



DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code :1090

2016 Annual Report





CONTENTS



2	Corporate Information
3	Financial and Operating Highlights
6	Chairman's Statement
10	Management Discussion and Analysis
14	Corporate Governance Report
30	Profile of Directors and Senior Management
34	Directors' Report
47	Independent Auditor's Report
52	Consolidated Statement of Financial Position
54	Consolidated Statement of Comprehensive Income
55	Consolidated Statement of Changes in Equity
56	Consolidated Statement of Cash Flows
57	Notes to the Consolidated Financial Statements
136	Financial Summary

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Keming (*Chairman*)
 Ms. Xu Xia
 Mr. Zou Xiaoping
 Mr. Jiang Changhong
 Mr. Tang Zhonghai
 Dr. Fukui Tsutomu
 Mr. Zhang Feng

Non-executive Director

Mr. Shen Dong

Independent Non-executive Directors

Prof. Hua Min
 Mr. Chen Xuedong
 Mr. Cheuk Wa Pang
 Mr. Lu Daming

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
 Mr. Lu Daming

REMUNERATION COMMITTEE

Prof. Hua Min
 Mr. Chen Xuedong
 Mr. Cheuk Wa Pang
 Mr. Lu Daming
 Mr. Zou Xiaoping

NOMINATION COMMITTEE

Prof. Hua Min
 Mr. Chen Xuedong
 Mr. Cheuk Wa Pang
 Mr. Lu Daming
 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
 17/F, Hopewell Centre
 183 Queen's Road East, Wanchai
 Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
 22/F, 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

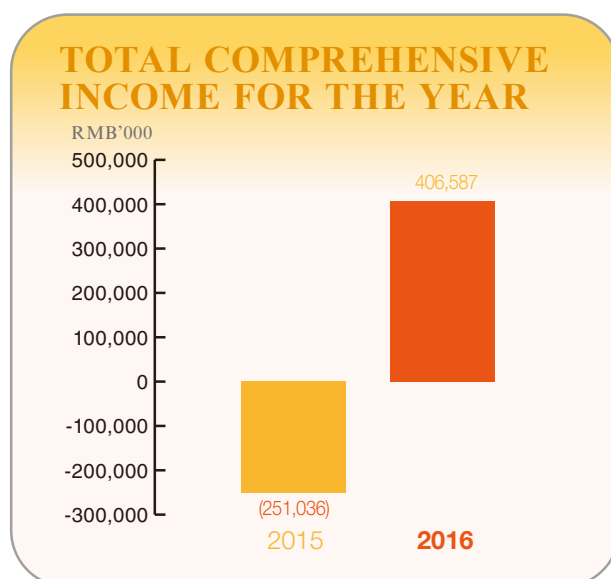
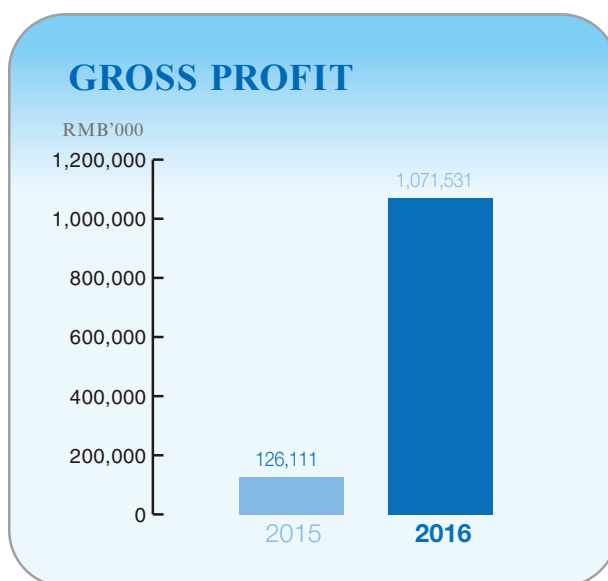
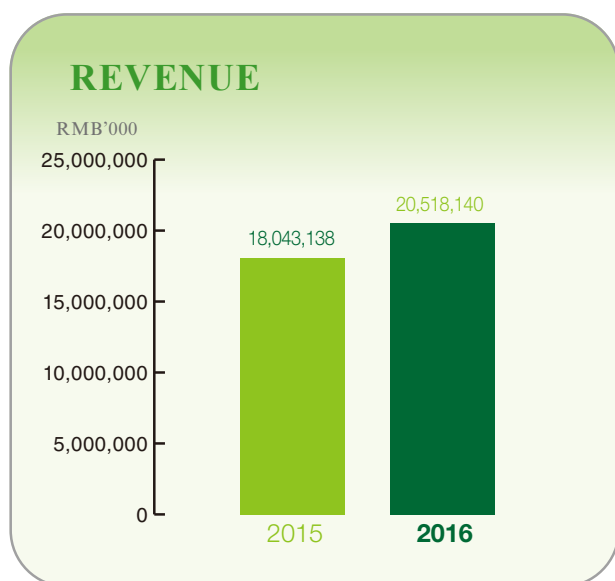
SEHK: 1090

WEBSITE

<http://www.dmssc.net>

Financial and Operating Highlights

	Year ended 31 December		% change
	2016 RMB'000	2015 (Restated) RMB'000	
FINANCIAL HIGHLIGHTS			
Revenue	20,518,140	18,043,138	+13.7%
Gross profit	1,071,531	126,111	+749.7%
Total comprehensive income/(loss) for the year	406,587	(251,036)	+262.0%

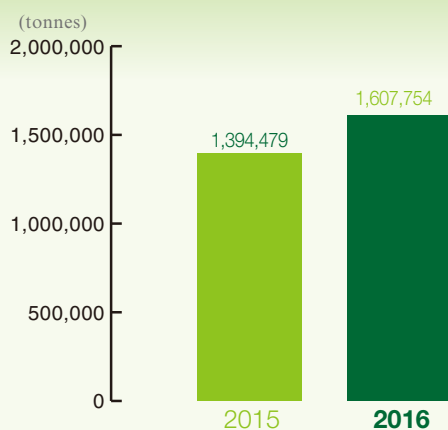


Financial and Operating Highlights

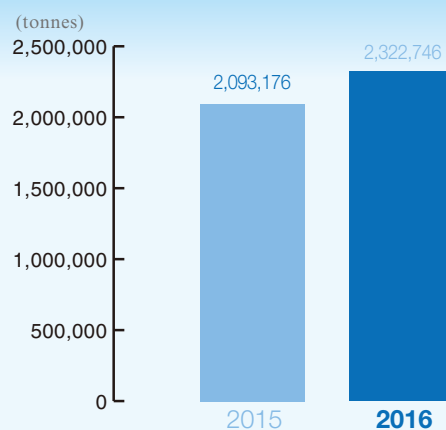
	Year ended 31 December		
	2016	2015	% change
OPERATING HIGHLIGHTS			
Stainless steel			
Sales volume (tonnes)	1,607,754	1,394,479	+15.3%
Processing volume (tonnes)	2,322,746	2,093,176	+11.0%
Processing multiple (note)	1.44	1.50	
Carbon steel			
Sales volume (tonnes)	1,152,131	707,281	+62.9%
Processing volume (tonnes)	1,058,373	612,672	+72.7%
Processing multiple (note)	0.92	0.87	

Note: Processing multiple = Processing volume/Sales volume

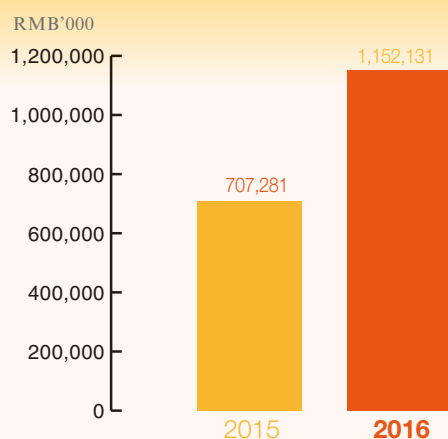
SALES VOLUME OF STAINLESS STEEL



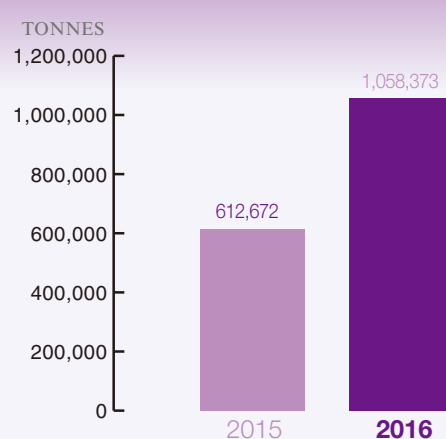
PROCESSING VOLUME OF STAINLESS STEEL



SALES VOLUME OF CARBON STEEL



PROCESSING VOLUME OF CARBON STEEL



Financial and Operating Highlights

The sales volume and processing volume of our processing centres for the year ended 31 December 2016 and the corresponding period in 2015 are as follows:

	Year ended 31 December		% change
	2016	2015	
Stainless steel	<i>tonnes</i>	<i>tonnes</i>	
Sales volume			
Wuxi	689,456	683,124	+0.9%
Wuhan	85,013	56,877	+49.5%
Hangzhou	272,698	244,507	+11.5%
Tianjin	218,837	174,276	+25.6%
Taiyuan	111,763	87,976	+27.0%
Daming Technology	43,292	–	n/a
Other sales offices	186,695	147,719	+26.4%
Total	1,607,754	1,394,479	+15.3%
Processing volume			
Wuxi	1,251,693	1,328,776	-5.8%
Wuhan	96,599	48,239	+100.3%
Hangzhou	347,703	308,702	+12.6%
Tianjin	271,717	255,494	+6.3%
Taiyuan	189,781	138,859	+36.7%
Daming Technology	41,088	–	n/a
Others	124,165	13,106	+847.4%
Total	2,322,746	2,093,176	+11.0%

	Year ended 31 December		% change
	2016	2015	
Carbon steel	<i>tonnes</i>	<i>tonnes</i>	
Sales volume			
Wuxi	19,259	70,146	-72.5%
Wuhan	131,678	–	n/a
Hangzhou	230,907	237,913	-2.9%
Tianjin	43,797	–	n/a
Taiyuan	206,442	169,044	+22.1%
Daming Technology	351,848	146,245	+140.6%
Other sales offices	168,200	83,933	+100.4%
Total	1,152,131	707,281	+62.9%
Processing volume			
Wuxi	80,619	77,824	+3.6%
Wuhan	118,855	–	n/a
Hangzhou	235,366	232,042	+1.4%
Tianjin	37,494	–	n/a
Taiyuan	248,996	171,430	+45.2%
Daming Technology	334,718	131,376	+154.8%
Others	2,325	–	n/a
Total	1,058,373	612,672	+72.7%

Note: Part of the carbon steel business of Wuxi processing centre was transferred to our Qianzhou Daming office during the year ended 31 December 2016.

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 Group for the year ended 31 December 2016.



BUSINESS REVIEW

Business development

We are a leading metals processing service provider providing comprehensive processing service to modern manufacturers in China with more than 20,000 active customers. The Group has established seven processing centres strategically located in various regions in China, namely, Wuxi, Hangzhou, Tianjin, Wuhan, Taiyuan, Zibo and Jingjiang. Currently, we have nine processing platforms including cutting, slitting, polishing, forming, welding, heat treating, machining, painting and assembling which provide full range processing services on stainless steel, carbon steel and other metallic materials to our customers.

九大加工平台



Chairman's Statement

With a view to provide a more comprehensive service to our customers, the Group expanded its scope of processing services into carbon steel processing in 2013. We are pleased to announce that both of the annual sales volume and annual processing volume of our carbon steel processing services exceeded one million tonnes in 2016 representing a compound annual growth rate of more than 60%. Regarding our stainless steel processing services, the compound annual growth rates from 2010 to 2016 for both of the annual sales volume and annual processing volume are more than 20%.



The Group started the construction work of the Taian processing centre on 28 October 2016. Being the eighth processing centre of our Group, it will provide high-strength carbon steel and stainless steel processing services to customers engaged in the industries of construction machineries, paper production equipment, pressurized containers and chemical equipment. The site area is approximately 100,000 square metres and the gross floor area will be approximately 7,460,000 square metres. The construction period of the Taian processing centre is expected to be approximately 10 months. Upon completion, the processing centre will be able to provide deep processing services for 600,000 tonnes of high-strength carbon steel and 200,000 tonnes of stainless steel.

Chairman's Statement



On 20 March 2017, the Company and Tisco Stainless Steel (H.K.) Limited (“TISCO HK”) entered into a conditional subscription agreement in relation to the conditional subscription of 103,750,000 new shares of the Company.

Pursuant to the conditional subscription agreement, TISCO HK has conditionally agreed to subscribe for 103,750,000 new shares of the Company at HK\$3.50 per share and the total subscription price will be approximately HK\$363.1 million which is equivalent to approximately RMB322.8 million. The subscription shares represent approximately 9.09% of the issued share capital of the Company as at 20 March 2017. Upon completion of the conditional subscription, the shareholding of TISCO HK will be approximately 8.33% of the enlarged issued share capital of the Company. Completion of the conditional subscription agreement is conditional upon, among others, the Stock Exchange having granted approval for the listing of, and permission to deal in the subscription shares.

Operating results

The Group achieved a very brilliant results in 2016 with a revenue of more than RMB20,000 million and a net profit attributable to equity holders of the Company of more than RMB380 million. Both of which are recorded high since the listing of the Company in 2010. The good results were mainly due to the following reasons:

- there was an increase in the sales volume and processing volume of our stainless steel and carbon steel processing services;
- the market price of both stainless steel and carbon steel raw materials rose steadily during the year; and
- contribution from new equipment and newly opened processing centre.

Chairman's Statement

The annual sales volume of our stainless steel processing business increased from approximately 1,394,000 tonnes for the year ended 31 December 2015 to approximately 1,608,000 tonnes for the year ended 31 December 2016 representing an increase of approximately 15.3% while the processing volume increased from approximately 2,093,000 tonnes for the year ended 31 December 2015 to approximately 2,323,000 tonnes for the year ended 31 December 2016 representing an increase of approximately 11.0%.

The annual sales volume of our carbon steel processing business increased from approximately 707,000 tonnes for the year ended 31 December 2015 to approximately 1,152,000 tonnes for the year ended 31 December 2016 representing an increase of approximately 62.9% while the annual processing volume increased from approximately 613,000 tonnes for the year ended 31 December 2015 to approximately 1,058,000 tonnes for the year ended 31 December 2016 representing an increase of approximately 72.7%.

FUTURE DEVELOPMENT

The Group will continue to develop the processing centre in Jingjiang with a view to enhance its deep processing services. On the other hand, the Taian processing centre is expected to be completed in 2017 to serve the customers in Shandong province.

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.

Management Discussion and Analysis

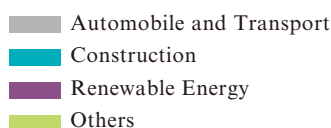
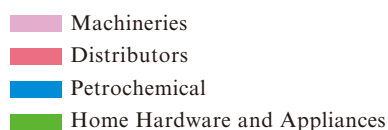
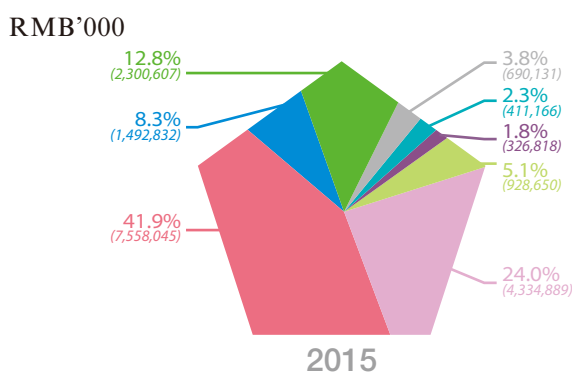
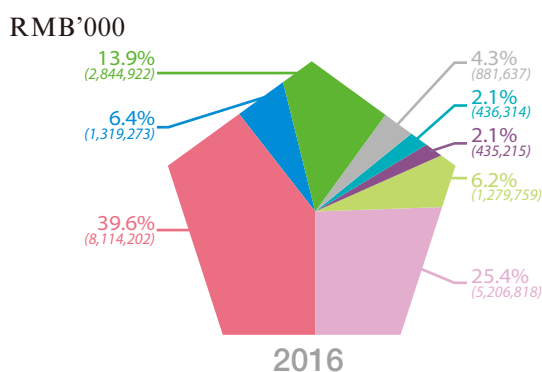
FINANCIAL REVIEW AND ANALYSIS

During the year under review, we recorded a revenue of approximately RMB20,518 million, gross profit of approximately RMB1,072 million and the profit attributable to equity holders of the Company of approximately RMB388 million. Total assets of the Group as at 31 December 2016 amounted to approximately RMB7,761 million while equity attributable to equity holders of the Company amounted to approximately RMB2,160 million.

Analysis of revenue by key industry segments

During the years ended 31 December 2016 and 2015, our revenue by key industry segments are shown below:

Industry	Revenue For the year ended 31 December			
	2016 RMB'000	%	2015 RMB'000 (Restated)	%
Machineries	5,206,818	25.4	4,334,889	24.0
Distributors	8,114,202	39.6	7,558,045	41.9
Petrochemical	1,319,273	6.4	1,492,832	8.3
Home Hardware and Appliances	2,844,922	13.9	2,300,607	12.8
Automobile and Transport	881,637	4.3	690,131	3.8
Construction	436,314	2.1	411,166	2.3
Renewable Energy	435,215	2.1	326,818	1.8
Others	1,279,759	6.2	928,650	5.1
Total	20,518,140	100.0	18,043,138	100.0



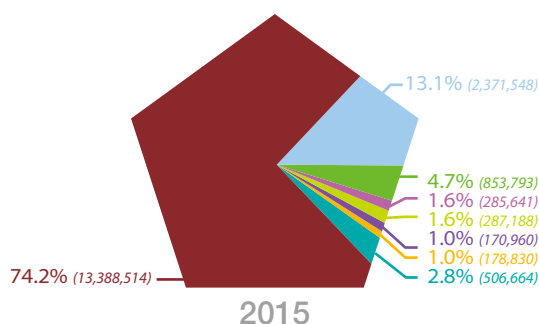
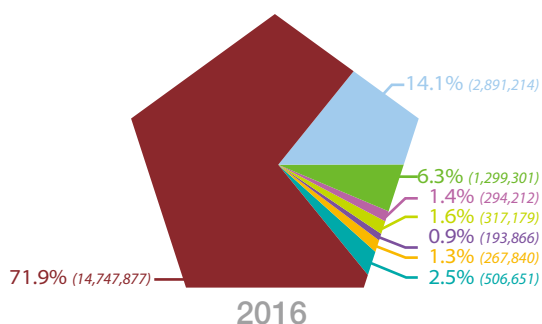
Management Discussion and Analysis

Analysis of revenue by geographic regions

Region	Revenue			
	For the year ended 31 December 2016		2015	
	RMB'000	%	RMB'000 (Restated)	%
Eastern region, China	14,747,877	71.9	13,388,514	74.2
Northern region, China	2,891,214	14.1	2,371,548	13.1
Central region, China	1,299,301	6.3	853,793	4.7
Southwestern region, China	294,212	1.4	285,641	1.6
Northeastern region, China	317,179	1.6	287,188	1.6
Northwestern region, China	193,866	0.9	170,960	1.0
Southern region, China	267,840	1.3	178,830	1.0
Overseas	506,651	2.5	506,664	2.8
	20,518,140	100.0	18,043,138	100.0

RMB'000

RMB'000



- Eastern region, China
- Northern region, China
- Central region, China
- Southwestern region, China

- Northeastern region, China
- Northwestern region, China
- Southern region, China
- Overseas

Management Discussion and Analysis

Revenue

Our revenue for the year ended 31 December 2016 amounted to approximately RMB20,518 million comprising approximately RMB17,626 million from our stainless steel processing business and approximately RMB2,892 million from our carbon steel processing business. As compared with the revenue for the year ended 31 December 2015 of approximately RMB18,043 million, it represented an increase of approximately 13.7%. Such increase was mainly due to the increase in the sales volume of stainless steel and carbon steel processing services.

Gross profit

Gross profit increased from approximately RMB126.1 million in 2015 to approximately RMB1,071.5 million in 2016 mainly due to the increase in the sales volume and processing volume of stainless steel and carbon steel processing services.

Other income

Other income increased from approximately RMB29.8 million for the year ended 31 December 2015 to approximately RMB39.1 million for the year ended 31 December 2016 mainly due to the increase in sales of scraps and packaging materials as well as the increase in subsidy income.

Other (loss)/gain – net

Other loss of approximately RMB0.2 million was recorded for the year ended 31 December 2016 as compared with other gain of approximately RMB12.5 million for the year ended 31 December 2015. Such decrease was mainly due to the significant decrease in foreign exchange gain.

Distribution costs

Distribution costs increased from approximately RMB156.6 million for the year ended 31 December 2015 to approximately RMB196.6 million for the year ended 31 December 2016. Such increase was mainly due to the increase in staff salaries and transportation costs, the increase in transposition costs was a result of the increase in sales volume.

Administrative expenses

Administrative expenses increased from approximately RMB207.0 million for the year ended 31 December 2015 to approximately RMB234.2 million for the year ended 31 December 2016. Such increase was mainly due to the increase in staff costs.

Finance costs – net

Finance costs decreased from approximately RMB125.4 million for the year ended 31 December 2015 to approximately RMB119.3 million for the year ended 31 December 2016. The decrease in finance costs was mainly due to the decrease in interest expenses on borrowings.

Management Discussion and Analysis

Income tax (expense)/credit

The Group recorded an income tax expenses of approximately RMB152.0 million for the year ended 31 December 2016 due to a net profit being recorded. Income tax credit of approximately RMB73.0 million was recorded for the year ended 31 December 2015 due to the loss incurred.

Profit/(Loss) for the year

The Group recorded a profit of approximately RMB406.6 million for the year ended 31 December 2016 as compared with a loss of approximately RMB251.0 million for the year ended 31 December 2015 representing an increase of approximately 262.0%.

Capital Expenditure

In 2016, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB501.8 million (2015: RMB593.9 million).

Foreign Exchange Risk Management

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade receivables, restricted bank deposits, cash and cash equivalents, trade payables, other payables and borrowings denominated in foreign currencies, mainly United States Dollar, Euro, Hong Kong Dollar and Japanese Yen, 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 AND FINANCIAL RESOURCES

As at 31 December 2016, the borrowings of the Group amounted to approximately RMB2,060.9 million of which approximately RMB1,192.9 million were repayable within one year, notes payables amounted to approximately RMB1,310.7 million while the bank balances were approximately RMB740.9 million of which approximately RMB687.8 million were restricted mainly for the issuance of notes payable and letter of credit.

As at 31 December 2016, the Group recorded a net current liabilities of approximately RMB192.2 million mainly due to the use of short term borrowings to finance the Group's capital expenditure in the current year. According to our experience, the Group will be able to extend the short term borrowings when due and will not cause any going concern issue. The Group will also review and monitor its financing structure in the coming year.

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 2016 and 2015 calculated on this basis were 45.41% and 43.27% respectively.

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 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 year ended 31 December 2016 except for the deviation from code provisions A.2.1 and A.6.7. The Company adopted the CG Code as its own code of corporate governance.

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. Section headed "Chairman and Chief Executive Officer" explains the deviation. The Company adopted the CG Code as its own code of corporate governance.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meeting of the Company. Mr. Shen Dong, a non-executive director of the Company, was absent from all board meetings held by the Company during the year ended 31 December 2016 and the annual general meeting of the Company held on 3 June 2016 ("2016 AGM"). Mr. Chen Xuedong and Mr. Lu Daming, both are independent non-executive directors of the Company, were absent from the 2016 AGM 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 year ended 31 December 2016.

BOARD OF DIRECTORS

Composition

The Board of Directors (the “Board”) comprises 7 executive directors, 1 non-executive director and 4 independent non-executive directors. As of 31 December 2016, the Directors are as follows:

<i>Executive directors:</i>	<i>Non-executive director:</i>	<i>Independent non-executive directors:</i>
Mr. Zhou Keming (<i>Chairman</i>)	Mr. Shen Dong	Prof. Hua Min
Ms. Xu Xia		Mr. Chen Xuedong
Mr. Zou Xiaoping		Mr. Cheuk Wa Pang
Mr. Jiang Changhong		Mr. Lu Daming
Mr. Tang Zhonghai		
Dr. Fukui Tsutomu		
Mr. Zhang Feng		

The biographical details of the Directors are set out on pages 30 to 33 of this Annual Report. Save as Mr. Zhou Keming is the spouse of Ms. Xu Xia and Mr. Zhang Feng is a cousin of Mr. Zhou Keming, none of the members of the Board is related to one another.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In August 2013, the Board adopted a Board Diversity Policy which has been made available on the Company’s website. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

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.

Corporate Governance Report

Ten board meetings had been held in the financial year ended 31 December 2016. 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 (<i>Chairman</i>)	9/9 ^(a)	100%
Ms. Xu Xia	5/8 ^{(a),(b)}	62.5%
Mr. Zou Xiaoping	9/9 ^(a)	100%
Mr. Jiang Changhong	10/10	100%
Mr. Tang Zhonghai	8/9 ^(a)	88.9%
Dr. Fukui Tsutomu	9/9 ^(a)	100%
Mr. Zhang Feng	9/9 ^(a)	100%
Non-executive Director		
Mr. Shen Dong	0/10	0%
Independent non-executive Directors		
Mr. Cheuk Wa Pang	10/10	100%
Prof. Hua Min	6/10	60%
Mr. Chen Xuedong	9/10	90%
Mr. Lu Daming	9/10	90%

(a) A board meeting was held on 17 June 2016 to discuss the grant of awarded shares to 360 employees (including Mr. Zhou Keming, Ms. Xu Xia, Mr. Zou Xiaoping, Mr. Tang Zhonghai, Dr. Fukui Tsutomu and Mr. Zhang Feng). They were prohibited from forming the quorum and from voting at that meeting.

(b) Ms. Xu Xia was appointed as an executive director on 24 March 2016.

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. All non-executive directors (except Mr. Shen Dong and Prof. Hua Min) attended the meeting.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

To ensure all Directors' contributions 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 relating to the latest information on compliance matters for listed companies on 3 June 2016. Attendance records of the directors are set out below:

Name of Directors	Attended the training seminar held on 3 June 2016
<i>Executive directors</i>	
Mr. Zhou Keming	✓
Ms. Xu Xia	✓
Mr. Zou Xiaoping	✓
Mr. Jiang Changhong	✓
Mr. Tang Zhonghai	✓
Dr. Fukui Tsutomu	✓
Mr. Zhang Feng	✓
<i>Non-executive director</i>	
Mr. Shen Dong ^(c)	
<i>Independent non-executive directors</i>	
Mr. Cheuk Wa Pang	✓
Prof. Hua Min	✓
Mr. Chen Xuedong ^(d)	
Mr. Lu Daming ^(d)	

(c) Mr. Shen Dong did not attend any professional development programme during the year ended 31 December 2016.

(d) Mr. Chen Xuedong and Mr. Lu Daming attended outside talks or seminars to update knowledge in regulatory updates or their focused professional area.

All Directors (except Mr. Shen Dong) had provided their training records for the year 2016 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.

Corporate Governance Report

MONTHLY MANAGEMENT REPORTS

Management provided all members of the Board with monthly management reports including monthly financial and operating updates, proposed projects and latest development of the Group. Directors are able to review and assess the performance of the Group and be informed of the Group's latest development through the monthly management reports.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the Directors.

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 Group are 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 separated and should not be performed by the same individual. During the reporting period, the positions of the Chairman and the chief executive officer were held by Mr. Zhou Keming. Mr. Zhou is the founder of the Group and has extensive knowledge in the stainless steel industry. Having considered the current development of the Group and be responsive to the fast and myriad changes in the business environment, the Board believes that vesting the dual roles in the same person provides the Company with strong and consistent leadership in the development and execution of long term business strategies. In addition, there is a general manager in each of our branch offices to assist the chief executive officer to manage the daily operations of the respective processing centres.

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

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

Corporate Governance Report

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. 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 possessing appropriate professional accounting qualifications, or accounting, or related financial management expertise.

Also, the Board comprises four INEDs representing one-third of the Board.

The Company has received, from each of the INEDs, 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 are available on the websites of the Company (www.dmssc.net) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). 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 four INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong and Mr. Lu Daming and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the Remuneration Committee.

The Remuneration Committee refers to the 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 three meetings during the financial year ended 31 December 2016.

The following is an attendance record of the meetings 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 (<i>Chairman</i>)	3/3	100%
Prof. Hua Min	2/3	66.7%
Mr. Chen Xuedong	3/3	100%
Mr. Lu Daming	3/3	100%
Mr. Zou Xiaoping	2/2 ^(e)	100%

- (e) A remuneration committee meeting was held on 17 June 2016 to discuss the grant of awarded shares to 360 employees (including Mr. Zou Xiaoping). He was prohibited from forming the quorum and from voting at that meeting.

Corporate Governance Report

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 option scheme and share award scheme;
- (3) Reviewed the list of selected employees for granting awarded shares on 17 June 2016;
- (4) Approved the acquisition of shares from market for the share award scheme as suggested by Mr. Zhou Keming, Chairman of the Board;
- (5) Reviewed the level of remuneration for non-executive director and INEDs. Ensured the remunerations are linked to their level of responsibilities, undertaking and contribution in terms of time commitment to the effective functioning of the Board; and
- (6) Reviewed the performance of the executive directors, chief executive officer and key senior management officers and recommended to the Board specific adjustments in remuneration.

The 2016 annual salary review 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 are available on the Company's website. The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of directors and senior management. The Nomination Committee comprises the four INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong and Mr. Lu Daming 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 two meetings during the financial year ended 31 December 2016. The following is an attendance record of the meetings 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 (<i>Chairman</i>)	2/2	100%
Prof. Hua Min	2/2	100%
Mr. Chen Xuedong	2/2	100%
Mr. Lu Daming	2/2	100%
Mr. Zou Xiaoping	2/2	100%

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

- (1) Reviewed the structure, size and composition of the Board, as well as the skills, knowledge and qualifications of the Directors;
- (2) Reviewed the independence of all INEDs;
- (3) Recommended to the Board for endorsement on the re-election of the retiring Directors; and
- (4) Considered and provided opinions to the Board on the re-nomination of Ms. Xu Xia as an executive Director and the resignation of Mr. Kang In Soo as an executive Director with effect from 24 March 2016.

Corporate Governance Report

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 are available on the Company's website. The Audit Committee comprises the four INEDs, namely Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong and Mr. Lu Daming. 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, financial 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 2016. The following is an attendance record of the meetings 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 (<i>Chairman</i>)	3/3	100%
Prof. Hua Min	2/3	66.7%
Mr. Chen Xuedong	2/3	66.7%
Mr. Lu Daming	3/3	100%

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

- (1) Reviewed the Group's 2016 interim financial results;
- (2) Reviewed the Group's 2016 final results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's auditor (the "Auditor") for the financial year ending 31 December 2017 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 controls 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 2016, 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	RMB2,890,000
Tax-related services	HK\$46,000

The Audit Committee considered that the non-audit services in 2016 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 2016.

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 2016.

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

Corporate Governance Report

SHAREHOLDER RIGHTS

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law. 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, uses 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 2016 AGM was held on 3 June 2016 at Island Shangri-La Hong Kong. The related notice and circular have been sent to shareholders in accordance with the applicable rules and regulations. Chairman of the Board, chairman of the Audit, Remuneration and Nomination Committees and Directors (except Mr. Shen Dong, Mr. Chen Xuedong and Mr. Lu Daming) attended the 2016 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 2016. 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's risk governance structure and the main responsibilities of each level of the structure are summarized below:

Board

- Determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- Oversees the Group's risk management and internal control systems on an ongoing basis;
- Reviews the effectiveness of the Group's risk management and internal control systems at least annually and such reviews cover all material controls including financial, operational and compliance controls;
- Considers major findings on risk management and internal control matters and then reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;

Corporate Governance Report

- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit department; and
- Provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Department

- Reviews the adequacy and effectiveness of the Group's risk management and internal control systems; and
- Reports to the Audit Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weakness identified.

The process used to identify, evaluate and manage significant risks are summarized as follows:

- Identify risks in the Group's operations through continuing collections and analysis of operational data
- Evaluate the risks identified and assess their impacts on the Group's business
- Categorize the risks by comparing the results of the risk evaluation
- Develop necessary measures to manage those risks identified
- Performs ongoing and periodic monitoring of the risk and review the effectiveness of the risk management strategies and internal control procedures

Internal Audit Function

The Group's internal audit function is performed by an internal audit department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The internal audit department perform regular and specific internal audit projects and reports to the Audit Committee regularly.

Handling and dissemination of inside information

The Group has taken various procedures and measures including arousing the awareness to preserve confidentiality of inside information within the Group, disseminating information to designated persons on strictly confidential basis, sending out securities dealing restrictions notifications to directors and senior management.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhou Keming, aged 47, 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 the Group. Mr. Zhou is one of the founders of the Group and is responsible for the Group's overall business strategy. He has extensive 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 and a cousin of Mr. Zhang Feng, both are executive directors of the Company. Mr. Zhou currently serves as a director or legal representative of certain subsidiaries of the Company.

Ms. Xu Xia, aged 42, was re-appointed as an executive director on 24 March 2016. Ms. Xu was an executive director of the Company from February 2007 to December 2015. She is one of the founders of the Group and is responsible for the Group's business operation and administration. Ms. Xu has extensive sales and business development 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 also completed Advanced Studies for Senior Executives at College of Continuing Education of Fudan University in 2005 on a part-time basis. Ms. Xu is the wife of Mr. Zhou Keming ("Mr. Zhou"), the chairman of the Board and chief executive officer of the Group, and a director and a substantial shareholder of the Company. Mr. Zhang Feng, a cousin of Mr. Zhou, is a director of the Company. Ms. Xu currently serves as a director of certain subsidiaries of the Company.

Mr. Zou Xiaoping, aged 52, was appointed as an executive director on 9 March 2007. Mr. Zou is a member of the Nomination Committee and Remuneration Committee of the Company. He joined the Group in 2002 and is responsible for the Group's overall management, administration and operation. Prior to joining the 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 extensive experience in taxation and corporate management. He graduated from Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party with a Bachelor of Laws degree in 2004 and obtained a Master of Business Administration degree from Asia International Open University (Macau) (currently known as City University of Macau) in 2005.

Profile of Directors and Senior Management

Mr. Jiang Changhong, aged 53, was appointed as a non-executive director of the Company on 26 July 2010, and re-designated as an executive director of the Company and appointed as the vice president of the Company on 26 September 2016. From October 2011 to July 2016, he was the minister of planning and development department and the minister of new materials business management department of Taiyuan Iron & Steel (Group) Co., Ltd. He has also served as the manager of the sales department of Shanxi Taigang Stainless Steel Co., Ltd., one of the Group's key suppliers from February 2009 to October 2011, and the head of the hot continuous rolling factory of that company from April 2003 to February 2009. He has extensive 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 Science degree in Computer Science in 1986. He further obtained a Master of Science degree in Computer Application in 1992. Mr. Jiang was accredited by the department of Human Resources, Shanxi Province as a senior engineer and a professor level senior engineer in 1997 and 2013 respectively.

Mr. Tang Zhonghai, aged 58, was appointed as an executive director on 3 July 2010. Mr. Tang joined the Group in 2003 and is responsible for the management of stainless steel processing and manufacturing technology as well as the operation of the Group. Prior to joining the Group, Mr. Tang was the deputy factory director of Jiangmen City Rixin Stainless Steel Material Factory Co., Ltd. from 1993 to 2001. He has extensive 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.

Dr. Fukui Tsutomu, aged 56, was appointed as an executive director on 15 October 2014. Dr. Fukui is currently a director and the general manager of Jiangsu Daming Metal Products Co., Ltd., a wholly-owned subsidiary of the Company. Prior to joining the Group, Dr. Fukui was the managing director of Nippon Yakin Shanghai Co., Ltd. He has extensive experience in the steel industry. Dr. Fukui graduated from Nanjing University with a bachelor degree in Catalytic Chemistry in 1982 and obtained a Doctoral degree in Engineering from Tokyo Institute of Technology in 1991, majoring in Materials Science and Engineering.

Mr. Zhang Feng, aged 40, was appointed as an executive director on 15 October 2014. Mr. Zhang is currently the marketing director of the Group, the president of Hangzhou Wanzhou Metal Products Co., Ltd., a company owned as to 95% by the Company and the general manager of Jiangsu Daming Allybest Trading Co., Ltd., a wholly-owned subsidiary of the Company. Mr. Zhang is a cousin of Mr. Zhou, the chairman of the Board and chief executive officer of the Group, and a director and a substantial shareholder of the Company. Mr. Zhang is also related to Ms. Xu Xia, a director of the Company, as Ms. Xu Xia is the wife of Mr. Zhou.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Shen Dong, aged 48, was appointed as a non-executive director on 17 December 2015. Mr. Shen is currently the deputy general manager of Baosteel Stainless Steel Co., Ltd. (“Baosteel Stainless Steel”) and the general manager of Baosteel Stainless Steel’s sales department. Baosteel Stainless Steel, one of the Group’s suppliers, is a strategic business partner of the Company. Mr. Shen has extensive experience in the stainless steel industry. He graduated from Shanghai Open University (formerly known as Shanghai Television University), majoring in marketing, in March 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Hua Min, aged 66, was appointed as an independent non-executive director since 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 chief of the Academic Committee of School of Economics of Fudan University. He has extensive 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. From March 2008 to February 2010, he was the Specially Appointed Policy-Making Advisory Expert of the People’s Government of Shanghai City. 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 52, was appointed as an independent non-executive director on 3 July 2010. He is currently the head of research department and the head of research institute of Hefei General Machinery Research Institute and has been serving as the party secretary of the same institute since 2009. Mr. Chen has attained the qualification of professor level senior engineer in 1999 and was qualified as a researcher in 2002. Since 2003, Mr. Chen has served as head of National Safety Engineering Technology Research Centre for Pressure Vessels and Pipelines. Mr. Chen graduated from Zhejiang University with a Bachelor degree in Chemical Equipment and Machinery in 1986. He then obtained a Master degree and Doctoral degree in Chemical Process Equipment at Zhejiang University in 1995 and 2004, respectively. Mr. Chen has extensive experience in engineering.

Profile of Directors and Senior Management

Mr. Cheuk Wa Pang, aged 52, was appointed as an independent non-executive director since 20 March 2007. Mr. Cheuk is currently 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.

Mr. Lu Daming, aged 63, was appointed as an independent non-executive director on 21 August 2014. He was the dean of Hoisting and Conveying Machinery Design Institute Beijing. Mr. Lu obtained his qualification as a research level senior engineer from the People's Republic of China Machinery Industry Department in 1996. He is also a state registered facility supervising engineer and a state registered consulting engineer (investment) of the People's Republic of China. Mr. Lu has been appointed as an independent director of Huadian Heavy Industries Co., Ltd. (stock code: 601226) since May 2016, the shares of which are listed on The Shanghai Stock Exchange.

SENIOR MANAGEMENT

Mr. Leung Man Fai, aged 52, joined the Group in 2007 as the chief financial officer and company secretary of the Group. Mr. Leung has extensive experience in accounting and finance. Before joining the 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.

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 2016.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Group is engaged in processing, distribution and sale of stainless steel and carbon 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 2016 are set out in the consolidated comprehensive income statement on page 54.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK\$0.12 per share to shareholders whose names appear on the register of members of the Company on 5 June 2017. The proposed dividend will be paid on 14 June 2017 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 18 and Note 38 to the consolidated financial statements respectively.

As of 31 December 2016, our reserves available for distribution amounted to RMB1,616.4 million (2015: RMB1,604.2 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 2016.

SHARE CAPITAL

Details of the movements in share capital of the Group and the Company are set out in Note 17 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in Note 7 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 78.3% of the Group's total purchases for the year and the largest supplier accounted for approximately 34.3% of the Group's total purchases.

Except Baosteel, being a supplier of the Group, owned approximately 9.09% of the issued share capital of the Company, 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 136.

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.

Directors' Report

SHARE OPTION SCHEME

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

The purpose of the share option 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 option 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 option 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 option 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 option 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 option 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 option 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.

Directors' Report

As at 31 December 2016, there were a total of 21,980,000 outstanding share options granted to directors and certain employees of the Group. Details of which 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 31 December 2016	Exercise period
				Granted during the year	Exercised during the year	Cancelled/ lapsed during the year		
Director								
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⁾	-	-	(20,000)	4,580,000	21 December 2013 to 20 December 2020
	23 December 2014	2.364	15,750,000 ⁽²⁾	-	-	(250,000)	15,500,000	23 December 2017 to 22 December 2024
Total			22,250,000	-	-	(270,000)	21,980,000	

Directors' Report

- (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.

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.

Directors' Report

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.

During the year, an aggregate of 18,598,000 shares of the Company's existing ordinary shares have been purchased for the share award scheme, a total of 2,864,000 awarded shares were granted and a total of 6,428,000 shares were vested to directors and Selected Employees. Details of the movements in the Share Award Schemes during the year are set out in Note 19 to the consolidated financial statements. As at 31 December 2016, the independent trustee holds 27,190,000 shares of the Company for the share award scheme.

Directors' Report

Details of the awarded shares movement for the year ended 31 December 2016 are as follows:

Name of awardees	Date of grant	Number of Awarded Shares			As at 31 December 2016	Vesting date/ period
		As at 1 January 2016	Granted during the year	Vested during the year		
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	6,428,000	–	

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 29 December 2014, Jiangsu Daming agrees to purchase, and STSS agrees to supply stainless steel and carbon steel to the Group. For the year ended 31 December 2016, approximately RMB6,859.24 million was paid by the Group to STSS for the supply of 637,423 tonnes of stainless steel and 213,667 tonnes of carbon steels, not exceeding the proposed cap of RMB16,200 million. Details of the above transactions and the connected relationship between STSS and the Group were disclosed in the announcement of the Company dated 29 December 2014.

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

The Auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “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.56 of the Listing Rules.

Directors' Report

DIRECTORS

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

Executive Directors

Zhou Keming (*Chairman*)
Xu Xia (re-appointed on 24 March 2016)
Zou Xiaoping
Jiang Changhong (re-designated on 26 September 2016)
Tang Zhonghai
Fukui Tsutomu
Zhang Feng

Non-Executive Director

Shen Dong

Independent Non-Executive Directors

Cheuk Wa Pang
Hua Min
Chen Xuedong
Lu Daming

In accordance with Article 84 of the Articles of Association of the Company, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Chen Xuedong and Mr. Lu Daming retire from office by rotation at the Company's 2017 Annual General Meeting ("AGM"). All the retiring directors, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

The biographical details of Directors are set out on pages 30 to 33 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 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 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)	Personal and corporate	748,147,000 ⁽³⁾	65.56%
Ms. Xu Xia	Personal and corporate	748,145,000 ⁽³⁾	65.55%
Mr. Zou Xiaoping	Personal and family	5,026,000 ⁽⁴⁾	0.44%
Mr. Tang Zhonghai	Personal	1,080,000 ⁽⁵⁾	0.09%
Dr. Fukui Tsutomu	Personal and family	1,442,000 ⁽⁶⁾	0.13%
Mr. Zhang Feng	Personal	2,024,000 ⁽⁷⁾	0.18%

⁽³⁾ 748,121,000 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. Mr. Zhou Keming and Ms. Xu Xia personally hold 26,000 shares and 24,000 shares of the Company respectively.

⁽⁴⁾ 26,000 shares are held by Mr. Zou Xiaoping and 5,000,000 shares are held by Mr. Zou Xiaoping's spouse, Ms. Li Jun.

⁽⁵⁾ The interest comprises 480,000 shares, 600,000 underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed share option scheme.

Directors' Report

- (6) The interest comprises 76,000 shares held by Dr. Fukui Tsutomu, 866,000 shares held by Dr. Fukui's spouse, Ms. Mizuho Fukui and 500,000 underlying shares in respect of the share options granted to Dr. Fukui pursuant to the share option scheme as disclosed under section headed share option scheme.
- (7) The interest comprises 1,624,000 shares, 400,000 underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed share option scheme.

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

Name of Director	Name of associated corporation ⁽⁸⁾	Nature of interests	Number of shares held	% of issued share capital of associated corporation
Mr. Zhou Keming	Ally Good Group Limited	Personal ⁽⁹⁾	1,000	100%
Ms. Xu Xia	Ally Good Group Limited	Personal ⁽⁹⁾	1,000	100%

(8) As at 31 December 2016, Ally Good Group Limited is the holder of 65.55% of the issued share capital of the Company and is an associated corporation under SFO.

(9) 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 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 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 executive 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.

Directors' Report

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

As at 31 December 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	748,121,000 ⁽¹⁰⁾	65.55%
Baosteel Group Corporation	103,750,000	9.09%

⁽¹⁰⁾ 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 2016.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 39 to the consolidated financial statements.

The Group employed a total of 3,846 staffs as at 31 December 2016 (2015: 3,235). There was a 18.89% growth in our workforce in 2016 as compared with 2015. The increase in headcounts was due to the business expansion of our Group. The remuneration of employees was based on their performance, skills, knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis. In addition to basic salaries, employees may be offered with discretionary bonus on individual performance. The Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

Directors' Report

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 22 March 2017.

CORPORATE GOVERNANCE

Details of the compliance by the Company with the Corporate Governance Code are set out on pages 14 to 29 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016 and considered that the Group has complied with all applicable accounting standards and requirements.

AUDITORS

The consolidated 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 2017 to 20 January 2017, 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 25,082,000 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 67.75% as at 22 March 2017.

By Order of the Board,

Zhou Keming

Chairman

Hong Kong, 22 March 2017



羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Da Ming International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 52 to 135, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independent Auditor's Report

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matter is identified in our audit:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Net realisable value of inventory</i></p> <p><i>Refer to Note 2.11, Note 4(a), and Note 12 to the consolidated financial statements.</i></p> <p>Inventories are stated at the lower of cost and net realisable value. 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. As at 31 December 2016, inventory amounted to RMB 2,471,950,000 was stated after provision.</p> <p>We focused on this area due to the volatility in the market price of steel products and that there are significant estimation and judgment for selling price used in the net realizable value assessment.</p>	<p>We understood, evaluated and validated management's controls in respect of the Group's assessment of net realisable value of inventory.</p> <p>We assessed management assumption and estimation by checking against market trend of steel production price, and historical and subsequent selling prices, post year end margin of the Group. We tested whether there are any slow-moving, excess, obsolete or damaged items being omitted from management estimation. We checked management's prior year estimations to assess whether method for making the accounting estimate has been applied consistently.</p> <p>We also evaluated the variance between subsequent selling price and management's assumption to assess the sensitivity of management assumption.</p> <p>We found that management's judgement and estimation for the net realisable value of inventory were supported by available evidence based on the work performed.</p>

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in Financial and Operating Highlights and Chairman's Statement (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Cooperate Governance Report and Directors' Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Cooperate Governance Report and Directors' Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2017

Consolidated Statement of Financial Position

For The Year Ended 31 December 2016

		As at 31 December	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	(Restated) <i>RMB'000</i>
ASSETS			
Non-current assets			
Land use rights	5	313,950	247,491
Property, plant and equipment	6	3,136,776	2,769,459
Investment properties	7	7,069	7,645
Intangible assets	8	1,669	2,272
Deferred income tax assets	10	38,808	104,987
Other non-current assets	11	33,606	53,814
		<u>3,531,878</u>	<u>3,185,668</u>
Current assets			
Inventories	12	2,471,950	1,257,126
Trade receivables	13	346,715	201,163
Prepayments, deposits and other receivables	14	669,576	558,486
Restricted bank deposits	15	687,770	357,611
Cash and cash equivalents	16	53,085	207,007
		<u>4,229,096</u>	<u>2,581,393</u>
Total assets		<u><u>7,760,974</u></u>	<u><u>5,767,061</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	17	97,400	97,400
Reserves	18	2,062,317	1,710,171
		<u>2,159,717</u>	<u>1,807,571</u>
Non-controlling interests		<u>254,130</u>	<u>235,628</u>
Total equity		<u><u>2,413,847</u></u>	<u><u>2,043,199</u></u>

Consolidated Statement of Financial Position

For The Year Ended 31 December 2016

	Note	As at 31 December	
		2016	2015
		RMB'000	(Restated) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	867,977	765,660
Deferred government grants	23	43,538	43,560
Deferred income tax liabilities	10	14,331	6,040
		<u>925,846</u>	<u>815,260</u>
Current liabilities			
Trade payables	20	2,491,814	1,391,792
Accruals, advances from customers and other current liabilities	21	666,655	511,305
Current income tax liabilities		67,073	3,308
Borrowings	22	1,192,907	999,472
Current portion of deferred government grants	23	2,832	2,725
		<u>4,421,281</u>	<u>2,908,602</u>
Total liabilities		<u>5,347,127</u>	<u>3,723,862</u>
Total equity and liabilities		<u>7,760,974</u>	<u>5,767,061</u>

The notes on page 57 to 135 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 22 March 2017 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2016

	<i>Note</i>	Year ended 31 December	
		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Revenue	24	20,518,140	18,043,138
Cost of sales	27	(19,446,609)	(17,917,027)
Gross profit		1,071,531	126,111
Other income	25	39,116	29,769
Other expenses	27	(1,697)	(3,395)
Other (loss)/gain – net	26	(184)	12,481
Distribution costs	27	(196,592)	(156,574)
Administrative expenses	27	(234,248)	(206,998)
Operating profit/(loss)		677,926	(198,606)
Finance income	29	10,827	12,603
Finance costs	29	(130,137)	(138,043)
Finance costs – net	29	(119,310)	(125,440)
Profit/(Loss) before income tax		558,616	(324,046)
Income tax (expense)/credit	30	(152,029)	73,010
Profit/(Loss) for the year		406,587	(251,036)
Total comprehensive income/(loss) for the year		406,587	(251,036)
Attributable to:			
Equity holders of the Company		388,215	(247,210)
Non-controlling interests		18,372	(3,826)
		406,587	(251,036)
Earnings/(Loss) per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic earnings/(loss) per share	31	0.35	(0.23)
– Diluted earnings/(loss) per share	31	0.35	(0.23)

The notes on page 57 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For The Year Ended 31 December 2016

	Attributable to equity holders of the Company		Non- controlling interests	Total equity
	Share Capital (Note 17) RMB'000	Reserves (Note 18) RMB'000		
Balance at 1 January 2015	89,215	1,681,085	235,954	2,006,254
Comprehensive income				
Loss for the year	–	(247,210)	(3,826)	(251,036)
Total comprehensive income for the year ended 31 December 2015 (Restated)	–	(247,210)	(3,826)	(251,036)
Transactions with owners				
Employee share options scheme				
– value of employee services (Note 19(a))	–	4,525	–	4,525
Employee share award scheme				
– value of employee services (Note 19(b))	–	12,823	–	12,823
Issue of shares (Note 17)	8,185	293,207	–	301,392
Shares held for share award schemes (Note 19(b))	–	(24,389)	–	(24,389)
Effect of business combination under common control (Note 35)	–	6,500	3,500	10,000
Dividends	–	(16,370)	–	(16,370)
Total transactions with owners	8,185	276,296	3,500	287,981
Balance at 31 December 2015 (Restated)	97,400	1,710,171	235,628	2,043,199
Balance at 1 January 2016 (Restated)	97,400	1,710,171	235,628	2,043,199
Comprehensive income				
Profit for the year	–	388,215	18,372	406,587
Total comprehensive income for the year ended 31 December 2016	–	388,215	18,372	406,587
Transactions with owners				
Employee share options scheme				
– value of employee services (Note 19(a))	–	4,188	130	4,318
Employee share award scheme				
– value of employee services (Note 19(b))	–	9,850	–	9,850
Shares held for share award scheme (Note 19(b))	–	(43,970)	–	(43,970)
Effect of business combination under common control (Note 35)	–	(6,137)	–	(6,137)
Total transactions with owners	–	(36,069)	130	(35,939)
Balance at 31 December 2016	97,400	2,062,317	254,130	2,413,847

The notes on page 57 to 135 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For The Year Ended 31 December 2016

	<i>Note</i>	Year ended 31 December	
		2016	2015
		RMB'000	(Restated) RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	93,778	84,862
Interest received		6,115	16,586
Interest paid		(126,605)	(136,582)
Income tax paid		(13,796)	(38,117)
		<u>(40,508)</u>	<u>(73,251)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(625,740)	(593,905)
Purchase of land use rights		(72,074)	(30,638)
Purchase of intangible assets		(108)	(286)
Cash received in relation to asset-related government grants	23	3,130	2,833
Proceeds from sale of property, plant and equipment	33(b)	394	378
Acquisition of subsidiary – under common control		(6,137)	–
		<u>(700,535)</u>	<u>(621,618)</u>
Cash flows from financing activities			
Proceeds from borrowings		2,529,520	3,561,619
Repayments of borrowings		(2,236,463)	(3,741,634)
Issue of shares		–	301,392
Dividends paid to the Company's shareholders		–	(16,370)
Proceeds from issuing bank/commercial acceptance notes and letter of credit		2,562,872	3,146,628
Payments relating to bank/commercial acceptance notes and letter of credit		(2,229,544)	(2,630,588)
Purchase of shares held for share award scheme		(43,970)	(24,389)
Effect of business combination under common control		–	10,000
		<u>582,415</u>	<u>606,658</u>
Net cash generated from financing activities			
		<u>582,415</u>	<u>606,658</u>
Net decrease in cash and cash equivalents		(158,628)	(88,211)
Cash and cash equivalents at beginning of year	16	207,007	292,054
Exchange gain on cash and cash equivalents		4,706	3,164
		<u>211,713</u>	<u>295,218</u>
Cash and cash equivalents at end of year	16	53,085	207,007

The notes on page 57 to 135 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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 and carbon 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 consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2017.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB192,185,000 (31 December 2015: RMB327,209,000). Total equity of the Group amounted to RMB2,413,847,000 and total liability amounted to RMB5,347,127,000. 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 2017;
- 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.

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. Further information on the Group's borrowings is given in Note 22.

2.1.2 Business combination under common control

In March 2016, the Group acquired 65% equity interest in Jiangsu Daming Steel Union Logistics Company Limited ("Steel Union Logistics") which is under the control of Mr Zhou Keming. 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, as both the company and Steel Union Logistics are under the control of Mr Zhou Keming.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Business combination under common control (continued)

The 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. Details are set out in Note 35.

2.1.3 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

		Effective for annual periods beginning on or after
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendment to HKAS 27	Equity method in separate financial statements	1 January 2016
Amendments from annual improvements, on HKFRS 5, HKFRS 7, HKAS 19 and HKAS 34	Non-current assets held for sale and discontinued operations Amendments to HKFRS 5, HKFRS 7, HKAS 19 and HKAS 34	1 January 2016
Amendments to HKFRS 10	Investment entities: applying the consolidation exception	1 January 2016
Amendments to HKAS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidated exception	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.3 Changes in accounting policies and disclosures

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

The adoption of the above new amendments starting from 1 January 2016 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2016.

(b) A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS16	Leases	1 January 2019
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ¹	1 January 2018
Amendments to HKAS 7	Disclosure initiative ⁴	1 January 2017
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses ⁴	1 January 2017
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³	a date to be determined

The Group is currently assessing the impact of applying these new standards and amendments. At this stage, the Group does not intend to early adopt any of these new standards or expect these new standards and amendments, to have significant impact on the consolidated financial statements, except HKFRS15 and HKFRS16. At this stage, the Group is not able to estimate the impact of HKFRS15 and HKFRS16 on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) *Merger accounting for common control combinations*

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

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

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Merger accounting for common control combinations (continued)

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

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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 statement of comprehensive income.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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 statement of comprehensive income during the financial periods in which they are incurred.

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	20-40 years
Machinery	10-25 years
Vehicles	4 to 5 years
Office equipment and others	3 to 5 years
Leasehold improvements	5 years

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

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 (Note 2.9).

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

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 recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

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.

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 statement of comprehensive income 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.10 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', '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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans and receivables (continued)

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 legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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.

2.11 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Trade and other receivables (continued)

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 or other 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 statement of comprehensive income within administrative expenses. When a trade or other receivable is uncollectible, it is written off against the allowance account for trade or other receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, 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, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income over the period of the borrowings using the effective interest method.

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

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

2.17 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowing costs (continued)

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

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

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.

(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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(b) *Deferred income tax (continued)*

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.

2.19 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 HKD1,500 per person per month, and any excess contributions are voluntary.

In accordance with the rules and regulations in the Mainland China, the Group has arranged for its employees from Mainland China to join a defined contribution retirement benefit plan organised by the People’s Republic of China (“PRC”) government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 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.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the “Annuity Plan”). The Group and its employees are required to make monthly contribution a certain percentage of the employee’s earning depending on employee’s rank of position. The contribution is charged to profit or loss when it is incurred.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (continued)

(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.

2.21 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 statement of comprehensive income 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 statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

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.

(a) 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.

(b) Rental income

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

2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.25 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 statement of comprehensive income on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (continued)

(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 statement of comprehensive income on a straight-line basis over the term of the lease.

2.26 Dividend distribution

Dividend distribution to equity holders of the Company is recognised as a liability in the Group's consolidated 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 summarised 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(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), Hong Kong Dollar (HKD), and Japanese Yen (JPY), 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 2016, 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 RMB343,000 (2015: RMB5,431,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade receivables, cash and cash equivalents, restricted bank deposit, borrowings, trade payables and other payables.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the EUR with all other variables held constant, profit before income tax for the year would have been approximately RMB3,666,000 (2015: RMB2,772,000) 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.

As at 31 December 2016, 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 RMB67,000 (2015: RMB54,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash and cash equivalents and other payables.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, profit before income tax for the year would have been approximately RMB14,000 (2015: RMB32,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of JPY-denominated trade receivables, cash and cash equivalents and other payables.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 2016, 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 RMB6,564,000 (2015: RMB5,770,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

(iii) Stainless steel and carbon steel raw material price risk

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

Steel raw material, including stainless steel and carbon steel, accounts for 97.84% of the Group's cost of sales (2015: 98.25%). 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 some other suppliers. Purchase transaction with STSS Group accounts for 34% of the Group's annual purchase (2015: 37%). Pursuant to such practice, STSS Group shall reimburse the Group if the purchase price of the stainless steel raw materials that the Group paid to STSS Group is higher than the benchmark selling prices decided by STSS Group based on actual selling prices achieved by STSS Group's key customers, including the Group (after adjusting for bulk purchase discounts and processing fee), subject to STSS Group's sole discretion in determining the actual purchase credit amount and the time in which such purchasing credit would be given to the Group.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(iii) *Stainless steel and carbon steel raw material price risk (continued)*

The Group mainly purchases stainless and carbon steel from other suppliers and also follows such price adjustment practice as mentioned above.

Currently, this price adjustment practice with STSS Group and other raw material vendors are the Group's main method used to mitigate the risks associated with the fluctuation of stainless and carbon 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 2016, most of the restricted bank deposits and cash and cash equivalents are placed with highly reputable financial institutions in Mainland China and Hong Kong.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

	As at 31 December	
	2016	2015
	RMB'000	(Restated) RMB'000
Group 1	335,196	211,434
Group 2	334,215	241,797
Group 3	71,113	111,115
	740,524	564,346

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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 2016			
Borrowings	1,192,907	459,358	408,619
Interests payment on borrowings (a)	59,835	29,736	11,091
Trade and other payables (b)	2,861,997	–	–
	<u>4,114,739</u>	<u>489,094</u>	<u>419,710</u>
At 31 December 2015 (Restated)			
Borrowings	999,472	714,672	50,988
Interests payment on borrowings (a)	61,195	22,852	1,084
Trade and other payables (b)	1,677,925	–	–
	<u>2,738,592</u>	<u>737,524</u>	<u>52,072</u>

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2016 and 2015 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 2016 and 2015 respectively.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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.

Consistent with others in the industry, 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 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	(Restated) RMB'000
Total borrowings (Note 22)	2,060,884	1,765,132
Less: cash and cash equivalents (Note 16)	(53,085)	(207,007)
Net debt	2,007,799	1,558,125
Total equity	2,413,847	2,043,199
Total capital	4,421,646	3,601,324
Gearing ratio	45.41%	43.27%

The increase in the gearing ratio during 2016 mainly because the increase in net debt is greater than the increase in total capital.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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) 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.

(b) 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. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expenses in the future periods.

(c) 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 higher of value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate 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 statement of comprehensive income.

(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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

5. LAND USE RIGHTS

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening	247,491	253,203
Additions	72,715	–
Amortisation charge (<i>Note 33(a)</i>)	(6,256)	(5,712)
	<u>313,950</u>	<u>247,491</u>

The Group's land use rights are located in Mainland China and the remaining lease periods were between 35 years to 50 years as at 31 December 2016.

As at 31 December 2016 and 2015, none of land use rights is pledged as security for the Group's bank borrowings.

For the year ended 31 December 2016, amortisation of the Group's land use rights amounted to RMB6,256,000 has been charged to administrative expenses in the consolidated statement of comprehensive income (2015: RMB5,712,000).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 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 (Restated)							
Opening net book amount	364,676	938,348	10,314	20,378	–	933,585	2,267,301
Addition	2,550	6,038	6,890	5,007	–	573,420	593,905
Transfer	315,489	565,241	–	3,849	–	(884,579)	–
Disposals (Note 33(b))	–	(68)	(158)	(254)	–	–	(480)
Depreciation (Note 33(a))	(14,018)	(66,777)	(4,114)	(6,358)	–	–	(91,267)
Closing net book amount	<u>668,697</u>	<u>1,442,782</u>	<u>12,932</u>	<u>22,622</u>	<u>–</u>	<u>622,426</u>	<u>2,769,459</u>
At 31 December 2015 (Restated)							
Cost	745,916	1,860,919	27,870	45,294	–	622,426	3,302,425
Accumulated depreciation	(77,219)	(418,137)	(14,938)	(22,672)	–	–	(532,966)
Net book amount	<u>668,697</u>	<u>1,442,782</u>	<u>12,932</u>	<u>22,622</u>	<u>–</u>	<u>622,426</u>	<u>2,769,459</u>
Year ended 31 December 2016							
Opening net book amount (Restated)	668,697	1,442,782	12,932	22,622	–	622,426	2,769,459
Additions	1,164	8,993	3,644	2,942	–	485,052	501,795
Transfer	129,937	382,822	–	5,149	–	(517,908)	–
Disposals (Note 33(b))	–	(100)	(266)	(294)	–	–	(660)
Depreciation (Note 33(a))	(23,373)	(99,578)	(4,410)	(6,457)	–	–	(133,818)
Closing net book amount	<u>776,425</u>	<u>1,734,919</u>	<u>11,900</u>	<u>23,962</u>	<u>–</u>	<u>589,570</u>	<u>3,136,776</u>
At 31 December 2016							
Cost	877,017	2,251,112	30,466	51,574	–	589,570	3,799,739
Accumulated depreciation	(100,592)	(516,193)	(18,566)	(27,612)	–	–	(662,963)
Net book amount	<u>776,425</u>	<u>1,734,919</u>	<u>11,900</u>	<u>23,962</u>	<u>–</u>	<u>589,570</u>	<u>3,136,776</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain subsidiaries of the Group entered into sales and lease back agreements with financial leasing companies, whereby machineries were sold and leased back over one to three years lease term. And the Group has the option to reacquire the machineries on completion of the lease at nominated value. During such lease term and before the exercise of the completion repurchase option, such machineries are restricted under the Agreements where leaser's consent must be obtained for the pledge and/or disposal of these assets. As at 31 December 2016, assets under this restriction amounted to RMB543,763,000 (2015: RMB295,000,000).

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

	Year ended 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	114,896	76,889
Distribution costs	1,156	778
Administrative expenses	17,766	13,600
	133,818	91,267

As at 31 December 2016, none of bank borrowings was secured by pledge of machinery (Note 22). And as at 31 December 2015, bank borrowings of EUR2,940,000 (equivalent to approximately RMB20,860,000) were secured by pledge of machinery with the carrying amount of EUR4,200,000 (equivalent approximately to RMB29,800,000) (Note 22).

For the year ended 31 December 2016, borrowing costs amounted to approximately RMB12,823,000 (2015: RMB21,823,000) were capitalised into the cost of property, plant and equipment at an average borrowing rate of 4.58% (2015: 5.66%) per annum.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

7. INVESTMENT PROPERTIES

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening net book amount	7,645	8,221
Depreciation (<i>Note 33(a)</i>)	(576)	(576)
Closing net book amount	7,069	7,645
Cost	11,037	11,037
Accumulated depreciation	(3,968)	(3,392)
Net book amount	7,069	7,645

For the year ended 31 December 2016, the rental income arising from investment properties amounted to approximately RMB477,000 (2015: RMB500,000) (Note 25).

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	477	500

As at 31 December 2016 and 2015, the management assessed the fair value of the investment properties to be approximately RMB16,330,000 based on a valuation by an independent valuer.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

8. INTANGIBLE ASSETS

Intangible assets mainly consist of computer software purchased:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year		
Cost	5,196	4,909
Accumulated amortisation	(2,924)	(2,448)
Net book amount	2,272	2,461
Opening net book amount	2,272	2,461
Additions	92	286
Amortisation (<i>Note 33(a)</i>)	(695)	(475)
Closing net book amount	1,669	2,272
At end of year		
Cost	5,288	5,196
Accumulated amortisation	(3,619)	(2,924)
Net book amount	1,669	2,272

For the year ended 31 December 2016, amortisation of the Group's intangible assets amounted to RMB695,000 has been charged to administrative expenses in the consolidated statement of comprehensive income (2015: RMB475,000).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

9. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

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	USD20,000	100%	–	Investment holding, in BVI
Fortune Express Industrial Limited (“Fortune Express”)	Hong Kong 14 July 2003	Limited liability company	HKD10,000	–	100%	Investment holding, in Hong Kong
Jiangsu Daming Metal Products Co., Ltd. (“Jiangsu Daming”)	Mainland China 21 June 2002	Limited liability company	USD 88,500,000	–	100%	Processing, distribution and sales of 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	–	95%	Processing, distribution and sales of 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 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
Jiangsu Daming Precision Sheet Metal Co., Ltd. (“Daming Precision Sheet”)	Mainland China 22 November 2010	Limited liability company	RMB100,000,000	–	100%	Processing, distribution and sales of steel products, in the PRC
Taiyuan Taigang Daming Metal Products Co., Ltd. (“Taiyuan Taigang Daming”)	Mainland China 26 July 2011	Limited liability company	RMB 500,000,000	–	60%	Processing, distribution and sales of steel products, in the PRC

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

9. SUBSIDIARIES (CONTINUED)

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	
Daming Heavy Industry Co., Ltd. ("Jingjiang Daming Heavy Industry")	Mainland China 14 March 2012	Limited liability company	USD70,000,000	-	100%	Processing, distribution and sales of 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 steel products, in the PRC
Hubei Daming Metal Technology Co., Ltd. ("Hubei Daming")	Mainland China 22 October 2012	Limited liability company	RMB 150,000,000	-	100%	Processing, distribution and sales of steel products, in the PRC
Jiangsu Daming Allybest Trading Co., Ltd. ("Allybest Trading")	Mainland China 23 December 2013	Limited liability company	RMB 10,000,000	-	100%	Sales of steel products, in the PRC
Zibo Daming Fortune Metals Products Co., Ltd. ("Zibo Daming")	Mainland China 13 January 2014	Limited liability company	RMB 30,000,000	-	100%	Distribution and sales of stainless steel products, in the PRC
Daming Metal Technology Co., Ltd. ("Daming Metal Technology")	Mainland China 09 June 2014	Limited liability company	USD 30,000,000	-	100%	Processing, distribution and sales of steel products, in the PRC
Daming International Import & Export Co., Ltd. ("Daming Import & Export")	Mainland China 17 June 2014	Limited liability company	RMB58,000,000	-	100%	Distribution and sales of steel products and fixed assets, in the PRC
Jiangsu Daming Steel Union logistics Co., Ltd. ("Steel Union Logistics")	Mainland China 30 June 2015	Limited liability company	RMB 10,000,000	-	65%	Distribution service, in the PRC
Shandong Daming Allybest Metal Technology Co., Ltd. (Shandong Allybest)	Mainland China 22 July 2016	Limited liability company	RMB30,500,000	-	100%	Processing, distribution and sales of steel products, in the PRC

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

10. DEFERRED INCOME TAX

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred tax assets to be recovered after more than 12 months	21,327	64,555
– Deferred tax assets to be recovered within 12 months	17,481	40,432
	38,808	104,987
Deferred income tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	6,238	5,629
– Deferred tax liabilities to be settled within 12 months	8,093	411
	14,331	6,040

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	Pre-operating expenses RMB'000	Unrealised gains on inventories RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2015	9,676	9,094	1,807	261	–	–	3,258	24,096
Recognised in the consolidated statement of comprehensive income	645	202	(557)	(50)	–	–	80,651	80,891
At 31 December 2015	10,321	9,296	1,250	211	–	–	83,909	104,987
Recognised in the consolidated statement of comprehensive income	(7,486)	198	4,054	79	33	3,281	(66,338)	(66,179)
At 31 December 2016	2,835	9,494	5,304	290	33	3,281	17,571	38,808

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

10. DEFERRED INCOME TAX

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 RMB1,635,000 (2015: RMB1,485,000) in respect of accumulated losses amounting to RMB9,909,000 (2015: RMB8,130,000) that can be carried forward against future taxable income. As at 31 December 2016, accumulated losses amounting to RMB9,909,000 can be carried forward indefinitely. And as at 31 December 2015, accumulated losses amounting to RMB1,692,000 can be carried forward in next five years, and accumulated losses amounting to RMB6,438,000 can be carried forward indefinitely.

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

	Interest expenses on capitalised property, plant and equipment <i>RMB'000</i>	Withholding tax <i>RMB'000</i>	Accelerated tax depreciation <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015	2,218	1,750	361	4,329
Recognised in the consolidated comprehensive income statements	3,598	(1,750)	(137)	1,711
At 31 December 2015	5,816	–	224	6,040
Recognised in the consolidated comprehensive income statements	791	7,500	–	8,291
At 31 December 2016	6,607	7,500	224	14,331

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 the beneficial owner of these subsidiaries.

Deferred income tax liabilities of RMB7,500,000 (2015: none) has been recognised for the withholding tax that would be payable on the estimate of earnings of certain subsidiary incorporated in Mainland China for 2016 that are expected to be distributed in the foreseeable future. Unremitted earnings that deferred income tax liabilities have not been recognised totaled RMB749,375,000 as at 31 December 2016 (2015: RMB526,821,000).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

11. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent prepayment for purchase of land use rights or other long-term deposits. As at 31 December 2016, the certificates of land use rights have not been issued.

12. INVENTORIES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	2,004,517	796,952
Finished goods	467,433	460,174
	2,471,950	1,257,126

The cost of materials recognised as cost of sales amounted to approximately RMB19,025,887,000 (2015: RMB17,603,837,000).

The Group had reversed approximately RMB32,146,000, for the previous write-down of inventories to their net realised value as at 31 December 2016 (2015: made a provision of approximately RMB4,201,000). These amounts have been included in the cost of sales in the consolidated statement of comprehensive income (Note 27).

As at 31 December 2016, bank borrowings of approximately RMB386,948,000 were pledged by raw materials with the carrying amount of approximately RMB425,210,000 (2015: bank borrowings of approximately RMB55,715,000 were pledged by raw materials with the carrying amount of approximately RMB62,288,000) (Note 22).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

13. TRADE RECEIVABLES

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	114,150	135,223
Notes receivable		
– bank acceptance notes	230,594	60,168
– commercial acceptance notes	3,000	6,572
	347,744	201,963
Less: provision for impairment	(1,029)	(800)
Trade receivables – net	346,715	201,163

The fair values of trade receivables approximate their carrying amounts.

As at 31 December 2016, bank acceptance notes of RMB195,616,000 were pledged as security for notes payable for the Group (Note 20).

As at 31 December 2015, bank acceptance notes of RMB37,800,000 were pledged as security for notes payable for the Group (Note 20) and accounts receivable of RMB35,000,000 were pledged as security for bank borrowing for the Group (Note 22).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

13. TRADE RECEIVABLES (CONTINUED)

The majority of the Group's sales are made on (i) cash on delivery; (ii) bank or commercial acceptance notes with maturity within 6 months; and (iii) credit terms of 1-90 days. At 31 December 2016 and 2015, the aging analysis of trade receivables was as follows:

	As at 31 December	
	2016	2015
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable		
– Within 30 days	107,157	112,877
– 30 days to 3 months	4,644	5,025
– 3 months to 6 months	1,601	17,189
– 6 months to 1 year	617	–
– 1 year to 2 years	89	132
– 2 years to 3 years	42	–
	<u>114,150</u>	<u>135,223</u>
Notes receivable		
– Within 6 months	<u>233,594</u>	<u>66,740</u>
	<u><u>347,744</u></u>	<u><u>201,963</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

13. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2016, trade receivables of approximately RMB32,425,000 (2015: RMB72,242,000) 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:

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable		
– Within 30 days	25,929	58,314
– 30 days to 3 months	4,625	4,926
– 3 months to 6 months	1,176	8,956
– 6 months to 1 year	594	–
– 1 year to 2 years	80	46
– 2 years to 3 years	21	–
	<u>32,425</u>	<u>72,242</u>

As at 31 December 2016, trade receivables of approximately RMB1,029,000 (2015: RMB800,000) were impaired and the amount of the provision for impairment was approximately RMB1,029,000 (2015: RMB800,000). The impairment was assessed individually for individual significant or long aging balances. The aging of these receivables was as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable		
– Within 1 year	999	714
– 1 year to 2 years	9	86
– 2 years to 3 years	21	–
	<u>1,029</u>	<u>800</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

13. TRADE RECEIVABLES (CONTINUED)

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

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	336,299	187,256
USD	11,273	14,707
JPY	172	–
	347,744	201,963

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

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Group 1	230,594	60,168
Group 2	117,150	141,795
Group 3	–	–
	347,744	201,963

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

13. TRADE RECEIVABLES (CONTINUED)

Movements of the provision for impairment of trade receivables were:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	800	872
Provision for trade receivables (Note 27)	293	380
Written off as uncollectible	(64)	(452)
At 31 December	<u>1,029</u>	<u>800</u>

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.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	(Restated) <i>RMB'000</i>
Prepayment for purchase of raw materials	373,959	362,418
Value – added tax recoverable	264,633	170,386
Export tax refundable	13,116	11,675
Deposits and other receivables	17,868	14,007
	<u>669,576</u>	<u>558,486</u>

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

15. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Restricted bank deposits denominated in:		
– RMB	628,568	357,611
– USD	59,202	–
	687,770	357,611

The nature of restricted bank deposits was as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Deposits for issuing letters of credit	129,134	134,590
Deposits for issuing notes payable	557,565	222,646
Deposits for letters of credit facility	1,071	375
	687,770	357,611

As at 31 December 2016, the weighted average interest rate on restricted bank deposits was 1.46% (2015: 1.28%) per annum, and these deposits have an approximate average maturity 138 days (2015: 121 days).

The restricted bank deposits are deposited with banks in Mainland China. 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

16. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2016	2015
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	26,292	100,789
USD	19,238	83,138
HKD	2,740	8,447
EUR	4,361	14,633
JPY	454	—
	53,085	207,007

As at 31 December 2016, cash at bank was demand deposits and the weighted average interest rates was 0.19% per annum (2015: 0.18%).

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

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

17. SHARE CAPITAL

	Authorised share capital		
	Number of shares '000	HKD'000	RMB'000
As at 31 December 2015 and 2016 (ordinary shares of HKD0.10 each)	<u>1,500,000</u>	<u>150,000</u>	<u>128,886</u>

	Issued and fully paid up		
	Number of shares '000	HKD'000	RMB'000
As at 31 December 2015 and 2016 (ordinary shares of HKD0.10 each)	<u>1,141,250</u>	<u>114,125</u>	<u>97,400</u>

On 26 June 2015, Baosteel Stainless Steel Co., Ltd. ("BSS") and the Company entered into the Subscription Agreement where BSS subscribed for 103,750,000 new shares of the Company at the total Subscription Price of HKD 3.69 per share approximately HKD 382.8million (being approximately RMB 301.4 million). The issued shares rank power pari passu with the then existing shares.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

18. RESERVES

	Share premium <i>RMB'000</i>	Merger reserves (a) <i>RMB'000</i>	Statutory reserves (b) <i>RMB'000</i>	Other reserves (c) <i>RMB'000</i>	Retained earnings (d) <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at						
1 January 2015	392,657	48,611	112,314	23,688	1,103,815	1,681,085
Comprehensive Income						
Loss for the year	—	—	—	—	(247,210)	(247,210)
Total comprehensive						
Income for the year ended						
31 December 2015 (Restated)	—	—	—	—	(247,210)	(247,210)
Transaction with owners						
Issue of shares (Note 17)	293,207	—	—	—	—	293,207
Appropriation to statutory reserves	—	—	1,481	—	(1,481)	—
Employee share options scheme- value of employee services (Note 19(a))	—	—	—	4,525	—	4,525
Share award scheme (Note 19(b))	12,823	—	—	—	—	12,823
Vesting of award shares (Note 19(b))	(5,298)	—	—	5,298	—	—
Shares held for share award scheme	—	—	—	(24,389)	—	(24,389)
Effect of business combination under common control (Note 35)	—	—	—	6,216	284	6,500
Dividends	—	—	—	—	(16,370)	(16,370)
Total transaction with owners for the year						
ended 31 December 2015 (Restated)	300,732	—	1,481	(8,350)	(17,567)	276,296
Balance at						
31 December 2015 (Restated)	693,389	48,611	113,795	15,338	839,038	1,710,171

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

18. RESERVES (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 2016 (Restated)	693,389	48,611	113,795	15,338	839,038	1,710,171
Comprehensive income						
Income for the year	–	–	–	–	388,215	388,215
Total comprehensive Income for the year ended 31 December 2016	–	–	–	–	388,215	388,215
Transaction with owners						
Appropriation to statutory reserves	–	–	14,815	–	(14,815)	–
Employee share options scheme- value of employee services (Note 19(a))	–	–	–	4,188	–	4,188
Share award scheme (Note 19(b))	9,850	–	–	–	–	9,850
Vesting of award shares (Note 19(b))	(10,591)	–	–	10,591	–	–
Shares held for share award scheme	–	–	–	(43,970)	–	(43,970)
Effect of business combination under common control (Note 35)	–	–	–	(6,216)	79	(6,137)
Total transaction with owners for the year ended 31 December 2016	(741)	–	14,815	(35,407)	(14,736)	(36,069)
Balance at 31 December 2016	<u>692,648</u>	<u>48,611</u>	<u>128,610</u>	<u>(20,069)</u>	<u>1,212,517</u>	<u>2,062,317</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

18. RESERVES (CONTINUED)

(a) Merger reserves

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

(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 option schemes (Note 19(a)) and shares held for Share Award Schemes (Note 19(b)).

(d) Retained earnings

Retained earnings as at 31 December 2016 include proposed final dividend of RMB 122,503,000 (2015: none) (Note 32).

19. SHARE-BASED PAYMENTS

(a) Share option schemes

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.

As approved by the Board of Directors' meeting on 23 December 2014, 16,750,000 share options were granted to a director and certain employees at an exercise price of HKD2.364 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

19. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

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

	2016		2015	
	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	2.386	22,230	2.386	22,250
Forfeited	2.373	(250)	2.452	(20)
At 31 December	2.386	21,980	2.386	22,230

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

Exercisable from	Expiry date	Exercise price in HKD per share	Number of options ('000)	
			2016	2015
21 December 2013	20 December 2020	2.452	1,645	1,644
21 December 2014	20 December 2020	2.452	1,645	1,644
21 December 2015	20 December 2020	2.452	2,190	2,192
23 December 2017	22 December 2024	2.364	6,600	6,700
23 December 2017	22 December 2024	2.364	4,950	5,025
23 December 2017	22 December 2024	2.364	4,950	5,025
			21,980	22,230

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

19. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

The weighted average fair value of options granted in 2014 determined by using the Binomial Model was HKD1.09 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 48%, expected dividend yield of 0.8% and risk-free interest rate of 1.82%. 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.

(b) Share award schemes

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 18,598,000 shares of the Company's existing ordinary shares have been purchased during year 2016 by an independent trustee in the market out of cash HKD50,000,000 (equivalent to RMB43,970,250) 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. As at 31 December 2016, the un-utilized cash balance is HKD289,000 (equivalent to RMB259,000) (2015.12.31: HKD4,258,000 (equivalent to RMB3,567,000)).

Pursuant to a Board of Directors' resolution dated 15 Oct 2014, 11,740,000 shares were awarded to employees, such shares are vested over a period of three years.

Pursuant to a Board of Directors' resolution dated 5 May 2015, 840,000 shares were awarded to employees.

Pursuant to a Board of Directors' resolution dated 17 June 2016, 2,864,000 shares were awarded to employees.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

19. SHARE-BASED PAYMENTS (CONTINUED)

(b) Share award schemes (continued)

Movements in the number of shares held for the Share Award Schemes and awarded shares for the year ended 31 December 2016 is as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2016	11,456,000	3,564,000	15,020,000
Purchased	18,598,000	–	18,598,000
Granted (<i>Note 18</i>)	(2,864,000)	2,864,000	–
Vested and transferred	–	(6,428,000)	(6,428,000)
At 31 December 2016	<u>27,190,000</u>	<u>–</u>	<u>27,190,000</u>
Vested but not transferred as at 31 December 2016			<u>–</u>

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2016 was HKD2.64 per share (equivalent to approximately RMB2.26 per share). And the weighted average fair value of awarded shares granted during the year ended 31 December 2015 was HKD4.22 per share (equivalent to approximately RMB3.33 per share).

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

20. TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Accounts payable	1,181,098	378,312
Notes payable (i)	1,310,716	1,013,480
	2,491,814	1,391,792

- (i) Notes payable of RMB844,250,000 (2015: RMB475,940,000) was secured by restricted bank deposits of approximately RMB554,250,000 (2015: RMB207,654,000) (Note 15).
- (ii) As at 31 December 2016, bank acceptance notes of RMB195,616,000 (2015: RMB37,800,000) were pledged as security for notes payable for the Group (Note 13).
- (iii) The Group discounted certain of its notes payable and letter of credit arisen from intragroup material transaction for the Group's financing needs. Such arrangement is for financing need of the Group. As a result, the associated cashflow is classified as financing cashflow.

The aging analysis of the trade payables was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 6 months	2,491,777	1,391,578
6 months to 1 year	–	206
1 year to 2 years	29	8
2 years to 3 years	8	–
	2,491,814	1,391,792

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

20. TRADE PAYABLES (CONTINUED)

Trade payables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	2,463,146	1,368,219
USD	13,027	23,565
EUR	15,641	8
	2,491,814	1,391,792

The fair values of trade payables approximate their carrying amounts.

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Accruals	5,590	4,059
Advances from customers	285,066	179,180
Value-added tax payable	3,304	30,859
Other taxes payable	8,102	15,133
Other payables (a)	364,593	282,074
	666,655	511,305

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

21. ACCRUALS, ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

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

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Pension and other social welfare payables	30,575	12,853
Payables for purchase of property, plant and equipment and land use rights	165,561	200,952
Loan from Daming Logistic (<i>Note 36(c)</i>)	35,000	–
Salaries payable	94,066	45,265
Freight payable	29,402	17,878
Others	9,989	5,126
	364,593	282,074

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

Accruals and other current liabilities were denominated in the following currencies:

	As at 31 December	
	2016	2015 (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	619,815	449,465
EUR	40,086	52,653
USD	4,448	5,796
HKD	1,395	2,755
JPY	911	636
	666,655	511,305

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

22. BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non – current		
Bank borrowings	722,358	711,945
Borrowing under finance lease arrangement	145,619	53,715
	<u>867,977</u>	<u>765,660</u>
Current		
Bank borrowings	1,043,555	933,032
Borrowing under finance lease arrangement	149,352	66,440
	<u>1,192,907</u>	<u>999,472</u>
Representing:		
Bank borrowings		
– Unsecured	1,277,020	1,380,500
– Secured (a)	386,948	111,575
– Guaranteed (b)	101,945	152,902
Finance lease arrangement (c)	294,971	120,155
	<u>2,060,884</u>	<u>1,765,132</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

22. BORROWINGS (CONTINUED)

- (a) As at 31 December 2016, bank borrowings of approximately RMB386,948,000 (2015:RMB55,715,000) were secured by pledge of raw materials with the carrying amount of approximately RMB425,210,000 (2015:RMB62,288,000) (Note 12), and;

As at 31 December 2016, none of accounts receivable (2015: RMB35,000,000) was pledged as security for bank borrowing for the Group (Note 13), and;

As at 31 December 2016, none of bank borrowings was secured by pledge of machinery (Note 6), and

As at 31 December 2015, bank borrowings of EUR2,940,000 (equivalent to approximately RMB20,860,000) were secured by pledge of machinery with the carrying amount of EUR4,200,000 (equivalent to approximately RMB29,800,000) (Note 6).

- (b) As at 31 December 2016, bank borrowings of RMB101,945,000 (2015:RMB152,092,000) were guaranteed by Jiangsu Daming and Taiyuan Iron & Steel (Group) Co., Ltd. together, and;

- (c) Financial Lease arrangement between certain subsidiaries of the Group and lease companies are repayable by instalment and carry interest between 4.36%-4.93% and has restriction on the Group's machinery (Note 6);

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At fixed rates in RMB	1,107,619	899,370
At fixed rates in USD	69,370	–
At fixed rates in EUR	–	20,859
	1,176,989	920,229
At floating rates in RMB	861,945	844,903
At floating rates in EUR	21,950	–
	883,895	844,903
	2,060,884	1,765,132

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

22. BORROWINGS(CONTINUED)

The weighted average effective interest rates per annum at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
RMB	4.59%	5.21%
USD	2.20%	2.31%
EUR	1.08%	1.56%

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

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	1,509,543	1,184,054
6 months to 1 year	136,352	165,418
1 year to 5 years	414,989	415,660
	2,060,884	1,765,132

The fair values of borrowings approximate their carrying amounts.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

23. DEFERRED GOVERNMENT GRANTS

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred government grants	46,370	46,285
Less: Current portion included in current liabilities	(2,832)	(2,725)
	<u>43,538</u>	<u>43,560</u>

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

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Beginning balance of the year	46,285	46,177
Granted during the year	3,130	2,833
Amortised as income (<i>Note 25</i>)	(3,045)	(2,725)
Ending balance of the year	<u>46,370</u>	<u>46,285</u>

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

24. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2016	2015 (Restated)
	RMB'000	RMB'000
Sales of goods	20,518,140	18,043,138

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 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 revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue.

During the year ended 31 December 2016, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2015: None).

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

	Year ended 31 December	
	2016	2015 (Restated)
	RMB'000	RMB'000
– Mainland China	20,017,489	17,536,474
– Hong Kong and other overseas countries and regions (i)	500,651	506,664
Total sales	20,518,140	18,043,138

(i) Other overseas countries and regions mainly represented Australia, United States of America, South Korea, Europe and Southeast Asia.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

25. OTHER INCOME

	Year ended 31 December	
	2016	2015 (Restated)
	RMB'000	RMB'000
Sales of scraps and packaging materials	21,600	15,322
Subsidy income	8,615	7,394
Amortisation of deferred government grants (Note 23)	3,045	2,725
Rental income (Note 36(b))	477	500
Others	5,379	3,828
	39,116	29,769

26. OTHER (LOSS)/GAIN – NET

	Year ended 31 December	
	2016	2015 (Restated)
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment – net (Note 33(a))	(266)	(102)
Foreign exchange gain – net	1,844	13,127
Others	(1,762)	(544)
	(184)	12,481

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

27. EXPENSES BY NATURE

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

	Year ended 31 December	
	2016	2015
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in inventories of finished goods	(11,604)	98,445
Raw materials consumed	19,037,491	17,505,392
Process cost for materials	27,597	15,382
Stamp duty, property tax and other surcharges	24,137	19,604
Transportation costs	101,676	93,921
Employee benefit expenses, including directors' emoluments (Note 28)	466,285	352,864
Depreciation and amortisation (Note 5, 6, 7, 8)	141,345	98,030
Operating lease rental for buildings	4,804	4,279
Utilities charges	31,274	23,550
(Reversal of)/Provision for write-down of inventories (Note 12, 33 (a))	(32,146)	4,201
Auditors' remuneration-audit services	2,890	2,850
Provision for impairment of trade receivables (Note 13, 33 (a))	293	380
Entertainment and travelling expenses	29,438	26,331
Professional service expenses	3,787	2,419
Bank charges	8,220	8,296
Others	43,659	28,050
	19,879,146	18,283,994

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

28. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonus and other welfares	408,771	318,290
Pension – defined contribution plans (a)	43,346	17,226
Share award granted to directors and employees	9,850	12,823
Share options granted to directors and employees	4,318	4,525
	<u>466,285</u>	<u>352,864</u>

(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 2015 and 2016, 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 HKD1,500 during the year ended 31 December 2016, and thereafter contributions are voluntary.

The full time employees in Mainland China with length of service for no less than two years also participate in a defined contribution retirement benefit plan established by the Group and proved by relevant PRC authorities (the "Annuity Plan"). The Group and its employees are required to make monthly contribution a certain percentage of the employee's earning depending on employee's rank of position according to the profitability. The monthly contribution is 9% from the Group and 3% from the employees, which are subject to adjustment in accordance with the terms of the Annual Plan.

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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

29. FINANCE COSTS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	(Restated) RMB'000
Finance costs:		
Interest expenses on borrowings	83,018	104,292
Interest expenses on bank/commercial acceptance notes and letter of credit	57,247	52,757
Exchange loss – net	2,695	2,817
	<u>142,960</u>	<u>159,866</u>
Less: amounts capitalised on qualifying assets (Note 6)	<u>(12,823)</u>	<u>(21,823)</u>
Total finance costs	130,137	138,043
Finance income:		
Interest income (Note 33(a))	<u>(10,827)</u>	<u>(12,603)</u>
Finance costs – net	<u><u>119,310</u></u>	<u><u>125,440</u></u>

30. INCOME TAX EXPENSE/(CREDIT)

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax		
– Mainland China corporate income tax	77,559	4,948
Deferred income tax expense/(credit) (Note 10)	<u>74,470</u>	<u>(77,958)</u>
	<u><u>152,029</u></u>	<u><u>(73,010)</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

30. INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

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.

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 Precision Sheet, Jingjiang Daming Heavy Industry, Qianzhou Daming, Hubei Daming, Taiyuan Taigang Daming, Hangzhou Wanzhou, Wuhan Fortune, Tianjin Taigang, Allybest Trading, Zibo Daming, Daming Metal Technology, Daming Import & Export, Steel Union Logistics and Shandong Allybest are subject to corporate income tax rate of 25% for the year 2016.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

30. INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

The tax on the Group's profit/(loss) 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:

	Year ended 31 December	
	2016	2015
	RMB'000	(Restated) RMB'000
Profit/(Loss) before income tax	558,616	(324,046)
Tax calculated at tax rates applicable to profits of the respective subsidiaries	140,844	(78,836)
Expenses not deductible for tax purpose	3,890	6,119
Effect of withholding tax on certain unremitted profits of a subsidiary in Mainland China	7,500	–
Difference of prior year tax filing arisen from additional deduction of research and development expenditures	(758)	(1,494)
Difference of prior year tax filing from others	398	204
Tax losses for which no deferred income tax asset was recognised	155	997
Income tax expense/(credit)	152,029	(73,010)
The weighted average applicable tax rates	25.21%	24.33%

31. EARNINGS/(LOSS) 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.

	Year ended 31 December	
	2016	2015
	RMB'000	(Restated) RMB'000
Profit/(Loss) attributable to equity holders of the Company (<i>thousands</i>)	388,215	(247,210)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	1,122,952	1,087,527
Basic earnings/(loss) per share (<i>RMB per share</i>)	0.35	(0.23)

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

31. EARNINGS/(LOSS) 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.

	Year ended 31 December	
	2016	2015
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit/(Loss) attributable to equity holders of the Company (<i>RMB'000</i>)	388,215	(247,210)
Weighted average number of ordinary shares in issue (thousands)	1,122,952	1,087,527
Adjustments for share option plan	2,132	232
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,125,084	1,087,759
Diluted earnings/(loss) per share (<i>RMB per share</i>)	0.35	(0.23)

32. DIVIDENDS

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend of HKD0.12 (2015: none) per ordinary share	122,503	—

On 22 March 2017, the Company's Board of Directors has recommended payment of a final dividend of HKD0.12 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 2017.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Year ended 31 December	
	2016	2015
		(Restated)
	RMB'000	RMB'000
Profit/(Loss) before income tax	558,616	(324,046)
Adjustments for:		
– amortisation of land use rights (<i>Note 5</i>)	6,256	5,712
– depreciation of property, plant and equipment (<i>Note 6</i>)	133,818	91,267
– amortisation of intangible assets (<i>Note 8</i>)	695	475
– depreciation of investment properties (<i>Note 7</i>)	576	576
– amortisation of deferred income (<i>Note 23</i>)	(3,045)	(2,725)
– losses on disposal of property, plant and equipment (<i>Note 26</i>)	266	102
– provision for impairment of trade receivables (<i>Note 27</i>)	293	380
– (reversal of)/provision for write down of inventories (<i>Note 27</i>)	(32,146)	4,201
– interest income (<i>Note 29</i>)	(10,827)	(12,603)
– finance costs (<i>Note 29</i>)	130,137	138,043
– employee share options scheme-value of employee services (<i>Note 19(a)</i>)	4,318	4,525
– employee share award scheme-value of employee services (<i>Note 19(b)</i>)	9,850	12,823
	798,807	(81,270)
Changes in working capital:		
– (increase)/decrease in restricted bank deposits	(330,159)	278,547
– (increase)/decrease in trade receivables, prepayments, deposits and other receivables	(237,359)	175,277
– (increase)/decrease in inventories	(1,182,678)	247,130
– increase/(decrease) in trade payables, current income tax liabilities, accruals and other payables	1,045,167	(534,822)
Cash generated from operations	93,778	84,862

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

**33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS
(CONTINUED)**

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

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	(Restated) <i>RMB'000</i>
Net book amount (<i>Note 6</i>)	660	480
Losses on disposal of property, plant and equipment (<i>Note 26</i>)	(266)	(102)
Proceeds from disposal of property, plant and equipment	394	378

34. COMMITMENTS

- (a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
Acquisition of property, plant and equipment	408,206	275,812

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

34. COMMITMENTS (CONTINUED)

(b) Operating lease commitments

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

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

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than 1 year	1,926	756
Later than 1 year and not later than 5 years	3,053	–
	<u>4,979</u>	<u>756</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

35. BUSINESS COMBINATIONS UNDER COMMON CONTROL

In March 2016, the Group acquired 65% equity interest in Steel Union Logistics, a company established in June 2015 and controlled by Mr. Zhou Keming. The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of the above subsidiary on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2015:

	The Group, excluding Steel Union Logistics Co.,Ltd. <i>RMB'000</i>	Steel Union Logistics Co., Ltd. <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Investment in Steel Union Logistics Co., Ltd.	–	–	–	–
Other assets – Net	2,033,870	9,442	(113)	2,043,199
Net assets	2,033,870	9,442	(113)	2,043,199
Share capital	97,400	10,000	(10,000)	97,400
Share premium	693,389	–	–	693,389
Merger reserve	48,611	–	–	48,611
Statutory reserves	113,795	–	–	113,795
Other reserves	9,122	–	6,216	15,338
Retained earnings	839,229	(558)	367	839,038
Non-controlling interests	232,324	–	3,304	235,628
	<u>2,033,870</u>	<u>9,442</u>	<u>(113)</u>	<u>2,043,199</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

35. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

The consolidated balance sheet as at 31 December 2016:

	The Group, excluding Steel Union Logistics Co.,Ltd. RMB'000	Steel Union Logistics Co., Ltd. RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in Steel Union Logistics Co., Ltd.	6,216	–	(6,216)	–
Other assets – Net	2,402,851	10,996	–	2,413,847
Net assets	2,409,067	10,996	(6,216)	2,413,847
Share capital	97,400	10,000	(10,000)	97,400
Share premium	692,648	–	–	692,648
Merger reserve	48,611	–	–	48,611
Statutory reserves	128,579	48	(17)	128,610
Other reserves	(20,069)	–	–	(20,069)
Retained earnings	1,211,617	948	(48)	1,212,517
Non-controlling interests	250,281	–	3,849	254,130
	2,409,067	10,996	(6,216)	2,413,847

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 Group Limited	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

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related party:

The following material transactions were carried out with related party:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(i) Lease of property to related party		
Rental charged to Daming Logistics	477	500
	<u>477</u>	<u>500</u>
	2016	2015
	RMB'000	RMB'000
(ii) Loans received from related party		
Loans received from Daming Logistics	71,500	34,500
	<u>71,500</u>	<u>34,500</u>
	2016	2015
	RMB'000	RMB'000
(iii) Repay of loan to related party		
Repay of loan to Daming Logistics	36,500	–
	<u>36,500</u>	<u>–</u>
	2016	2015
	RMB'000	RMB'000
(iv) Share acquisition		
Share acquisition of Steel Union Logistics from Daming Logistics (<i>Note 35</i>)	6,137	–
	<u>6,137</u>	<u>–</u>

For the year ended 31 December 2016, loans received from Daming are unsecured, interest-free, and have no fixed repayment term.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (continued):

(v) Key management compensation

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries, bonus and other welfares	13,263	11,836
Pension – defined contribution plans	168	128
	13,431	11,964

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

(i) Other payables

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Daming Logistics	35,000	–

(ii) Other receivables

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Daming Logistics	–	500

37. EVENTS AFTER THE BALANCE SHEET DATE

On 20 March 2017, Tisco Stainless Steel (H.K.) Limited (“TISCO HK”) and the Company entered into a Subscription Agreement for TISCO HK to subscribed for 103,750,000 new shares of the Company at the total Subscription Price of HKD 3.50 per share (amounted to approximately HKD 363.1million, which is equivalent to approximately RMB 322.8 million). The subscription is conditional upon, inter alia, approval by Hong Kong Stock Exchange. The subscription shares represent 9.09% of the issued share capital of the Company’s as at 20 March 2017. Upon completion of the conditional subscription, the shareholding of TISCO HK will be approximately 8.33% of the enlarged share capital of the Company.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

38. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY**Balance sheet of the Company**

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Non-current assets		
Investments in subsidiaries	935,517	931,199
Due from subsidiaries	793,551	781,543
	1,729,068	1,712,742
Current assets		
Prepayment, deposits and other receivables	–	184
Cash and cash equivalents	279	553
	279	737
Total assets	1,729,347	1,713,479
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	97,400	97,400
Reserves (<i>Note (a)</i>)	1,630,650	1,615,193
Total equity	1,728,050	1,712,593
LIABILITIES		
Current liabilities		
Accruals and other payables	1,297	886
Total liabilities	1,297	886
Total equity and liabilities	1,729,347	1,713,479

The balance sheet of the company was approved by the Board of Directors on 22 March 2017 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

**38. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY
(CONTINUED)**

Note (a) Reserve movement of the Company

	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Accumulated (losses)/profit <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2015	392,657	921,264	(5,302)	(20,117)	1,288,502
Comprehensive income					
Profit for the year	—	—	—	56,895	56,895
Total comprehensive Income for the year ended 31 December 2015	—	—	—	56,895	56,895
Transaction with owners					
Issue of shares (<i>Note 17</i>)	293,207	—	—	—	293,207
Employee share option scheme – value of employee services	—	—	4,525	—	4,525
Employee share award scheme – value of employee services	12,823	—	—	—	12,823
Vesting of award shares	(5,298)	—	5,298	—	—
Shares held for share award scheme	—	—	(24,389)	—	(24,389)
Dividends	—	—	—	(16,370)	(16,370)
Total transaction with owners for the year ended 31 December 2015	300,732	—	(14,566)	(16,370)	269,796
Balance at 31 December 2015	693,389	921,264	(19,868)	20,408	1,615,193

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

**38. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY
(CONTINUED)****Note (a) Reserve movement of the Company (continued)**

	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2016	693,389	921,264	(19,868)	20,408	1,615,193
Comprehensive income					
Profit for the year	—	—	—	45,259	45,259
Total comprehensive Income for the year ended 31 December 2016	—	—	—	45,259	45,259
Transaction with owners					
Employee share option scheme – value of employee services	—	—	4,318	—	4,318
Employee share award scheme – value of employee services	9,850	—	—	—	9,850
Vesting of award shares	(10,591)	—	10,591	—	—
Shares held for share award scheme	—	—	(43,970)	—	(43,970)
Total transaction with owners for the year ended 31 December 2016	(741)	—	(29,061)	—	(29,802)
Balance at 31 December 2016	<u>692,648</u>	<u>921,264</u>	<u>(48,929)</u>	<u>65,667</u>	<u>1,630,650</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

39. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Shares RMB'000	Pension- defined contribution plans RMB'000	Other benefits (i) RMB'000	Total RMB'000
2016							
<i>Executive directors</i>							
- Mr. Zhou Keming	260	840	133	59	28	12	1,332
- Ms. Xu Xia	195	720	114	55	28	12	1,124
- Mr. Zou Xiaoping	260	840	133	59	28	12	1,332
- Mr. Tang Zhonghai	260	960	152	1,090	28	12	2,502
- Mr. Kang In Soo*	65	840	170	101	-	-	1,176
- Mr. Fukui Tsutomu	260	817	150	59	-	-	1,286
- Mr. Zhang Feng	260	720	120	463	27	12	1,602
- Mr. Jiang Changhong*	65	37	44	-	3	1	150
	<u>1,625</u>	<u>5,774</u>	<u>1,016</u>	<u>1,886</u>	<u>142</u>	<u>61</u>	<u>10,504</u>
<i>Non-executive directors</i>							
- Mr. Shen Dong	-	-	-	-	-	-	-
- Mr. Jiang Changhong*	195	243	-	-	10	2	450
	<u>195</u>	<u>243</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>2</u>	<u>450</u>
<i>Independent non-executive directors</i>							
- Mr. Chen Xuedong	260	-	-	-	-	-	260
- Mr. Cheuk Wa Pang	260	-	-	-	-	-	260
- Mr. Hua Min	260	-	-	-	-	-	260
- Mr. Lu Daming	260	-	-	-	-	-	260
	<u>1,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,040</u>
	<u>2,860</u>	<u>6,017</u>	<u>1,016</u>	<u>1,886</u>	<u>152</u>	<u>63</u>	<u>11,994</u>

* Pursuant to a board resolution dated 24 March 2016 and with immediate effect, Mr. Kang In Soo has resigned as an executive director of the Company.

* Pursuant to a board resolution dated 26 September 2016 and with immediate effect, Mr. Jiang Changhong has been changed from non-executive director to executive director.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

39. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2015

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Shares RMB'000	Pension- defined contribution plans RMB'000	Other benefits (i) RMB'000	Total RMB'000
2015							
<i>Executive directors</i>							
- Mr. Zhou Keming	251	840	-	-	22	5	1,118
- Ms. Xu Xia	251	720	-	-	22	5	998
- Mr. Zou Xiaoping	251	840	-	-	22	5	1,118
- Mr. Tang Zhonghai	251	960	-	988	22	5	2,226
- Mr. Kang In Soo	251	840	-	177	-	-	1,268
- Mr. Fukui Tsutomu	251	840	-	177	-	-	1,268
- Mr. Zhang Feng	251	720	-	395	22	5	1,393
	<u>1,757</u>	<u>5,760</u>	<u>-</u>	<u>1,737</u>	<u>110</u>	<u>25</u>	<u>9,389</u>
<i>Non-executive directors</i>							
- Mr. Jiang Changhong	251	-	-	-	-	-	251
- Mr. Shen Dong	-	-	-	-	-	-	-
	<u>251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251</u>
<i>Independent non-executive directors</i>							
- Mr. Cheuk Wa Pang	251	-	-	-	-	-	251
- Mr. Hua Min	251	-	-	-	-	-	251
- Mr. Chen Xuedong	251	-	-	-	-	-	251
- Mr. Lu Daming	251	-	-	-	-	-	251
	<u>1,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,004</u>
	<u>3,012</u>	<u>5,760</u>	<u>-</u>	<u>1,737</u>	<u>110</u>	<u>25</u>	<u>10,644</u>

(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 2016 and 2015.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2016

39. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 5 (2015: 5) directors, whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2016 and 2015, no emoluments was 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.

(c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Financial Summary

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	(restated)				
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RESULTS					
Revenue	20,518,140	18,043,138	19,633,818	15,121,182	11,693,500
Gross profit	1,071,531	126,111	632,042	441,366	307,913
Operating profit/(loss)	677,926	(198,606)	335,777	232,177	138,805
Profit/(loss) for the year	406,587	(251,036)	165,888	97,982	30,056
Attributable to:					
Equity holders of the Company	388,215	(247,210)	165,807	97,834	30,585
Non-controlling interests	18,372	(3,826)	81	148	(529)
	406,587	(251,036)	165,888	97,982	30,056
ASSETS, LIABILITIES AND EQUITY					
Total assets	7,760,974	5,767,061	5,957,580	5,229,484	4,191,062
Total liabilities	(5,347,127)	(3,723,862)	(3,951,326)	(3,476,526)	(2,529,091)
	2,413,847	2,043,199	2,006,254	1,752,958	1,661,971
Equity attributable to equity holders of the Company					
Equity attributable to equity holders of the Company	2,159,717	1,807,571	1,770,300	1,608,890	1,518,051
Non-controlling interests	254,130	235,628	235,954	144,068	143,920
Total equity	2,413,847	2,043,199	2,006,254	1,752,958	1,661,971