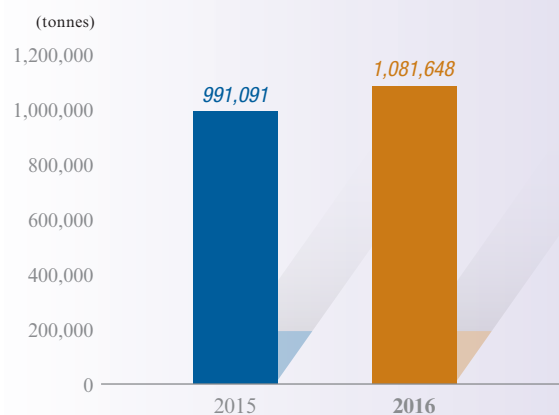
| | Six months ended 30 June | | % change |
|----------------------------|--------------------------|---------|----------|
| | 2016 | 2015 | |
| Stainless steel | | | |
| Sales volume (tonnes) | 722,663 | 649,064 | +11.3% |
| Processing volume (tonnes) | 1,081,648 | 991,091 | +9.1% |
| Processing multiple (note) | 1.50 | 1.53 | |
| Carbon steel | | | |
| Sales volume (tonnes) | 451,889 | 295,108 | +53.1% |
| Processing volume (tonnes) | 422,609 | 255,770 | +65.2% |
| Processing multiple | 0.94 | 0.87 | |

Note : Processing multiple = Processing volume/Sales volume

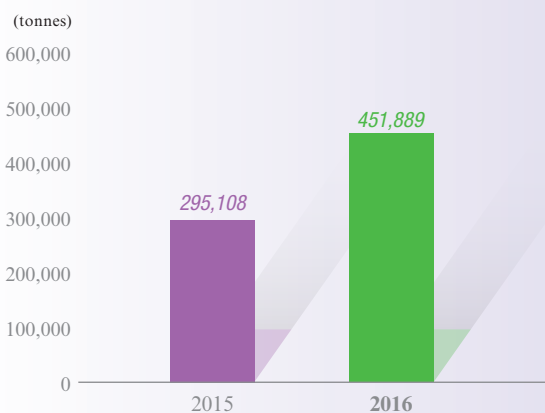
Sales volume of stainless steel



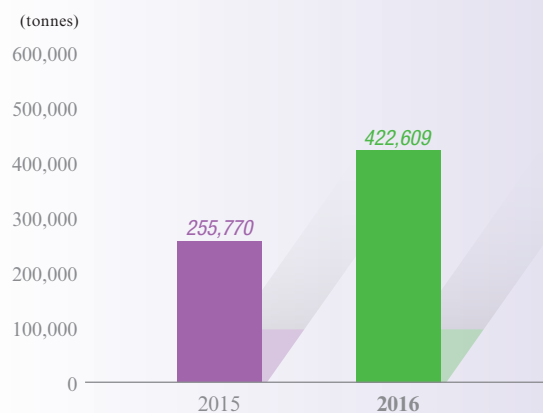
Processing volume of stainless steel



Sales volume of carbon steel



Processing volume of carbon steel



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a leading metals processing service provider providing comprehensive processing service to modern manufacturers in China. The Group has established seven processing centres strategically located in Wuxi, Hangzhou, Tianjin, Taiyuan, Shandong, Wuhan and Jingjiang. Currently, we have nine processing platforms including Cutting, Slitting, Grinding, Forming, Welding, Heat Treatment, Machining, Spraying and Assembling providing full range processing services on stainless steel, carbon steel and other metallic materials.



The first phase of our Jingjiang processing centre comprising Daming Heavy Industry and Daming Metal Technology commenced their businesses on 28 November 2015. Daming Metal Technology mainly provides processing services of high strength carbon steel products while Daming Heavy Industry engages in the manufacturing of parts for machinery equipment, large structural parts and pressurized containers. During the six months ended 30 June 2016, our Jingjiang processing centre recorded an encouraging results in the sales volume and processing volume in carbon steel business of 135,776 tonnes and 122,235 tonnes respectively.

MANAGEMENT DISCUSSION AND ANALYSIS



The Group recorded a net profit of approximately RMB109.3 million for the six months ended 30 June 2016 representing a significant increase of approximately 224.3% as compared with the net loss of approximately RMB87.9 million for the six months ended 30 June 2015. The improvement in operating results was mainly due to (i) a relatively stable market price of stainless steel and carbon steel raw materials during the first half year of 2016; and (ii) improvement in operating efficiency and tight control on operating expenses.

The sales volume of our stainless steel processing business increased from approximately 649,000 tonnes for the six months ended 30 June 2015 to approximately 723,000 tonnes for the six months ended 30 June 2016 representing an increase of approximately 11% while the processing volume increased from approximately 991,000 tonnes for the six months ended 30 June 2015 to approximately 1,082,000 tonnes for the six months ended 30 June 2016 representing an increase of approximately 9%.



The sales volume of our carbon steel processing business increased from approximately 295,000 tonnes for the six months ended 30 June 2015 to approximately 452,000 tonnes for the six months ended 30 June 2016 representing an increase of approximately 53% while the processing volume increased from approximately 256,000 tonnes for the six months ended 30 June 2015 to approximately 423,000 tonnes for the six months ended 30 June 2016 representing an increase of approximately 65%.



MANAGEMENT DISCUSSION AND ANALYSIS

The sales volume and processing volume of our processing centres for the six months ended 30 June 2016 and the corresponding period in 2015 are as follows:

Stainless steel

| | Six months ended 30 June | | % change |
|--------------------------|--------------------------|----------------|---------------|
| | 2016 tonnes | 2015 tonnes | |
| Sales volume | | | |
| Wuxi | 364,522 | 333,893 | +9.2% |
| Hangzhou | 127,592 | 106,039 | +20.3% |
| Tianjin | 98,589 | 76,391 | +29.1% |
| Taiyuan | 54,332 | 40,283 | +34.9% |
| Wuhan | 34,002 | 25,900 | +31.3% |
| Jingjiang | 10,512 | 1,250 | +741.0% |
| Shandong | 33,114 | 21,106 | +56.9% |
| Other sales offices | – | 44,202 | n/a |
| Total | 722,663 | 649,064 | +11.3% |
| Processing volume | | | |
| Wuxi | 607,335 | 671,949 | –9.6% |
| Hangzhou | 164,533 | 133,162 | +23.6% |
| Tianjin | 126,286 | 117,317 | +7.6% |
| Taiyuan | 98,721 | 50,316 | +96.2% |
| Wuhan | 35,711 | 18,347 | +94.6% |
| Jingjiang | 31,860 | – | n/a |
| Shandong | 17,202 | – | n/a |
| Total | 1,081,648 | 991,091 | +9.1% |

Carbon steel

| | Six months ended 30 June | | % change |
|--------------------------|--------------------------|----------------|---------------|
| | 2016 tonnes | 2015 tonnes | |
| Sales volume | | | |
| Wuxi | 75,285 | 61,028 | +23.4% |
| Hangzhou | 108,334 | 116,249 | –6.8% |
| Taiyuan | 93,081 | 71,680 | +29.9% |
| Jingjiang | 135,776 | 12,459 | +989.8% |
| Wuhan | 39,003 | 20 | +194,915% |
| Other sales offices | 410 | 33,672 | –98.8% |
| Total | 451,889 | 295,108 | +53.1% |
| Processing volume | | | |
| Wuxi | 45,930 | 58,799 | –21.9% |
| Hangzhou | 110,274 | 110,440 | –0.2% |
| Taiyuan | 109,113 | 72,619 | +50.3% |
| Jingjiang | 122,235 | 13,912 | +778.6% |
| Wuhan | 35,057 | – | n/a |
| Total | 422,609 | 255,770 | +65.2% |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND ANALYSIS

During the six months ended 30 June 2016, we recorded a revenue of approximately RMB8,434 million, gross profit of approximately RMB382 million and profit attributable to equity holders of the Company of approximately RMB103 million. Total assets of the Group as at 30 June 2016 amounted to approximately RMB6,821 million while equity attributable to equity holders of the Company amounted to approximately RMB1,906 million.

Revenue

Our revenue for the six months ended 30 June 2016 amounted to approximately RMB8,434 million comprising approximately RMB7,422 million from our stainless steel business and approximately RMB1,012 million from our carbon steel business. As compared with the revenue for the six months ended 30 June 2015 of approximately RMB9,179 million, it represented a decrease of approximately 8.1%. Such decrease was mainly due to the decrease in the average market price of stainless steel and carbon steel raw materials. The decrease was partially offset by the following factors:

- i) the increase in the sales volume of both our stainless steel and carbon steel processing businesses. The sales volume of our stainless steel processing business increased from 649,064 tonnes for the six months ended 30 June 2015 to 722,663 tonnes for the six months ended 30 June 2016 representing an increase of approximately 11.3%. The sales volume of our carbon steel processing business also increased from 295,108 tonnes for the six months ended 30 June 2015 to 451,889 tonnes for the six months ended 30 June 2016 representing an increase of approximately 53.1%.
- ii) the increase in processing fee income as reflected by the increase in the processing volume of our stainless steel processing business from 991,091 tonnes for the six months ended 30 June 2015 to 1,081,648 tonnes for the six months ended 30 June 2016 representing an increase of approximately 9.1%. The processing volume of our carbon steel processing business also increased from 255,770 tonnes for the six months ended 30 June 2015 to 422,609 tonnes for the six months ended 30 June 2016 representing an increase of approximately 65.2%.

MANAGEMENT DISCUSSION AND ANALYSIS

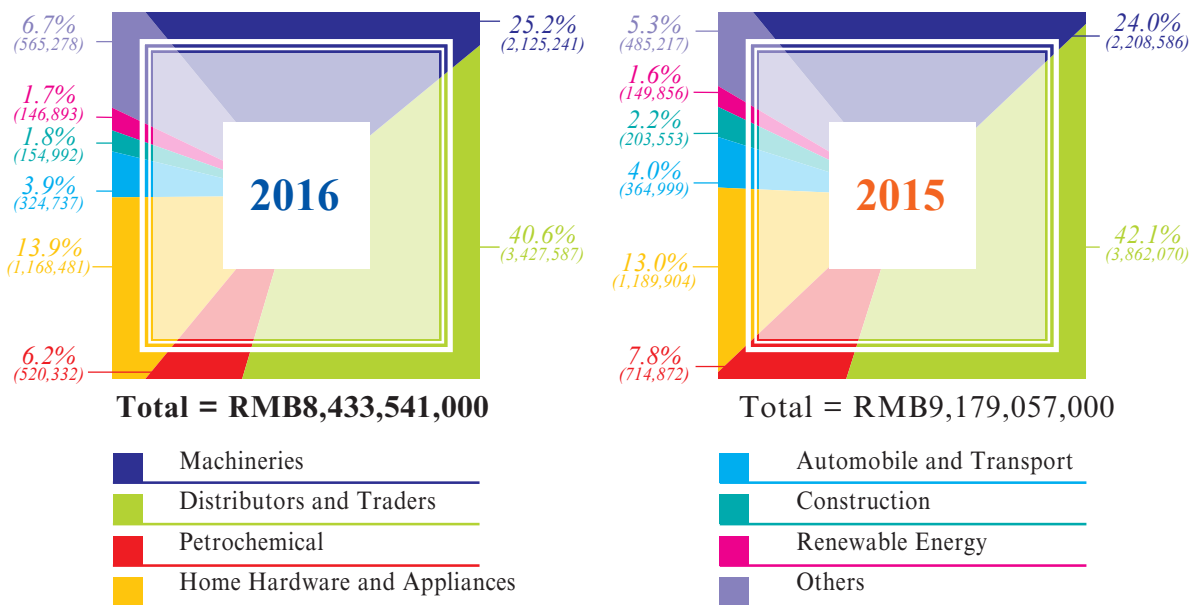
Analysis of revenue by key industry segments

During the six months ended 30 June 2016 and the corresponding period in 2015, our revenue by key industry segments are shown below:

Revenue

| Industry | Six months ended 30 June | | | |
|------------------------------|--------------------------|--------------|------------------|--------------|
| | 2016 | | 2015 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Machineries | 2,125,241 | 25.2 | 2,208,586 | 24.0 |
| Distributors and Traders | 3,427,587 | 40.6 | 3,862,070 | 42.1 |
| Petrochemical | 520,332 | 6.2 | 714,872 | 7.8 |
| Home Hardware and Appliances | 1,168,481 | 13.9 | 1,189,904 | 13.0 |
| Automobile and Transport | 324,737 | 3.9 | 364,999 | 4.0 |
| Construction | 154,992 | 1.8 | 203,553 | 2.2 |
| Renewable Energy | 146,893 | 1.7 | 149,856 | 1.6 |
| Others | 565,278 | 6.7 | 485,217 | 5.3 |
| Total | 8,433,541 | 100.0 | 9,179,057 | 100.0 |

RMB'000



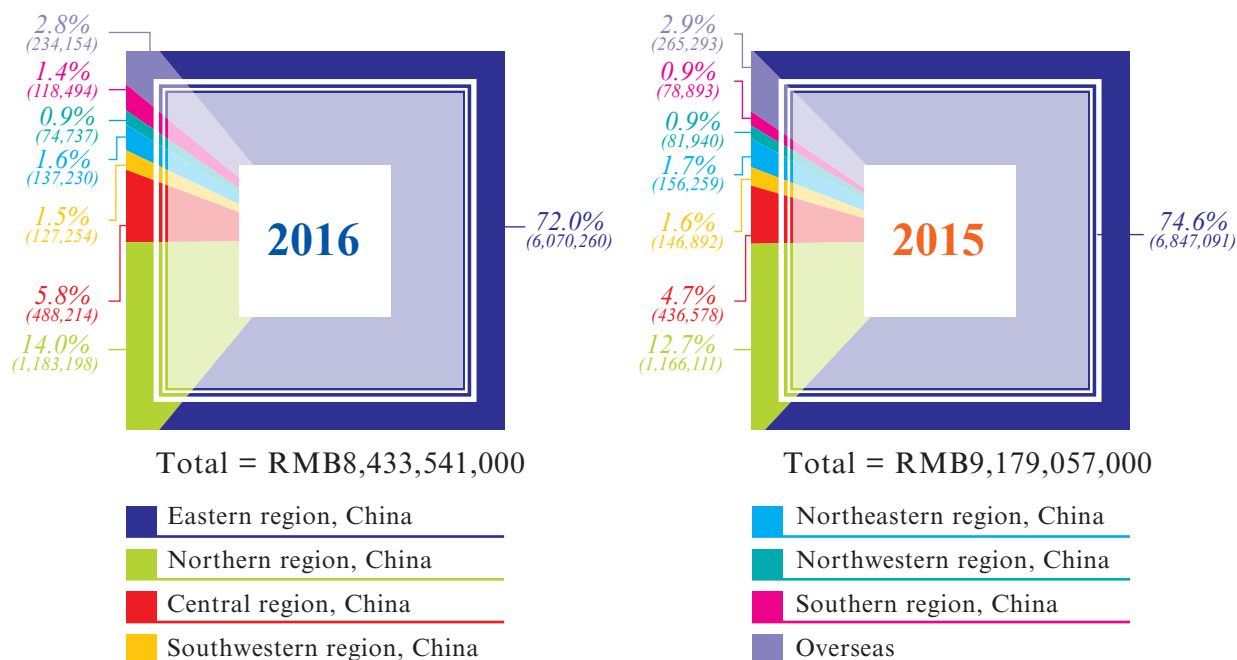
MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of revenue by geographical regions

During the six months ended 30 June 2016 and the corresponding period in 2015, our revenue by geographical regions are shown below:

| Region | Six months ended 30 June | | | |
|----------------------------|--------------------------|--------------|------------------|--------------|
| | 2016 | | 2015 | |
| | RMB'000 | % | RMB'000 | % |
| Eastern region, China | 6,070,260 | 72.0 | 6,847,091 | 74.6 |
| Northern region, China | 1,183,198 | 14.0 | 1,166,111 | 12.7 |
| Central region, China | 488,214 | 5.8 | 436,578 | 4.7 |
| Southwestern region, China | 127,254 | 1.5 | 146,892 | 1.6 |
| Northeastern region, China | 137,230 | 1.6 | 156,259 | 1.7 |
| Northwestern region, China | 74,737 | 0.9 | 81,940 | 0.9 |
| Southern region, China | 118,494 | 1.4 | 78,893 | 0.9 |
| Overseas | 234,154 | 2.8 | 265,293 | 2.9 |
| Total | 8,433,541 | 100.0 | 9,179,057 | 100.0 |

RMB'000



MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Gross profit increased significantly from approximately RMB105.9 million for the six months ended 30 June 2015 to approximately RMB382.4 million for the six months ended 30 June 2016 mainly due to the improvement in operating efficiency.

Other income

Other income decreased from approximately RMB8.9 million for the six months ended 30 June 2015 to approximately RMB7.7 million for the six months ended 30 June 2016 mainly due to the decrease in government grants received.

Distribution costs

Distribution costs increased from approximately RMB68.0 million for the six months ended 30 June 2015 to approximately RMB79.8 million for the six months ended 30 June 2016. Such increase was mainly due to the increase in staff costs and transportation costs as a result of the increase in sales volume.

Administrative expenses

Administrative expenses increased from approximately RMB91.4 million for the six months ended 30 June 2015 to approximately RMB95.2 million for the six months ended 30 June 2016. Such increase was mainly due to the increase in staff costs and the increase in research and development costs.

Finance costs

Finance costs decreased from approximately RMB69.9 million for the six months ended 30 June 2015 to approximately RMB66.7 million for the six months ended 30 June 2016. The decrease in finance costs was mainly due to the decrease in interest expenses on bank acceptance notes.

Income tax expense/credit

The Group recorded an income tax expense of approximately RMB38.5 million for the six months ended 30 June 2016 as compared to an income tax credit of approximately RMB27.7 million for the six months ended 30 June 2015 due to the operating profit recorded for the six months ended 30 June 2016.

Profit/(Losses) for the period

The Group recorded a net profit of approximately RMB109.3 million for the six months ended 30 June 2016 as compared with a net losses of approximately RMB87.9 million for the six months ended 30 June 2015. The increase was mainly due to the improvement in operating efficiency and the tight control on operating expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange risk management

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

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

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 30 June 2016, the borrowings of the Group amounted to approximately RMB2,034.1 million. Notes payable amounted to approximately RMB1,566.3 million while the bank balances were approximately RMB665.4 million of which approximately RMB532.7 million were restricted bank deposits for issuing letter of credit and notes payable.

As at 30 June 2016, the Group recorded a net current liabilities of approximately RMB113.4 million mainly due to the financing of the Group's capital expenditures by short term borrowings.

The gearing ratios as at 30 June 2016 and 31 December 2015 were 46.95% and 43.26% respectively. The ratios are calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents while total capital is calculated as total equity plus net debt.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | <i>Note</i> | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 (Restated) |
|---|-------------|---|--|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | | 244,634 | 247,491 |
| Property, plant and equipment | 6 | 2,822,818 | 2,769,572 |
| Investment properties | | 7,357 | 7,645 |
| Intangible assets | | 2,136 | 2,272 |
| Deferred income tax assets | | 74,988 | 104,987 |
| Other non-current assets | | 79,724 | 53,814 |
| | | <u>3,231,657</u> | <u>3,185,781</u> |
| Current assets | | | |
| Inventories | 7 | 1,702,312 | 1,257,126 |
| Trade receivables | 8 | 352,427 | 201,163 |
| Prepayments, deposits and other receivables | 9 | 869,217 | 558,352 |
| Restricted bank deposits | | 532,696 | 357,611 |
| Cash and cash equivalents | | 132,661 | 207,007 |
| | | <u>3,589,313</u> | <u>2,581,259</u> |
| Total assets | | <u>6,820,970</u> | <u>5,767,040</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 10 | 97,400 | 97,400 |
| Reserves | | 1,808,860 | 1,710,283 |
| | | <u>1,906,260</u> | <u>1,807,683</u> |
| Non-controlling interests | | <u>241,942</u> | <u>235,629</u> |
| Total equity | | <u>2,148,202</u> | <u>2,043,312</u> |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | <i>Note</i> | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 (Restated) |
|---|-------------|---|--|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | <i>11</i> | 922,927 | 765,660 |
| Deferred government grants | | 40,918 | 43,560 |
| Deferred income tax liabilities | | 6,187 | 6,040 |
| | | <u>970,032</u> | <u>815,260</u> |
| Current liabilities | | | |
| Trade payables | <i>12</i> | 2,066,407 | 1,394,582 |
| Accruals, advances from customers and other current liabilities | | 520,955 | 508,511 |
| Current income tax liabilities | | 2,102 | 3,178 |
| Borrowings | <i>11</i> | 1,111,162 | 999,472 |
| Current portion of deferred government grants | | 2,110 | 2,725 |
| | | <u>3,702,736</u> | <u>2,908,468</u> |
| Total liabilities | | <u>4,672,768</u> | <u>3,723,728</u> |
| Total equity and liabilities | | <u>6,820,970</u> | <u>5,767,040</u> |

UNAUDITED CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended 30 June 2016

| | Note | Six months ended 30 June | |
|---|------|--------------------------|------------------|
| | | 2016 RMB'000 | 2015 RMB'000 |
| Revenue | 13 | 8,433,541 | 9,179,057 |
| Cost of sales | 14 | (8,051,164) | (9,073,150) |
| Gross profit | | 382,377 | 105,907 |
| Other income – net | | 7,672 | 8,915 |
| Other losses – net | | (574) | (1,091) |
| Distribution costs | 14 | (79,787) | (68,034) |
| Administrative expenses | 14 | (95,200) | (91,368) |
| Operating profit/(losses) | | 214,488 | (45,671) |
| Finance income | 15 | 4,467 | 5,467 |
| Finance costs | 15 | (71,212) | (75,375) |
| Finance costs – net | 15 | (66,745) | (69,908) |
| Profit/(losses) before income tax | | 147,743 | (115,579) |
| Income tax (expense)/credit | 16 | (38,493) | 27,714 |
| Profit/(losses) for the period | | 109,250 | (87,865) |
| Other comprehensive income for the period | | – | – |
| Total comprehensive income/(losses) for the period | | 109,250 | (87,865) |
| Attributable to: | | | |
| Equity holders of the Company | | 102,937 | (88,143) |
| Non-controlling interests | | 6,313 | 278 |
| | | 109,250 | (87,865) |
| Earnings/(losses) per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share) | | | |
| – basic earnings/(losses) per share | 17 | 0.09 | (0.08) |
| – diluted earnings/(losses) per share | 17 | 0.09 | (0.08) |
| Interim dividends | | – | – |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| | Attributable to equity holders of the Company | | Non- controlling interests | Total equity |
|---|--|----------------------------------|----------------------------------|------------------|
| | Share Capital | Reserves | | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Balance at 1 January 2016 (restated) | 97,400 | 1,710,283 | 235,629 | 2,043,312 |
| Comprehensive income | | | | |
| Profit for the period | – | 102,937 | 6,313 | 109,250 |
| Total comprehensive income for the period | – | 102,937 | 6,313 | 109,250 |
| Transaction with owners | | | | |
| Employee share options scheme | | | | |
| – value of employee services | – | 2,033 | – | 2,033 |
| Employee share award scheme | | | | |
| – value of employee services | – | 6,462 | – | 6,462 |
| Shares held for Share Award Scheme | – | (6,718) | – | (6,718) |
| Effect of business combination under common control | – | (6,137) | – | (6,137) |
| Total transaction with owners | – | (4,360) | – | (4,360) |
| Balance at 30 June 2016 | <u>97,400</u> | <u>1,808,860</u> | <u>241,942</u> | <u>2,148,202</u> |
| | | | | |
| | Attributable to equity holders of the Company | Non- controlling interests | Total equity | |
| | Share Capital | Reserves | equity | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | |
| Balance at 1 January 2015 | 89,215 | 1,681,085 | 235,954 | 2,006,254 |
| Comprehensive losses | | | | |
| (Losses)/profit for the period | – | (88,143) | 278 | (87,865) |
| Total comprehensive (losses)/profit for the period | – | (88,143) | 278 | (87,865) |
| Transaction with owners | | | | |
| Employee share options scheme | – | 2,000 | – | 2,000 |
| Dividend paid | – | (16,369) | – | (16,369) |
| Total transaction with owners | – | (14,369) | – | (14,369) |
| Balance at 30 June 2015 | <u>89,215</u> | <u>1,578,573</u> | <u>236,232</u> | <u>1,904,020</u> |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|---|---------------------------------|----------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Cash flows from operating activities | | |
| Cash flows from operations | (466,690) | (112,169) |
| Interest received | 4,467 | 5,467 |
| Interest paid | (71,212) | (75,375) |
| Income tax paid | (39,699) | (31,277) |
| Net cash used in operating activities | (573,134) | (213,354) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (112,612) | (206,196) |
| Other investing cash flow | (28,552) | 2,052 |
| Net cash used in investing activities | (141,164) | (204,144) |
| Cash flows from financing activities | | |
| Net change in borrowings | 268,957 | 375,757 |
| Net change in restricted bank deposits | (175,085) | (94,996) |
| Dividend paid to the Company's shareholders | – | (16,369) |
| Net change in bank acceptance notes | 552,798 | 83,340 |
| Purchase of shares held for share award scheme | (6,718) | – |
| Net cash from financing activities | 639,952 | 347,732 |
| Net decrease in cash and cash equivalents | (74,346) | (69,766) |
| Cash and cash equivalents at beginning of the period | 207,007 | 292,054 |
| Cash and cash equivalents at end of the period | 132,661 | 222,288 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These unaudited condensed consolidated financial statements have not been reviewed by external auditors but have been reviewed by the Company's audit committee.

(i) 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.

As at 30 June 2016, the Group's current liabilities exceeded its current assets by approximately RMB113,423,000 (31 December 2015: RMB327,209,000). Total equity of the Group amounted to RMB2,148,202,000 and total liability amounted to RMB4,672,768,000. The Group meets its day-to-day working capital requirements mainly through its bank borrowings and facilities with banks in PRC that are refinanced and/or renewed every twelve months. In preparing this financial statements, the directors of the Company have considered the Group's available sources of funds as follows:

- The Group expects a satisfactory growth in the business in the next 12 months; and
- The available financing including PRC bank borrowings to be renewed during the next 12 months, the directors are confident that these bank financing could be renewed and/or extended for at least another twelve months upon renewal based on the Group's past experience and good credit standing; and
- Other available sources of financing from banks and other financial institutions given the Group's credit history and that most of the Group's property, plant and equipment are free of pledge or restriction and would be available to secure further financing.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

(ii) Business combination under common control

In March 2016, the Group acquired 65% equity interest in Jiangsu Daming Steel Union Logistics Company Limited. The transaction has been accounted for using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5, “Merger Accounting for Common Control Combinations” issued by HKICPA.

The unaudited condensed consolidated financial information for the comparative period have been restated to incorporate the financial statements of the entity and business in which the common control combination as if it had been combined from the date when they first came under control of Mr. Zhou Keming and Ms. Xu Xia. Details are set out in note 14.

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

HKFRS 7 (Amendments) “Financial instruments: Disclosures condensed interim financial statements” is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies that the additional disclosure required by the amendments to HKFRS 7, ‘Disclosure – Offsetting financial assets and financial liabilities’ is not specifically required for all interim periods, unless required by HKAS 34.

HKAS 19 (Amendments) “Employee benefits” is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

HKAS 34 (Amendments) “Interim financial reporting” is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group.

| | | Effective for annual periods beginning on or after |
|----------------------|--|---|
| HKAS 1 (Amendment) | Disclosure initiative | 1 January 2016 |
| HKAS 16 (Amendment) | Property, plant and equipment | 1 January 2016 |
| HKAS 27 (Amendment) | Separate financial statements | 1 January 2016 |
| HKAS 38 (Amendment) | Intangible assets | 1 January 2016 |
| HKAS 41 (Amendment) | Agriculture | 1 January 2016 |
| HKFRS 5 (Amendment) | Non-current assets held for sale and discontinued operations | 1 January 2016 |
| HKFRS 7 (Amendment) | Financial instruments: Disclosures – Application of the disclosure requirements to a servicing contract | 1 January 2016 |
| HKFRS 11 (Amendment) | Joint arrangements | 1 January 2016 |
| HKFRS 12 (Amendment) | Disclosure of interests in other entities | 1 January 2016 |
| HKFRS 14 | Regulatory deferral accounts | 1 January 2016 |

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group:

| | | Effective for annual periods beginning on or after |
|----------------------|---------------------------------------|---|
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 10 (Amendment) | Consolidated financial statements | To be determined |
| HKAS 28 (Amendment) | Investment in associates | To be determined |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. ESTIMATES

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

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

5.2 Fair value estimation

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

6. PROPERTY, PLANT AND EQUIPMENT

| | 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 2015 | | | | | | | |
| Cost | 427,877 | 1,289,931 | 22,560 | 38,554 | 832 | 933,585 | 2,713,339 |
| Accumulated depreciation | (63,201) | (351,583) | (12,246) | (18,176) | (832) | – | (446,038) |
| Net book amount | <u>364,676</u> | <u>938,348</u> | <u>10,314</u> | <u>20,378</u> | <u>–</u> | <u>933,585</u> | <u>2,267,301</u> |
| Year ended 31 December 2015 | | | | | | | |
| Opening net book amount | 364,676 | 938,348 | 10,314 | 20,378 | – | 933,585 | 2,267,301 |
| Additions | 2,550 | 6,039 | 6,889 | 4,993 | – | 573,420 | 593,891 |
| Transfer | 315,489 | 565,241 | – | 3,849 | – | (884,579) | – |
| Effect of business combination under common control | – | – | 1,044 | 14 | – | – | 1,058 |
| Disposals | – | (68) | (1,248) | (254) | – | – | (1,570) |
| Depreciation | (14,018) | (66,778) | (3,955) | (6,357) | – | – | (91,108) |
| Closing net book amount (restated) | <u>668,697</u> | <u>1,442,782</u> | <u>13,044</u> | <u>22,623</u> | <u>–</u> | <u>622,426</u> | <u>2,769,572</u> |
| At 31 December 2015 | | | | | | | |
| Cost | 745,916 | 1,860,919 | 27,647 | 45,295 | – | 622,426 | 3,302,203 |
| Accumulated depreciation | (77,219) | (418,137) | (14,603) | (22,672) | – | – | (532,631) |
| Net book amount (restated) | <u>668,697</u> | <u>1,442,782</u> | <u>13,044</u> | <u>22,623</u> | <u>–</u> | <u>622,426</u> | <u>2,769,572</u> |
| Six months ended 30 June 2016 | | | | | | | |
| Opening net book amount (restated) | 668,697 | 1,442,782 | 13,044 | 22,623 | – | 622,426 | 2,769,572 |
| Additions | 41,432 | 75,143 | 811 | 1,277 | – | 10,427 | 129,090 |
| Transfer | – | 5,522 | – | – | – | (5,522) | – |
| Disposals | – | (14,464) | (1,335) | (839) | – | – | (16,638) |
| Depreciation | (11,032) | (46,132) | (877) | (1,165) | – | – | (59,206) |
| Closing net book amount | <u>699,097</u> | <u>1,462,851</u> | <u>11,643</u> | <u>21,896</u> | <u>–</u> | <u>627,331</u> | <u>2,822,818</u> |
| At 30 June 2016 | | | | | | | |
| Cost | 787,348 | 1,927,120 | 27,123 | 45,733 | – | 627,331 | 3,414,655 |
| Accumulated depreciation | (88,251) | (464,269) | (15,480) | (23,837) | – | – | (591,837) |
| Net book amount | <u>699,097</u> | <u>1,462,851</u> | <u>11,643</u> | <u>21,896</u> | <u>–</u> | <u>627,331</u> | <u>2,822,818</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. INVENTORIES

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|----------------|---|---|
| Raw materials | 1,311,434 | 796,952 |
| Finished goods | 390,878 | 460,174 |
| | <u>1,702,312</u> | <u>1,257,126</u> |

For the six months ended 30 June 2016, the Group had reversed approximately RMB22,417,000 for the previous write-down of inventories to their net realisable value. A provision of approximately RMB64,427,000 was provided for the six months ended 30 June 2015. These amounts have been included in the cost of sales in the unaudited condensed consolidated statement of comprehensive income.

8. TRADE RECEIVABLES

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|--------------------------------|--|--|
| Accounts receivable | 166,055 | 135,223 |
| Notes receivable | | |
| – bank acceptance notes | 182,472 | 60,168 |
| – commercial acceptance notes | 4,676 | 6,572 |
| | <u>353,203</u> | <u>201,963</u> |
| Less: provision for impairment | (776) | (800) |
| Trade receivables – net | <u>352,427</u> | <u>201,163</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|------------------------|--|--|
| Accounts receivable | | |
| – Within 30 days | 152,834 | 112,877 |
| – 30 days to 3 months | 8,344 | 5,025 |
| – 3 months to 6 months | 4,295 | 17,189 |
| – 6 months to 1 year | 541 | 46 |
| – 1 year to 2 years | 41 | 86 |
| | <u>166,055</u> | <u>135,223</u> |
| Notes receivable | | |
| – Within 6 months | 187,148 | 66,740 |
| | <u>353,203</u> | <u>201,963</u> |

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|--|---|---|
| Prepayment for purchase of raw materials | 412,834 | 362,418 |
| Value added tax recoverable | 217,367 | 170,252 |
| Export tax refund | 16,526 | 11,675 |
| Deposits and other receivables | 222,490 | 14,007 |
| | <u>869,217</u> | <u>558,352</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

10. SHARE CAPITAL

| | Number of shares '000 | HKD'000 | RMB'000 |
|---|--------------------------|---------|---------|
| Authorised share capital | | | |
| As at 31 December 2015 and 30 June 2016 | 1,500,000 | 150,000 | 128,886 |
| Issued and fully paid up | | | |
| As at 31 December 2015 and 30 June 2016 | 1,141,250 | 114,125 | 97,400 |

11. BORROWINGS

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 (Restated) |
|---|----------------------------------|--|
| Non-current | | |
| Bank borrowings | 751,278 | 711,945 |
| Borrowing and finance lease arrangement | 171,649 | 53,715 |
| | <u>922,927</u> | <u>765,660</u> |
| Current | | |
| Bank borrowings | 1,047,394 | 933,032 |
| Borrowing and finance lease arrangement | 63,768 | 66,440 |
| | <u>1,111,162</u> | <u>999,472</u> |
| Representing : | | |
| Bank borrowings | | |
| – Unsecured | 1,537,248 | 1,380,500 |
| – Secured | 134,000 | 111,575 |
| – Guaranteed | 127,424 | 152,902 |
| Finance lease arrangement | 235,417 | 120,155 |
| | <u>2,034,089</u> | <u>1,765,132</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

12. TRADE PAYABLES

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|------------------|--|--|
| Accounts payable | 500,129 | 381,102 |
| Notes payable | 1,566,278 | 1,013,480 |
| | <u>2,066,407</u> | <u>1,394,582</u> |

The ageing analysis of the trade payable is as follows:

| | As at 30 June 2016 <i>RMB'000</i> | As at 31 December 2015 <i>RMB'000</i> (Restated) |
|--------------------|--|--|
| Within 6 months | 2,066,176 | 1,394,368 |
| 6 months to 1 year | 17 | 206 |
| 1 year to 2 years | 206 | 8 |
| 2 years to 3 years | 8 | – |
| | <u>2,066,407</u> | <u>1,394,582</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. SALES AND SEGMENT INFORMATION

| | Six months ended | |
|----------------|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| Sales of goods | <u>8,433,541</u> | <u>9,179,057</u> |

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

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

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

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| – Mainland China | <u>8,199,387</u> | 8,913,764 |
| – Hong Kong and other overseas countries and regions* | <u>234,154</u> | <u>265,293</u> |
| Total sales | <u>8,433,541</u> | <u>9,179,057</u> |

* Other overseas countries and regions for the six months ended 30 June 2016 mainly represented North America, Australia, Russia, Middle East and South East Asia.

Other overseas countries and regions for the six months ended 30 June 2015 mainly represented North America, Australia, Europe, Middle East and South East Asia.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. EXPENSES BY NATURE

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

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| Changes in inventories of finished goods | (113,595) | (174,918) |
| Raw materials consumed | 7,972,172 | 8,999,426 |
| Stamp duty, property tax and other surcharges | 14,630 | 10,951 |
| Transportation costs | 60,894 | 52,583 |
| Employee benefit expenses, including directors' emoluments | 164,933 | 141,041 |
| Depreciation and amortisation | 58,543 | 43,577 |
| Operating lease rental for buildings | 2,807 | 1,399 |
| Utilities charges | 18,387 | 14,502 |
| (Reversal of)/provision for write-down of inventories | (22,417) | 64,427 |
| Entertainment and travelling expenses | 12,708 | 13,442 |
| Professional service expenses | 2,202 | 1,931 |
| Others | 54,887 | 64,191 |
| Total cost of sales, distribution costs and administrative expenses | <u>8,226,151</u> | <u>9,232,552</u> |

15. FINANCE COSTS - NET

| | Six months ended | |
|--|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| Interest expenses on bank borrowings | 41,100 | 41,734 |
| Interest expenses on bank acceptance notes | 27,351 | 35,810 |
| Exchange losses/(gains), net | 2,761 | (2,169) |
| Total finance costs | <u>71,212</u> | <u>75,375</u> |
| Interest income | (4,467) | (5,467) |
| | <u>66,745</u> | <u>69,908</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

16. INCOME TAX EXPENSE/(CREDIT)

| | Six months ended | |
|---------------------------------------|------------------|-----------------|
| | 30 June 2016 | 30 June 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current income tax expense | | |
| – Mainland China corporate income tax | 38,493 | 6,793 |
| Deferred income tax credit | – | (34,507) |
| | <u>38,493</u> | <u>(27,714)</u> |

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

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. EARNINGS/(LOSSES) PER SHARE

(a) Basic

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

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| Profit/(losses) attributable to equity holders of the company | 102,937 | (88,143) |
| Weighted average number of ordinary shares in issue (thousands) | 1,141,250 | 1,037,500 |
| Basic earnings/(loss) per share (RMB) | 0.09 | (0.08) |

(b) Diluted

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

| | Six months ended | |
|--|--------------------------------|--------------------------------|
| | 30 June 2016 <i>RMB'000</i> | 30 June 2015 <i>RMB'000</i> |
| Profit/(losses) attributable to equity holders of the company | 102,937 | (88,143) |
| Weighted average number of ordinary shares in issue (thousands) | 1,141,250 | 1,037,500 |
| Adjustments for share option plan (thousands) | 128 | 530 |
| Weighted average number of ordinary shares for diluted earnings/(losses) per share (thousands) | 1,141,378 | 1,038,030 |
| Diluted earnings/(loss) per share (RMB) | 0.09 | (0.08) |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

18. COMMITMENTS

(a) Capital commitments

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Contracted but not provided for: | | |
| Acquisition of property, plant and equipment | <u>219,855</u> | <u>275,812</u> |

(b) Operating lease commitments

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

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

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Not later than 1 year | 2,796 | 756 |
| Later than 1 year and not later than 5 years | <u>2,820</u> | — |
| | <u>5,616</u> | <u>756</u> |

OTHER INFORMATION

CORPORATE GOVERNANCE

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

The Company has complied with the Corporate Governance Code (the "CG Code"), including new code provisions, of the revised Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2016 except for the deviation from code provisions A.2.1 and A.6.7.

Under code provision A.2.1 of the CG Code, 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. The Company adopted the CG Code as its own code of corporate governance.

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 the chief executive officer of the Company. The Board would nevertheless review this arrangement from time to time in light of prevailing circumstances. For detailed information, please refer to the Corporate Governance Report in the Company's 2015 Annual Report.

Under code provision A.6.7 of the CG Code, the independent non-executive directors and non-executive directors should attend general meeting of the Company. Mr. Shen Dong, a non-executive director of the Company and Mr. Chen Xuedong and Mr. Lu Daming, both are independent non-executive directors of the Company, were absent from the annual general meeting of the Company held on 3 June 2016 due to their other business commitments.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

SHARE CAPITAL

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

INTERIM DIVIDENDS

The Directors do not recommend payment of an interim dividend in respect of the six months ended 30 June 2016 (2015: nil).

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed with the management and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 and considered that the Company has complied with all applicable accounting standards and requirements.

OTHER INFORMATION

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2015 Annual Report of the Company are set out below:

| Name of Directors | Details of Change |
|--------------------------|---|
| Mr. Zhou Keming | Being a director of Jiangsu Daming Steel Union Logistics Company Limited, a subsidiary of the Company. |
| Mr. Zhang Feng | Being a director and the legal representative of Jiangsu Daming Steel Union Logistics Company Limited, a subsidiary of the Company. |
| Dr. Fukui Tsutomu | Appointed as the chairman of the board of Jiangsu Daming Precision Sheet Metal Company Limited, a subsidiary of the Company, with effect from 22 June 2016. |
| Mr. Lu Daming | Appointed as an independent director of Huadian Heavy Industries Company Limited, a company whose shares are listed on The Shanghai Stock Exchange (with stock code 601226), with effect from May 2016. |

OTHER INFORMATION

SHARE OPTION SCHEME

The Company adopted a share option scheme on 9 November 2010. Principal terms of the share option scheme were set out in our 2015 Annual Report.

Particulars of share options outstanding under the share option scheme at the beginning and at the end of the financial period for the six months ended 30 June 2016 and share options granted, exercised, cancelled or lapsed under the share option scheme during such period are as follows:

| Name or category of participant | Date of grant | Exercise price (HK\$) | As at 1 January 2016 | Number of share options | | | As at 30 June 2016 | Exercise period |
|--|------------------|-----------------------|---------------------------|---------------------------|-----------------------------|-------------------------------------|--------------------|--------------------------------------|
| | | | | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | | |
| Directors | | | | | | | | |
| Mr. Tang Zhonghai | 21 December 2010 | 2.452 | 600,000 ⁽¹⁾ | - | - | - | 600,000 | 21 December 2013 to 20 December 2020 |
| Dr. Fukui Tsutomu | 23 December 2014 | 2.364 | 500,000 ⁽²⁾ | - | - | - | 500,000 | 23 December 2017 to 22 December 2024 |
| Mr. Zhang Feng | 21 December 2010 | 2.452 | 300,000 ⁽¹⁾ | - | - | - | 300,000 | 21 December 2013 to 20 December 2020 |
| | 23 December 2014 | 2.364 | 100,000 ⁽²⁾ | - | - | - | 100,000 | 23 December 2017 to 22 December 2024 |
| Mr. Kang In Soo (resigned on 24 March 2016) | 23 December 2014 | 2.364 | 400,000 ⁽²⁾ | - | - | - | 400,000 | 23 December 2017 to 22 December 2024 |
| Other employees in aggregate | | | | | | | | |
| | 21 December 2010 | 2.452 | 4,600,000 ⁽¹⁾ | - | - | - | 4,600,000 | 21 December 2013 to 20 December 2020 |
| | 23 December 2014 | 2.364 | 15,750,000 ⁽²⁾ | - | - | - | 15,750,000 | 23 December 2017 to 22 December 2024 |
| Total | | | 22,250,000 | - | - | - | 22,250,000 | |

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

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

OTHER INFORMATION

SHARE AWARD SCHEME

The Company adopted a share award scheme on 25 August 2011. Principal terms of the share award scheme were set out in our 2015 Annual Report.

For the period ended 30 June 2016, a total of 2,864,000 awarded shares were granted to directors and selected employees of the Group. As at 30 June 2016, the independent trustee holds 16,106,000 shares of the Company for the share award scheme.

Particulars of share awards movements for the six months ended 30 June 2016 are as follows:

| Name of awardees | Date of grant | Number of Awarded Shares | | | As at 30 June 2016 | Vesting date/period |
|-------------------------------------|-----------------|--------------------------|---------------------------|--------------------------|--------------------|------------------------------------|
| | | As at 1 January 2016 | Granted during the period | Vested during the period | | |
| Mr. Zhou Keming | 17 June 2016 | – | 26,000 | (26,000) | – | 30 June 2016 |
| Ms. Xu Xia | 17 June 2016 | – | 24,000 | (24,000) | – | 30 June 2016 |
| Mr. Zou Xiaoping | 17 June 2016 | – | 26,000 | (26,000) | – | 30 June 2016 |
| Mr. Tang Zhonghai | 15 October 2014 | 450,000 | – | – | 450,000 | 31 October 2014 to 31 October 2016 |
| | 17 June 2016 | – | 30,000 | (30,000) | – | 30 June 2016 |
| Mr. Zhang Feng | 15 October 2014 | 180,000 | – | – | 180,000 | 31 October 2014 to 31 October 2016 |
| | 17 June 2016 | – | 24,000 | (24,000) | – | 30 June 2016 |
| Dr. Fukui Tsutomu | 17 June 2016 | – | 26,000 | (26,000) | – | 30 June 2016 |
| Other employees in aggregate | 15 October 2014 | 2,934,000 | – | – | 2,934,000 | 31 October 2014 to 31 October 2016 |
| | 17 June 2016 | – | 2,708,000 | (2,708,000) | – | 30 June 2016 |
| Total | | 3,564,000 | 2,864,000 | (2,864,000) | 3,564,000 | |

EMPLOYMENT POLICY

The Group employed a total of 3,443 staffs as at 30 June 2016 (2015: 3,090).

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

OTHER INFORMATION

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

As at 30 June 2016, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code, were as follows:

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

| <u>Name of Director</u> | <u>Nature of interests</u> | <u>Number of shares/ underlying shares held</u> | <u>% of issued share capital</u> |
|---|---|---|--------------------------------------|
| Mr. Zhou Keming (also Chief Executive Officer) | Corporate ⁽³⁾ , family and personal | 740,961,000 ⁽⁴⁾ | 64.93% |
| Ms. Xu Xia | Corporate ⁽³⁾ , family and personal | 740,961,000 ⁽⁴⁾ | 64.93% |
| Mr. Zou Xiaoping | Family and personal | 5,026,000 ⁽⁵⁾ | 0.44% |
| Mr. Tang Zhonghai | Personal | 1,080,000 ⁽⁶⁾ | 0.09% |
| Dr. Fukui Tsutomu | Family and Personal | 1,442,000 ⁽⁷⁾ | 0.13% |
| Mr. Zhang Feng | Personal | 2,024,000 ⁽⁸⁾ | 0.18% |

⁽³⁾ 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. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

⁽⁴⁾ 740,911,000 shares are held by Ally Good Group Limited (see note 3 above), 26,000 shares are held by Mr. Zhou Keming and 24,000 shares are held by Ms. Xu Xia.

⁽⁵⁾ 5,000,000 shares are held by Mr. Zou Xiaoping's spouse, Ms. Li Jun and 26,000 shares are held by Mr. Zou Xiaoping.

⁽⁶⁾ The interest comprises 30,000 shares, 600,000 underlying shares in respect of the share options granted pursuant to the share option scheme and 450,000 underlying shares in respect of the awarded shares granted pursuant to the share award scheme as disclosed under sections headed share option scheme and share award scheme.

⁽⁷⁾ The interest comprises 866,000 shares held by Dr. Fukui Tsutomu's spouse, Ms. Mizuho Fukui, 76,000 shares held by Dr. Fukui and 500,000 underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed share option scheme.

⁽⁸⁾ The interest comprises 1,444,000 shares, 400,000 underlying shares in respect of the share options granted pursuant to the share option scheme and 180,000 underlying shares in respect of the awarded shares granted pursuant to the share award scheme as disclosed under sections headed share option scheme and share award scheme.

OTHER INFORMATION

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

| Name of Director | Name of associated corporation ⁽⁹⁾ | Nature of interests | Number of shares held | % of issued share capital of associated corporation |
|------------------|---|--------------------------|-----------------------|---|
| Mr. Zhou Keming | Ally Good Group Limited | Personal ⁽¹⁰⁾ | 1,000 | 100% |
| Ms. Xu Xia | Ally Good Group Limited | Personal ⁽¹⁰⁾ | 1,000 | 100% |

⁽⁹⁾ As at 30 June 2016, Ally Good Group Limited is the holder of 64.92% of the issued share capital of the Company and is an associated corporation under SFO.

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

Save as disclosed above, as at 30 June 2016, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2016, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

| Name of Shareholder | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|----------------------------|--------------------------------|--|
| <i>Long position</i> | | |
| Ally Good Group Limited | 740,911,000 ⁽¹¹⁾ | 64.92% |
| Baosteel Group Corporation | 103,750,000 | 9.09% |

⁽¹¹⁾ As Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, they have interest in these shares as disclosed under the previous section.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2016.

EVENT AFTER THE END OF THE REPORTING PERIOD

During 5 July 2016 to 22 July 2016, the independent trustee acquired 898,000 shares from the market for the share award scheme.