DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code :1090

2011 Annual Report

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Corporate Information

BOARD OF DIRECTORS

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

Non-executive Director
Mr. Jiang Changhong

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

COMPANY SECRETARY
Mr. Leung Man Fai

AUTHORISED REPRESENTATIVES
Mr. Zou Xiaoping
Mr. Leung Man Fai

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

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

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

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

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Wuxi, Jiangsu
People's Republic of China

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

LEGAL ADVISERS TO THE COMPANY

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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
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17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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

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

PRINCIPAL BANKERS

In Hong Kong
China Construction Bank Hong Kong Branch
CITIC Bank International Limited

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

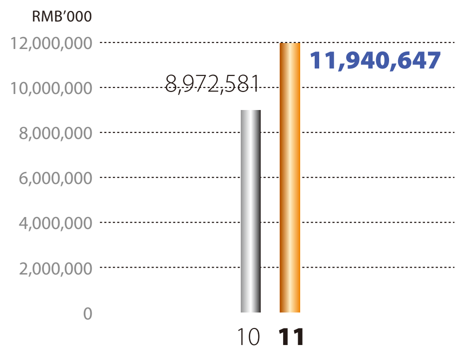
STOCK CODE
1090

WEBSITE
http://www.dmssc.net

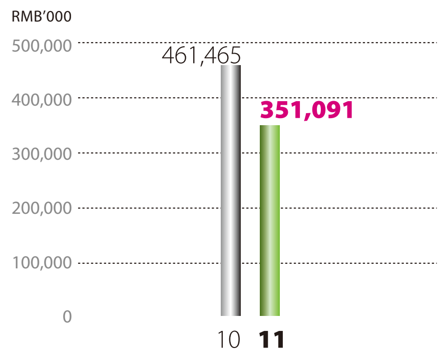
Financial and Operating Highlights

	2011 RMB'000	2010 RMB'000	% change
FINANCIAL HIGHLIGHTS			
Revenue	**11,940,647**	8,972,581	+33.1%
Gross profit	**351,091**	461,465	-23.9%
Profit attributable to equity holders of the Company	**103,641**	235,507	-56.0%
Gross profit per tonne	**RMB595**	RMB970	-38.7%

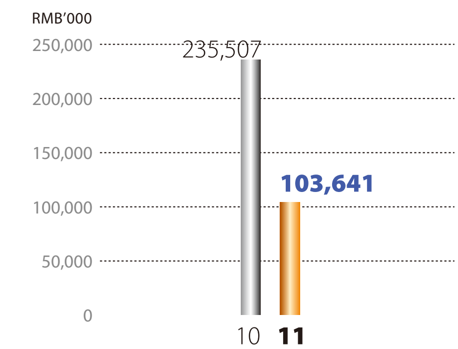
Revenue



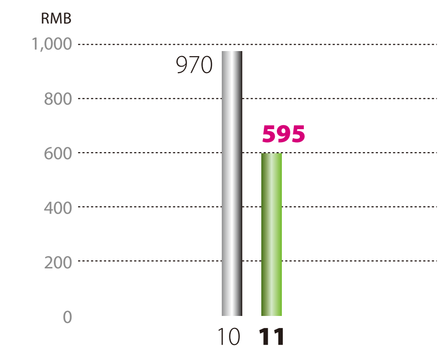
Gross profit



Profit attributable to equity holders of the Company



Gross profit per tonne

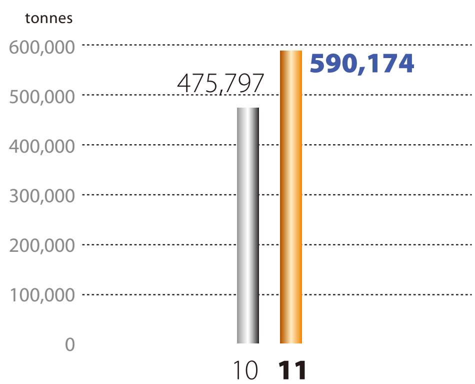


Financial and Operating Highlights

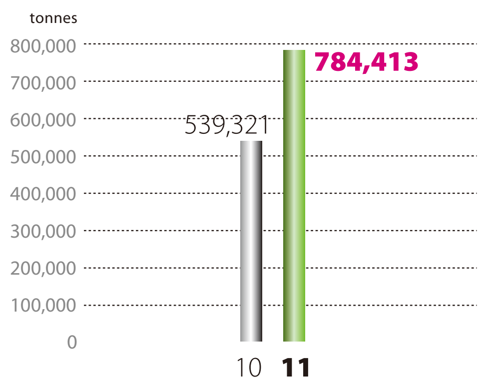
	2011	2010	% change
OPERATING HIGHLIGHTS			
Sales volume	**590,174 tonnes**	475,797 tonnes	+24.0%
Processing volume	**784,413 tonnes**	539,321 tonnes	+45.4%
Processing multiple (note)	**1.33**	1.13	+17.7%

Note: Processing multiple = Processing volume/Sales volume

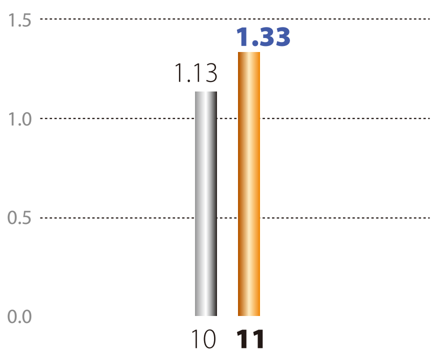
Sales volume



Processing volume



Processing multiple



The sales volume and processing volume of our processing centres for the years ended 31 December 2011 and 2010 are as follows:

Sales volume

	Year ended 31 December		
	2011	2010	
Processing centre	***tonnes***	*tonnes*	*% change*
Wuxi	**387,298**	330,321	+17.2%
Wuhan	**30,340**	22,938	+32.3%
Hangzhou	**91,557**	67,655	+35.3%
Tianjin	**80,979**	54,883	+47.5%
	590,174	475,797	+24.0%

Processing volume

	Year ended 31 December		
	2011	2010	
Processing centre	***tonnes***	*tonnes*	*% change*
Wuxi	**622,411**	432,558	+43.9%
Wuhan	**13,162**	6,856	+92.0%
Hangzhou	**87,733**	65,439	+34.1%
Tianjin	**61,107**	34,468	+77.3%
	784,413	539,321	+45.4%

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors of Da Ming International Holdings Limited (the "Company", together with its subsidiaries as the "Group"), I hereby present to the shareholders the annual report of the Company for the year ended 31 December 2011.

BUSINESS REVIEW

The year 2011 was a challenging year for the Company. The lingering sovereign debt crisis in the Eurozone has an adverse impact on the stainless steel industry as a whole. Our customers encountered certain difficulties in raising finance for their businesses. Due to the enhancement of the processing capabilities and the increased varieties of the processing services we provided to our customers, the impact of the Eurozone debt crisis on the Company was not significant.

While the demand for stainless steel is still growing, the average stainless steel price dropped more than 20% during the year. As a result, we had made a provision of approximately RMB45.9 million for the unrealized loss in inventory value. During the year, interest rates in the PRC raised substantially which in turn had a significant impact on our results. The net financial costs increased from approximately RMB41.0 million in 2010 to approximately RMB66.7 million in 2011.

In spite of these unfavorable factors, the sales volume and the processing volume of the Group in 2011 had reached a record high of 590,174 tonnes and 784,413 tonnes respectively.

The annual sales volume of the Group increased from 475,797 tonnes in 2010 to 590,174 tonnes in 2011 representing an increase of approximately 24.0%. The total processing volume of our four processing centres increased from 539,321 tonnes in 2010 to 784,413 tonnes in 2011 representing an increase of approximately 45.4%. Processing multiple increased from 1.13 in 2010 to 1.33 in 2011 which showed an increase in demand for our deep-processing services.

In 2011, we have developed two new aspects of processing services. The first one being our flat bar processing service which applies to mobile phone handsets. We have also installed several circular plates cutting machines, the output of which applies to products such as beer barrels and household utensils. Both processing services are expected to bring in higher processing service fees to the Group.

Regarding the processing services of non stainless steel metals, we saw a satisfactory growth in demands for processing of titanium, nickel-based alloy and carbon steel during the year. However, due to the overwhelming demands for our stainless steel processing services in Wuxi, we had adjusted our pace in developing our carbon steel processing services in 2011. The processing services for carbon steel will be provided by our Taiyuan and Jingjiang processing centres which are expected to be completed in 2013.

Flat bar processing service

On 13 July 2011, we entered into a shareholders' agreement with 太原鋼鐵(集團)有限公司 (Taiyuan Iron & Steel (Group) Co., Ltd.), ("Taiyuan Steel Group") to establish a processing centre ("Taiyuan Processing Centre") for the processing of stainless steel and carbon steel in Taiyuan, Shanxi Province, the PRC. Shanxi Taigang Stainless Steel Co., Ltd ("STSS"), a non wholly-owned subsidiary of Taiyuan Steel Group, is the largest stainless steel manufacturer in the PRC and they have a group of high-end customer base which were not easily accessible by our Group previously. The establishment of the Taiyuan Processing Centre provides our Group with a gateway to these high-end customers of the Taiyuan Steel Group.

Circular plates cutting service

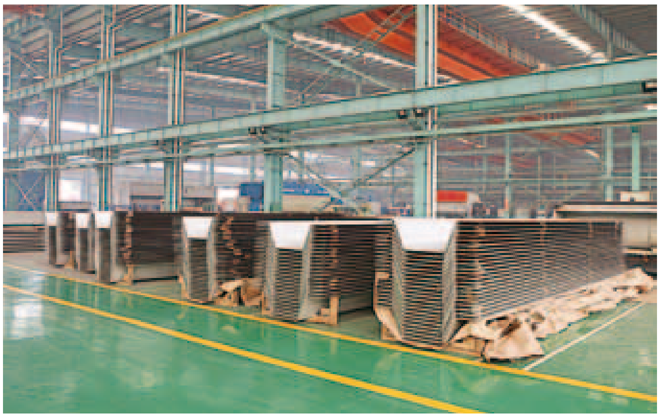
Carbon steel processing service

OUTLOOK

Looking forward, we are committed to improving both our efficiency and quality of our processing services in 2012. We also anticipate a strong growth potential in certain industries like the provision of processing services to liquefied natural gas ("LNG") storage tanks manufacturers and chemical tankers manufacturers.

LNG project

In 2012, we shall continue to build the Taiyuan Processing Centre to strengthen the strategic alliance with the Taiyuan Steel Group and STSS as well as increasing our market share and market penetration in mid-west region of the PRC for the processing of stainless steel and carbon steel. We also intend to start the Jingjiang project which includes a large scale logistics complex in Jingjiang, Jiangsu Province, capable of providing processing services for both stainless steel and non-stainless steel metals. In view of the strong demand in Wuhan area in the past years, we also intend to upgrade our Wuhan processing centre so that it can provide more comprehensive processing services to their customers in future. Developing the second phase of our Hangzhou processing centre as well as the sixth phase of our Wuxi headquarter will also enhance our processing capabilities and varieties in the coming years.



Chemical tankers project

APPRECIATION

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

GROUP PROFILE

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

BUSINESS MODEL

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

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

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

PROCESSING SERVICES

We have a network of four processing centres situated in Wuxi, Wuhan, Hangzhou and Tianjin. The fifth processing centre of our Group situated in Taiyuan is now under construction and is expected to be completed in 2013. We provide a wide variety of processing services to our customers, including coil cutting, surface polishing, plate cutting, forming and machining services.

We have more than 7,000 active customers covering different industries, including machineries, petrochemical, home hardware and appliances, automobile and transport, construction and renewable energy. Our broad and diversified customer base allows us to capture growth in various industries, while at the same time reduces our business concentration risk from any unexpected downturn in a particular industry.

Management Discussion and Analysis


Coil cutting


Slitting

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


Plate polishing


Machining services


Coil polishing

Cutting platform

Forming platform

PRICING

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

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

FINANCIAL REVIEW AND ANALYSIS

During the year under review, we recorded a revenue of approximately RMB11,940.6 million, gross profit of approximately RMB351.1 million and the profit attributable to equity holders of the Company of approximately RMB103.6 million. Total assets of the Group as at 31 December 2011 amounted to approximately RMB4,444.0 million while equity attributable to equity holders of the Company amounted to approximately RMB1,515.4 million.

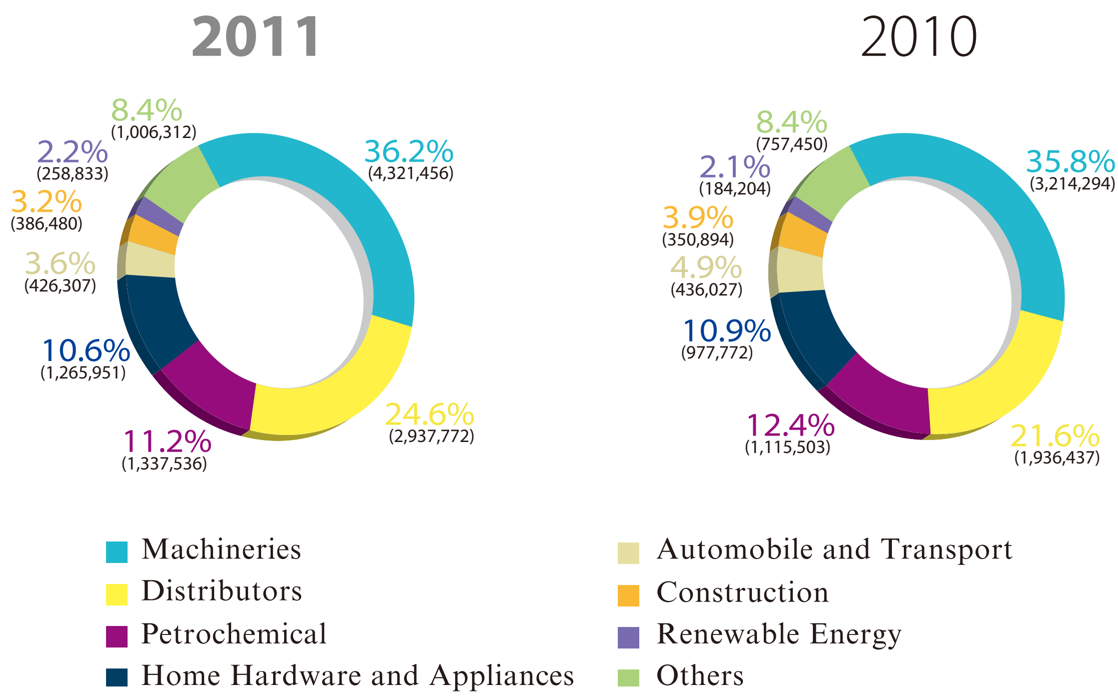
Revenue

Our revenue increased by approximately RMB2,968.0 million, or 33.1%, from approximately RMB8,972.6 million in 2010 to approximately RMB11,940.6 million in 2011. Such increase was due to an increase of sales volume from 475,797 tonnes in 2010 to 590,174 tonnes in 2011 as well as an increase in the average selling prices of our stainless steel products from RMB18,858 per tonne in 2010 to RMB20,232 per tonne in 2011.

Analysis of revenue by key industry segments

During the year under review and the year ended 31 December 2010, our revenue by key industry segments are shown below:

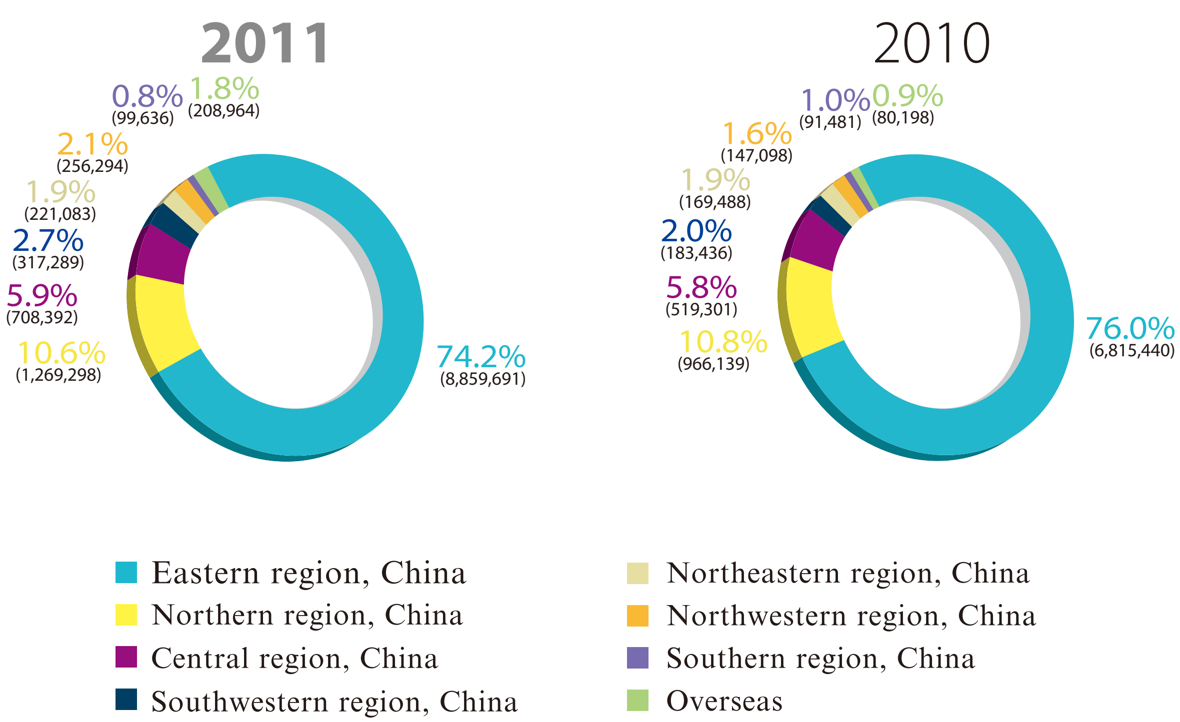
	Revenue For the year ended 31 December			
	2011		2010	
Industry	***RMB'000***	**%**	*RMB'000*	%
Machineries	**4,321,456**	**36.2**	3,214,294	35.8
Distributors	**2,937,772**	**24.6**	1,936,437	21.6
Petrochemical	**1,337,536**	**11.2**	1,115,503	12.4
Home Hardware and Appliances	**1,265,951**	**10.6**	977,772	10.9
Automobile and Transport	**426,307**	**3.6**	436,027	4.9
Construction	**386,480**	**3.2**	350,894	3.9
Renewable Energy	**258,833**	**2.2**	184,204	2.1
Others	**1,006,312**	**8.4**	757,450	8.4
Total	**11,940,647**	**100.0**	8,972,581	100.0



The four largest customer segments during the years ended 31 December 2011 and 2010 were machineries, distributors, petrochemical and home hardware and appliances which, in aggregate, accounted for over 80% of our total revenue.

Analysis of revenue by geographic regions

	Revenue For the year ended 31 December			
	2011		2010	
Region	***RMB'000***	***%***	*RMB'000*	*%*
Eastern region, China	**8,859,691**	**74.2**	6,815,440	76.0
Northern region, China	**1,269,298**	**10.6**	966,139	10.8
Central region, China	**708,392**	**5.9**	519,301	5.8
Southwestern region, China	**317,289**	**2.7**	183,436	2.0
Northeastern region, China	**221,083**	**1.9**	169,488	1.9
Northwestern region, China	**256,294**	**2.1**	147,098	1.6
Southern region, China	**99,636**	**0.8**	91,481	1.0
Overseas	**208,964**	**1.8**	80,198	0.9
	11,940,647	**100.0**	8,972,581	100.0



Our stainless steel products were sold mainly to domestic customers. As illustrated above, a majority of our sales during the years ended 31 December 2011 and 2010 was derived from the Eastern region of China, which was in line with where the majority of stainless steel was consumed in China.

Gross profit

Gross profit decreased from approximately RMB461.5 million in 2010 to approximately RMB351.1 million in 2011 due to the continual decline in market price of stainless steel. Gross profit per tonne decreased from RMB970 in 2010 to RMB595 in 2011 representing a decrease of approximately 38.7%.

Other income – net

Other income decreased from approximately RMB25.9 million in 2010 to approximately RMB11.7 million in 2011. The decrease in other income was mainly due to the decrease in subsidy income from local government.

Other losses – net

Other losses amounted to approximately RMB1.7 million in 2011 as compared with other losses of approximately RMB6.3 million in 2010. The decrease in other losses was mainly due to decrease in exchange losses incurred.

Distribution costs

Distribution costs increased from approximately RMB52.5 million in 2010 to approximately RMB74.9 million in 2011. The increase was mainly due to an increase in transportation expenses and entertainment expenses of approximately RMB11.8 million, resulting from higher level of sales in 2011. Staff salaries and employee benefit expenses also increased by approximately RMB8.0 million due to an increase in headcounts.

Administrative expenses

Administrative expenses increased from approximately RMB72.8 million in 2010 to approximately RMB80.3 million in 2011 mainly due to the increases in directors' emoluments, employee benefit expenses and bank charges.

Finance costs – net

Finance costs increased from approximately RMB41.0 million in 2010 to approximately RMB66.7 million in 2011 mainly due to the increase in interest expenses on bank borrowings. The increases in bank borrowings were attributable to the additional financing required for increased inventory level and capital expenditures to cater for larger operation scale.

Income tax expense

Income tax expense decreased from approximately RMB77.1 million in 2010 to approximately RMB35.8 million in 2011 mainly attributable to the decrease in operating profit in 2011.

Profit for the year

Profit for the year decreased from approximately RMB237.6 million in 2010 to approximately RMB103.2 million in 2011 representing a decrease of approximately 56.6%. The decrease in profit was attributable to the continual decline in market price of stainless steel, higher staff salaries and employee benefit expenses, higher depreciation expenses and higher finance costs incurred to cater for larger operation scale.

Capital Expenditure

In 2011, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB381.6 million (2010: RMB304.6 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 and Hong Kong Dollar, which are exposed to foreign currency translation risk.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the bank loans of the Group amounted to approximately RMB1,860.3 million. Notes payable amounted to approximately RMB705.8 million as at 31 December 2011 while the bank balances were approximately RMB617.7 million of which approximately RMB334.9 million were pledged mainly for bank borrowings and the issuance of notes payable.

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 2011 and 2010 calculated on this basis was 50.0% and 25.2% respectively.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2010 with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option) (the "Global Offering"). The net proceeds from the Global Offering of approximately HK$553.4 million were to be utilized in the manner as stated in the Company's prospectus dated 17 November 2010.

As at 31 December 2011, approximately RMB164.8 million had been applied towards the purchase of processing equipment and the construction of the fifth phase in our Wuxi processing centre and approximately RMB40.0 million had been used for the development of the second phase in our Hangzhou processing centre. The remaining balance of the proceeds from the Global Offering which were not immediately required for the above purposes were held in short-term deposits with licensed banks in Hong Kong and the PRC.

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 adopted the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. The Company has complied with the CG Code throughout the year ended 31 December 2011 except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Section headed "Chairman and Chief Executive" explains the deviation.

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 2011.

BOARD OF DIRECTORS

Composition

The Board of Directors (the "Board") comprises 5 executive directors, 1 non-executive directors and 3 independent non-executive directors. As of 31 December 2011, the directors of the Company are as follows:

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

Subsequent to the end of the reporting period, on 22 March 2012, Mr. Kang In Soo was appointed as a director of the Company and Mr. Qian Li resigned as a director of the Company.

The biographical details of the Directors are set out on pages 23 to 25 of this Annual Report. Save as Mr. Zhou Keming is the spouse of Ms. Xu Xia, none of the members of the Boards is related to one another.

BOARD MEETING

The Board meets regularly and board meetings will be held at least four times a year at approximately quarterly intervals. All the Directors are given opportunities to include 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.

Five Board meetings were held in the financial year ended 31 December 2011. The individual attendance record of each director at the meetings of the Board is set out below:

	No. of meeting attended/ No. of meeting held	**Attendance rate**
Executive Directors		
Mr. Zhou Keming *(Chairman)*	5/5	100%
Ms. Xu Xia	5/5	100%
Mr. Qian Li	5/5	100%
Mr. Zou Xiaoping	5/5	100%
Mr. Tang Zhonghai	5/5	100%
Non-executive Director		
Mr. Jiang Changhong	2/5	40%
Independent Non-executive Directors		
Prof. Hua Min	5/5	100%
Mr. Chen Xuedong	5/5	100%
Mr. Cheuk Wa Pang	5/5	100%

BOARD OPERATIONS

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

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

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

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

NON-EXECUTIVE DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

The Company has received, from each of the INED, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent in accordance with the guidelines set out in the Listing Rules.

BOARD COMMITTEE

The Board has set up three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Remuneration Committee have been revised to comply with the revised CG Code effective on 1 April 2012, which are available on the Company's website. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up formal and transparent procedures for determination of such remuneration policies. The Remuneration Committee comprises the three INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong and an executive Director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the Remuneration Committee.

The Remuneration Committee held three meetings in the financial year ended 31 December 2011. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang *(Chairman)*	3/3	100%
Prof. Hua Min	1/3	33.3%
Mr. Chen Xuedong	3/3	100%
Mr. Zou Xiaoping	3/3	100%

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

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

(2) Consented the proposal from the Board regarding the share award scheme; and

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

NOMINATION COMMITTEE

The Nomination Committee was established on 9 November 2010 with written terms of reference in compliance with the CG Code. The terms of reference of the Nomination Committee have been revised to comply with the revised CG Code effective on 1 April 2012, which are available on the Company's website. The primary duty of the nomination committee is to make recommendations to our Board on the appointment of directors and senior management. The Nomination Committee comprises the three INEDs, namely, Mr. Cheuk Wa Pang, Prof. Hua Min and Mr. Chen Xuedong and an executive director, Mr. Zou Xiaoping. Mr. Cheuk Wa Pang is the chairman of the Nomination Committee.

The Nomination Committee held one meeting in the financial year ended 31 December 2011. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

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

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

(1) Reviewed the composition of the Board, the skills, knowledge and qualifications of the directors; and

(2) Set up standard and steps in selecting directors.

AUDIT COMMITTEE

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

The Audit Committee held four meetings in the financial year ended 31 December 2011. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	No. of meeting attended/ No. of meeting held	Attendance rate
Mr. Cheuk Wa Pang (Chairman)	4/4	100%
Prof. Hua Min	3/4	75%
Mr. Chen Xuedong	3/4	75%

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

(1) Reviewed the Group's 2011 interim financial information;

(2) Reviewed the Group's 2011 final results and recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's auditor for the financial year ending 31 December 2012 at the forthcoming annual general meeting of the Company;

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

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

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

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2011, the remuneration paid or payable to the auditor of the Company and its subsidiaries, PricewaterhouseCoopers in respect of their audit and non-audit services were as follows:

Type of services	Fees paid/payable
Audit services	RMB3,400,000
Non-audit services (tax advisory services)	HK$32,000

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the consolidated financial statements of the Group for the year ended 31 December 2011.

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The Board understands the importance of maintaining an on-going dialogue with shareholders and in particular, use Annual General Meeting ("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 2011 AGM was held on 16 May 2011. The related notice and circular have been sent to shareholders in accordance with the applicable rules and regulations. Chairman of the Board and the Chairman of the Audit, Remuneration and Nomination Committees attended at the 2011 AGM. In order to ensure that 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.

A consolidated 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.

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

INTERNAL CONTROL

To safeguard the shareholders' investment and the Company's assets, the Board is aware of the importance of maintaining sound and effective internal control system. The management conducted review on financial, operation, and compliance controls as well as risk management from time to time and report to the Audit Committee. Audit Committee also oversight the Group's financial reporting system, internal control procedures and risk management function during the year 2011 and report to the Board. The Board considered the procedures of internal controls and the risk management systems are implemented effectively.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhou Keming, aged 42, was appointed as an executive Director on 14 February 2007. He is also the chairman of the Company and the chief executive officer of our Group. Mr. Zhou is one of the founders of our Group and is responsible for our Group's overall business strategy. He has over 23 years of experience in the steel industry. Mr. Zhou was qualified as a senior economist in 2007 by The Appraisal Committee for Senior Economic Technical Qualification of Jiangsu. He is the husband of Ms. Xu Xia, executive Director of the Company.

Ms. Xu Xia, aged 37, was appointed as an executive Director on 14 February 2007. She is one of the founders of our Group. Ms. Xu joined our Group in 1998 and is responsible for the overall sales and business development of our Group. She has over 12 years of experience in the steel industry. Ms. Xu graduated from China Textile University (currently known as Donghua University) in 1995 with a diploma in Trading Operation. She is the wife of Mr. Zhou Keming, executive Director and Chairman of the Company.

Mr. Zou Xiaoping, aged 47, was appointed as an executive Director on 9 March 2007. Mr. Zou joined our Group in 2002 and is responsible for our Group's overall management, administration and operation. Prior to joining our Group, Mr. Zou worked at Local Tax Bureau, Qianzhou Town, Xishan District from 1986 to 2002 on taxation matters and was granted a certificate for having undergone the in-service taxation training offered to the civil servants in 2000, when serving as the assistant to the head of the Bureau. Mr. Zou has over 16 and 9 years of experience in taxation and corporate management respectively. He graduated from Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party with a Bachelor of Laws degree in 2004 and obtained a Master of Business Administration degree from Asia International Open University (Macau) (currently known as City University of Macau) in 2005.

Mr. Tang Zhonghai, aged 53, was appointed as an executive Director on 3 July 2010. Mr. Tang joined our Group in 2003 and is responsible for the management of stainless steel processing and manufacturing technology as well as the operation of our Group. Prior to joining our Group, Mr. Tang was the deputy factory director of Jiangmen City Rixin Stainless Steel Material Factory Co., Ltd. from 1993 to 2001. He has over 18 years of experience in the steel industry. Mr. Tang graduated from Rocket and Missile Discipline of Eastern China Engineering Institute (currently known as Nanjing University of Science and Technology) in 1982. He was qualified as a mechanical engineer in 1988 by National Machinery Industry Committee and a senior economist in 2007 by The Appraisal Committee for Senior Economic Technical Qualification of Jiangsu.

Mr. Kang In Soo, aged 53, was appointed as an executive Director on 22 March 2012. Mr. Kang is currently the general manager of Tianjin Taigang Daming Metal Product Co., Ltd. ("Tianjin Taigang Daming"), which is held as to 91% by the Group. Mr. Kang was the manager of the investment project department of POSCO from August 2010 to September 2010. He was the vice president of the sales department of Zhangjiagang Pohang Stainless Steel Co., Ltd., one of our key suppliers and an independent third party, from April 2008 to August 2010 and the manager of its sales department from April 2002 to March 2008. Mr. Kang worked in various departments of POSCO from January 1984 to March 2002. Mr. Kang has extensive experience in the stainless steel industry. He graduated from Han Yang University of Korea majoring in Science of Public Administration in February 1981.

NON-EXECUTIVE DIRECTOR

Mr. Jiang Changhong, aged 48, was appointed as a non-executive Director on 26 July 2010. He has served Shanxi Taigang Stainless Steel Co., Ltd. ("STSS"), one of our key suppliers, since 1986 to present. He is currently the manager of the sales department of STSS. He has over 22 years of experience in the steel industry. Mr. Jiang graduated from Beijing Steel and Iron Institute (currently known as University of Science and Technology Beijing) with a Bachelor of Engineering degree in Computer Science in 1986. He further obtained a Master of Engineering degree in Computer Application in 1992. Mr. Jiang was accredited by department of Human Resources, Shanxi Province in 1997 as a senior engineer.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Hua Min, aged 61, was appointed as an independent non-executive Director on 20 March 2007. He is a professor and doctoral candidates adviser and has taught and conducted research in world economics, China economics and finance at Fudan University since 1990. Currently he is the chairman of the Institute of World Economy of Fudan University and chief of the Academic Committee of School of Economics of Fudan University. He has over 21 years of experience in economics. Professor Hua graduated from Fudan University with a Bachelor degree in Political Economics in 1982 and obtained a Doctoral degree in Economics from Fudan University in 1993. Since 2004, Professor Hua has also been an independent non-executive director and a member of the audit committee of Shanghai International Shanghai Growth Investment Limited (stock code: 770), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Chen Xuedong, aged 47, was appointed as an independent non-executive director on 3 July 2010. He is currently the head of research department and the head of research institute of Hefei General Machinery Research Institute and has been serving as the party secretary of the same institute since 2009. Mr. Chen has attained the qualification of professor level senior engineer in 1999 and was qualified as a researcher in 2002. Since 2003, Mr. Chen has served as head of National Safety Engineering Technology Research Centre for Pressure Vessels and Pipelines. Mr. Chen graduated from Zhejing University with a Bachelor degree in Chemical Engineering in 1986. He then obtained a Master degree and Doctoral degree in Chemical Engineering at Zhejiang University in 1995 and 2004, respectively. Mr. Chen has obtained over 25 years of experience in engineering.

Mr. Cheuk Wa Pang, aged 47, was appointed as an independent non-executive Director on 20 March 2007. Mr. Cheuk has been the chief financial officer, the qualified accountants and the company secretary of Lee Kee Holdings Limited (stock code: 637), the shares of which are listed on the main board of the Stock Exchange. He was also appointed as a financial controller of Lee Kee Group Ltd, a wholly-owned subsidiary of Lee Kee Holdings Limited. Mr. Cheuk was an accountant at Coopers & Lybrand from 1991 to 1996. Mr. Cheuk has over 20 years experience in accounting and auditing. Mr. Cheuk holds a Bachelor of Science degree in Engineering from the University of Hong Kong, a Master degree in Applied Finance and a Master degree in Business Administration from Macquarie University in Australia. Mr. Cheuk is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants of England and Wales.

SENIOR MANAGEMENT

Mr. Leung Man Fai, aged 47, is the chief financial officer and company secretary of our Group. Mr. Leung joined our Group in 2007. He has over 20 years of experience in accounting and finance. Before joining our Group, Mr. Leung served as a financial controller and company secretary of a private company during 2003 to 2006. From 1996 to 2003, he served various roles including financial controller, company secretary and finance manager in several listed companies within the ITC Corporation (stock code: 372), the shares of which are listed on main board of the Stock Exchange. 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. Mr. Leung received a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Profile of Directors and Senior Management

Mr. Situ Shunxin, aged 45, is the general manager of Taiyuan Taigang Daming Metal Products Company Limited, which is owned as to 60% by the Group, and is responsible for its management and operation. Mr. Situ joined our Group in 2007. He had been the deputy leader of the organising committee of the project management office of Tianjin Taigang Daming since 2007 and the deputy general manger and general manager of Tianjin Taigang Daming since 2009 and 2010 respectively. Mr. Situ has obtained over 22 years of experience in the steel industry. Mr. Situ graduated from Wuhan Steel College in 1989 with a bachelor's degree in Metal Pressure and Processing.

Mr. Zhou Xiaodong, aged 36, is the general manager of Hangzhou Wanzhou Metal Products Co., Ltd. and is responsible for its management and operation. Mr. Zhou joined our Group in 1995. He had served as the project manager and deputy general manager in 2006 and 2007 respectively. In 2007 he was also appointed as the general manager of Jiangsu Daming Wuhan Branch and has been responsible for its overall management and operation. In Jan 2010, Mr. Zhou was promoted to the post of general manager of Wuhan Fortune Express Metal Products Co., Ltd.. Mr. Zhou has over 16 years of experience in the steel industry.

Ms. Zhang Lihong, aged 31, is the general manager of Wuhan Fortune Express Metal Products Co., Ltd. and is responsible for its management and operation. Ms. Zhang joined our Group in 2003 and worked in various departments. She was promoted to her current position in September 2011. Ms. Zhang graduated from Nantong Institute of Technology with profession in information management and network technology.

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 2011.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by operating segment is set out in Note 24 to the financial statement.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated comprehensive income statement on page 43.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK$0.035 per share, totalling HK$36,312,500 to shareholders whose names appear on the register of members of the Company on 29 May 2012. The proposed dividend will be paid on or before 13 June 2012 subject to the approval of the shareholders at the forthcoming AGM of the Company.

RESERVES

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

DISTRIBUTABLE RESERVES

As of 31 December 2011, our reserves available for distribution, calculated in accordance with the Companies Law (2011 Revision) of the Cayman Islands amounted to RMB1,249.9 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the consolidated financial statements.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2011.

PRINCIPAL PROPERTIES

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

SHARE CAPITAL

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The five largest suppliers accounted for approximately 90.3% of the Group's total purchases for the year and the largest supplier accounted for approximately 52.5% of the Group's total purchases.

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

BORROWINGS

Particulars of borrowings of the 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 116.

PRE-EMPTIVE RIGHTS

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

SHARE OPTIONS SCHEME

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

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

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

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

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

The share options scheme will remain valid and effective for a period of 10 years from 9 November 2010 and the share options granted have a 10-year exercise period.

As at 31 December 2011, there were a total of 5,500,000 outstanding share options granted to a director and employees of the Company. These options are conditional on the director or employees completing three to five years service. Commencing from the third, fourth and fifth anniversary dates of the date of grant, the relevant grantees may exercise up to 30%, 60% and 100%, respectively, of the shares comprised in his or her option. Details of which are as follows:

			Number of share options					
Name or category of participant	Date of grant	Exercise price *(HK$)*	As at 1 January 2011	Granted during the year	Exercised during the year	Cancelled /lapsed during the year	As at 31 December 2011	Exercise period
Director								
Mr. Tang Zhonghai	21 December 2010	2.452	600,000	–	–	–	600,000	21 December 2013 to 20 December 2020
Other employees in aggregate	21 December 2010	2.452	5,550,000	–	–	650,000	4,900,000	21 December 2013 to 20 December 2020
Total			6,150,000	–	–	650,000	5,500,000	

Details of the valuation of share option during the year are set out in Note 19 to the 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) to work with our Group and to provide incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of our Group and aligning the interests of the selected employees directly to the shareholders of the Company through ownership of Shares.

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

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

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

As at 31 December 2011, a sum of RMB16,288,000 has been used to acquire 13,336,000 shares of the Company from market by the independent trustee. No shares have been granted to the selected employees of the Group under the share award scheme up to the date of this Report.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to the framework agreement entered into between Jiangsu Daming Metal Products Company Limited ("Jiangsu Daming") and Shanxi Taigang Stainless Steel Co., Ltd. ("STSS") and its subsidiaries on 16 November 2011, Jiangsu Daming agrees to purchase, and STSS agrees to supply stainless steel to the Group. For the period from 26 July to 31 December 2011, RMB3,073,016,818 was paid by the Group to STSS and its subsidiaries for the supply of stainless steel, not exceeding the proposed cap of RMB4,500,000,000.

Details of the above transactions were disclosed in the announcement of the Company dated 27 July 2011.

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

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

(2) on normal commercial terms; and

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

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

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

DIRECTORS

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

Executive Directors

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

Non-Executive Directors

Jiang Changhong

Independent Non-Executive Directors

Cheuk Wa Pang
Hua Min
Chen Xuedong

In accordance with Article 83(3) of the Articles of Association of the Company, Mr. Kang In Soo, being appointed to fill a casual vacancy shall hold office till the AGM and retire and being eligible, offer himself for election.

In accordance with Article 84 of the Articles of Association of the Company, Mr. Zhou Keming, Ms. Xu Xia and Prof. Hua Min who were appointed on 14 February 2007, 14 February 2007 and 20 March 2007, respectively will retire from office by rotation at the AGM and being eligible, offer themselves for re-election.

The biographical details of Directors are set out on pages 23 to 25 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 2011, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO')), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interests	Number of shares/ underlying shares held	% of issued share capital
Mr. Zhou Keming (also Chief Executive Officer)	Corporate [(1)]	709,275,000	68.36%
Ms. Xu Xia	Corporate [(1)]	709,275,000	68.36%
Mr. Qian Li	Personal	7,350,000	0.71%
Mr. Zou Xiaoping	Family [(2)]	7,350,000	0.71%
Mr. Tang Zhonghai	Personal [(3)]	600,000	0.06%

(1) The shares are held by Ally Good Group Limited, which is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia.

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

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

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

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

(4) As at 31 December 2011, Ally Good Group Limited is the holder of 68.36% of the issued share capital of the Company and is an associated corporation under SFO.

(5) 772 shares are held by Mr. Zhou Keming and 228 shares are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

Save as disclosed above, as at 31 December 2011, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 31 December 2011, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

Name of Shareholder	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Long position		
Ally Good Group Limited	709,275,000 (6)	68.36%
Deutsche Bank Aktiengesellschaft	72,550,000 (7)	6.99%
Short position		
Deutsche Bank Aktiengesellschaft	33,400,000 (7)	3.21%

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

(7) The shares held by Deutsche Bank Aktiengesellschaft are held in the following capacities:

Capacity	No. of shares
Beneficial owner	33,400,000 (Long position) 33,400,000 (Short position)
Custodian Corporation/Lending agent	39,150,000 (Long position)

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2011.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the changes in information of Directors of the Company subsequent to the date of the 2011 Interim Report of the Company are set out below:

Name of Director	Details of Changes
Zhou Keming	Appointed as a director of Taiyuan Taigang Daming Metal Products Company Limited.
Zou Xiaoping	Appointed as the supervisor of Taiyuan Taigang Daming Metal Products Company Limited.
Tang Zhonghai	Appointed as the general manager of Jiangsu Daming Heavy Industry Company Limited.
Qian Li	Appointed as a director of Taiyuan Taigang Daming Metal Products Company Limited.

As regards changes in directors' emoluments, please refer to Note 29 to the financial statements.

EMOLUMENT POLICY

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

The Group employed a total of 1,209 staffs as at 31 December 2011 (2010:945). There was a 27.9% growth in our workforce in 2011 as compared with 2010. The increase in headcounts was due to the business expansion of our Group.

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed 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 2012.

CORPORATE GOVERNANCE

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 16 to 22 of the Annual Report.

AUDIT COMMITTEE

The audit committee of the Company has discussed with the management and reviewed the audited consolidated annual results of the Company for the year ended 31 December 2011 and considered that the Company has complied with all applicable accounting standards and requirements.

AUDITOR

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

By Order of the Board,

Zhou Keming
Chairman
Hong Kong, 22 March 2012

Independent Auditor's Report

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of Da Ming International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated comprehensive income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2012

Consolidated Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	*5*	**108,863**	111,396
Property, plant and equipment	*6*	**1,188,133**	873,709
Investment properties	*7*	**8,668**	9,123
Intangible assets	*8*	**2,982**	2,683
Deferred income tax assets	*10*	**13,937**	7,013
Other non-current assets	*11*	**27,500**	–
		1,350,083	1,003,924
Current assets			
Inventories	*12*	**1,504,981**	1,202,356
Trade receivables	*13*	**469,726**	188,703
Prepayments, deposits and other receivables	*14*	**501,483**	521,698
Restricted bank deposits	*15*	**334,851**	408,003
Cash and cash equivalents	*16*	**282,854**	379,036
		3,093,895	2,699,796
Total assets		**4,443,978**	3,703,720
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*17*	**89,215**	89,215
Reserves	*18*	**1,426,210**	1,337,377
		1,515,425	1,426,592
Non-controlling interests		**64,449**	24,861
Total equity		**1,579,874**	1,451,453

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**50,000**	–
Deferred government grants	23	**13,953**	15,020
Deferred income tax liabilities	10	**1,905**	3,340
		65,858	18,360
Current liabilities			
Trade payables	20	**740,995**	1,139,489
Accruals, advances from customers and other current liabilities	21	**240,214**	199,614
Current income tax liabilities		**5,624**	25,522
Borrowings	22	**1,810,346**	868,215
Current portion of deferred government grants	23	**1,067**	1,067
		2,798,246	2,233,907
Total liabilities		**2,864,104**	2,252,267
Total equity and liabilities		**4,443,978**	3,703,720
Net current assets		**295,649**	465,889
Total assets less current liabilities		**1,645,732**	1,469,813

The notes on pages 46 to 115 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 22 March 2012 and were signed on its behalf.

Zhou Keming
Director

Zou Xiaoping
Director

Company Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Investments in subsidiaries	*9(a)*	**922,805**	921,325
Due from subsidiaries	*9(b)*	**396,443**	–
		1,319,248	921,325
Current assets			
Other receivables		**64**	328
Due from subsidiaries	*9(b)*	**–**	197,032
Cash and cash equivalents	*16*	**21,875**	283,437
		21,939	480,797
Total assets		**1,341,187**	1,402,122
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*17*	**89,215**	89,215
Reserves	*18*	**1,251,422**	1,291,115
Total equity		**1,340,637**	1,380,330
LIABILITIES			
Current liabilities			
Due to subsidiaries	*9(b)*	**–**	6,884
Other payables	*21*	**550**	14,908
Total liabilities		**550**	21,792
Total equity and liabilities		**1,341,187**	1,402,122
Net current assets		**21,389**	459,005
Total assets less current liabilities		**1,340,637**	1,380,330

The notes on pages 46 to 115 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 March 2012 and were signed on its behalf.

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

Consolidated Comprehensive Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Revenue	24	**11,940,647**	8,972,581
Cost of sales	27	**(11,589,556)**	(8,511,116)
Gross profit		**351,091**	461,465
Other income – net	25	**11,659**	25,880
Other losses – net	26	**(1,742)**	(6,291)
Distribution costs	27	**(74,947)**	(52,476)
Administrative expenses	27	**(80,349)**	(72,844)
Operating profit		**205,712**	355,734
Finance income	30	**12,706**	10,535
Finance costs	30	**(79,402)**	(51,580)
Finance costs – net	30	**(66,696)**	(41,045)
Profit before income tax		**139,016**	314,689
Income tax expense	31	**(35,787)**	(77,083)
Profit for the year		**103,229**	237,606
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**103,229**	237,606
Attributable to:			
Equity holders of the Company		**103,641**	235,507
Non-controlling interests		**(412)**	2,099
		103,229	237,606
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic earnings per share	32	**0.10**	0.30
– Diluted earnings per share	32	**0.10**	0.30
Dividends	33	**29,439**	–

The notes on pages 46 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company		Non-controlling interests	Total equity
	Share Capital *(Note 17)* *RMB'000*	Reserves *(Note 18)* *RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010	1	681,141	7,176	688,318
Comprehensive income				
Profit for the year	–	235,507	2,099	237,606
Total comprehensive income for the year ended 31 December 2010	–	235,507	2,099	237,606
Transactions with owners				
Capital injection by a non-controlling shareholder	–	–	15,586	15,586
Capital injection by equity holders of the Company	–	34,016	–	34,016
Issue of shares	89,214	386,661	–	475,875
Employee share options scheme				
– value of employee services	–	52	–	52
Total transactions with owners	89,214	420,729	15,586	525,529
Balance at 31 December 2010	89,215	1,337,377	24,861	1,451,453
Balance at 1 January 2011	89,215	1,337,377	24,861	1,451,453
Comprehensive income				
Profit for the year	–	103,641	(412)	103,229
Total comprehensive income for the year ended 31 December 2011	–	103,641	(412)	103,229
Transactions with owners				
Capital injection by a non-controlling shareholder	–	–	40,000	40,000
Employee share options scheme				
– value of employee services *(Note 19)*	–	1,480	–	1,480
Shares held for Share Award Scheme *(Note 18(c))*	–	(16,288)	–	(16,288)
Total transactions with owners	–	(14,808)	40,000	25,192
Balance at 31 December 2011	89,215	1,426,210	64,449	1,579,874

The notes on pages 46 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash used in operations	*34(a)*	**(574,017)**	(39,742)
Interest received		**12,669**	9,172
Interest paid		**(81,478)**	(55,772)
Income tax paid		**(64,044)**	(98,749)
Net cash used in operating activities		**(706,870)**	(185,091)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(378,037)**	(269,453)
Purchase of land use rights	*11*	**(27,500)**	–
Purchase of intangible assets	*8*	**(726)**	(660)
Cash received in relation to asset-based government grants	*23*	**–**	330
Proceeds from disposal of property, plant and equipment	*34(b)*	**172**	630
Net cash used in investing activities		**(406,091)**	(269,153)
Cash flows from financing activities			
Proceeds from issue of shares		**–**	519,165
Payments for share issuing costs and listing expenses		**(14,007)**	(34,172)
Capital injection from equity holders of the Company		**–**	34,016
Payment for acquisition of equity interest in Jiangsu Daming		**–**	(78,718)
Proceeds from bank borrowings		**2,957,000**	1,617,011
Repayments of bank borrowings		**(1,948,692)**	(1,138,718)
Repayments to related parties, net		**–**	(100,290)
Capital injection by non-controlling shareholders		**40,000**	15,586
Decrease/(Increase) in restricted bank deposits pledged as security for current bank borrowings		**457**	(79,316)
Payments for Share Award Scheme *(Note 18(c))*		**(16,288)**	–
Net cash generated from financing activities		**1,018,470**	754,564
Net (decrease)/increase in cash and cash equivalents		**(94,491)**	300,320
Cash and cash equivalents at beginning of year	*16*	**379,036**	79,168
Exchange losses on cash and cash equivalents		**(1,691)**	(452)
Cash and cash equivalents at end of year	*16*	**282,854**	379,036

The notes on pages 46 to 115 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION OF THE GROUP

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

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the board of directors on 22 March 2012.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

- The name of the government and the nature of their relationship;
- The nature and amount of any individually significant transactions; and
- The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. Upon the adoption of HKAS 24 (Revised), sales of goods to associates of Ally Good, the controlling shareholder of the Group, are identified as related party transactions with the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

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

		Effective for annual periods beginning on or after
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 9	Financial instruments	1 January 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 senior management that makes strategic decisions.

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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated comprehensive income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

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

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

2.7 Investment properties

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

Investment property from capital contribution is recognised initially at fair value and is carried at depreciated cost less accumulated impairment losses, if any.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Investment properties (continued)

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

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

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 have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets – loans and receivables

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

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.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.11 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Trade and other payables

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

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

2.16 Borrowings

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowing costs

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

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

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

2.18 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(b) *Deferred income tax*

Inside basis differences

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

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

Outside basis differences

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

(c) *Offsetting*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Pension obligations

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

In accordance with the rules and regulations in the Mainland China, the Group has arranged for its employees from Mainland China to join a defined contribution retirement benefit plan organised by the People's Republic of China ("PRC") government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 28(a) of this section. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 comprehensive income statement over the period necessary to match them with the costs that they are intended to compensate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

(a) Revenue

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

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

(b) Interest income

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

(c) Rental income

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

2.24 Operating leases – as a lessee

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

2.25 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2011, 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 RMB16,277,000 (2010: RMB3,708,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, cash and cash equivalents, trade payables, other payables and borrowings.

As at 31 December 2011, if RMB had strengthened/weakened by 10% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB8,024,000 (2010: RMB3,237,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated restricted bank deposits, cash and cash equivalents, other payables and borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2011, 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 RMB3,809,000 (2010: RMB7,881,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash and cash equivalents, other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

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

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

Details of the Group's restricted bank deposits, cash and cash equivalents and borrowings have been disclosed in Notes 15, 16 and 22, respectively.

As at 31 December 2011, 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 RMB 4,938,000 (2010: RMB1,850,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Stainless steel raw material price risk

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

Stainless steel raw material accounts for 98.8% of the Group's cost of sales (2010: 98.9%). The Group has followed a stainless steel raw material purchase price adjustment practice with the strategic suppliers Shanxi Taigang Stainless Steel Co., Ltd. and its subsidiaries ("STSS Group") and Zhangjiagang Pohang Stainless Steel Co., Ltd.("ZPSS"). Purchase transaction with STSS Group and ZPSS per annum accounts for 81.8% of the Group's annual purchase (2010: 56.1%). Pursuant to such practice, STSS Group and ZPSS shall reimburse the Group if the purchase price of the stainless steel raw materials that the Group paid to STSS Group and ZPSS is higher than the benchmark selling prices decided by STSS Group and ZPSS based on actual selling prices achieved by STSS Group's and ZPSS 's key customers, including the Group (after adjusting for bulk purchase discounts and processing fee), subject to STSS Group's and ZPSS's sole discretion in determining the actual purchase credit amount and the time in which such purchasing credit would be given to the Group.

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

(b) Credit risk

The Group has no significant concentration 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 2011, most of the restricted bank deposits and cash and cash equivalents are placed with highly reputable financial institutions in Mainland China and Hong Kong.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group categorised the restricted bank deposits and cash and cash equivalent as follows:

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

Group 2 – Other listed banks in mainland PRC

Group 3 – Other banks in the PRC

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Group 1	**321,932**	515,402	**21,733**	267,188
Group 2	**269,352**	264,989	**142**	16,249
Group 3	**26,379**	6,648	**–**	–
	617,663	787,039	**21,875**	283,437

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

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

For those key customers with long-term relationship, on some occasions the Group 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 2011

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 on a net basis 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 2011			
Borrowings	1,810,346	–	50,000
Interests payment on borrowings *(a)*	30,024	3,540	3,491
Trade and other payables *(b)*	852,147	–	–
	2,692,517	3,540	53,491
At 31 December 2010			
Borrowings	868,215	–	–
Interests payment on borrowings	14,993	–	–
Trade and other payables	1,239,338	–	–
	2,122,546	–	–

(a) The interests on borrowings are calculated based on borrowings held as at 31 December 2011 and 2010 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 2011 and 2010 respectively.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank deposits, trade and other receivables; and financial liabilities including trade and other payables, and borrowings, approximate their fair values. The carrying values less any estimated credit adjustments for financial assets are a reasonable approximation of their fair values.

3.3 Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Capital management (continued)

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
	RMB'000	*RMB'000*
Total borrowings *(Note 22)*	**1,860,346**	868,215
Less: cash and cash equivalents *(Note 16)*	**(282,854)**	(379,036)
Net debt	**1,577,492**	489,179
Total equity	**1,579,874**	1,451,453
Total capital	**3,157,366**	1,940,632
Gearing ratio	**49.96%**	25.21%

The increase in the gearing ratio during 2011 resulted primarily from increase in bank borrowings for additional financing required for increased inventory level and capital expenditures to cater for larger operation scale.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Useful lives of property, plant and equipment

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Net realisable value of inventories

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

(d) Income taxes and deferred income tax

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

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

(e) Share-based payments

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Impairment of the Group's assets

The Group follows the guidance of HKAS 36 to determine whether the Group's assets are impaired. As at 31 December 2011, the Group's market capitalisation was lower than the carrying amount of the Group's net assets, which is an impairment indicator requiring an estimate of the recoverable amount to be performed. The assessment requires significant judgments and estimates. In making these judgments and estimates, the Group evaluates and considers factors that affect the value-in-use of assets such as the extent of difference between the net assets' carrying amount and market capitalisation, composition of the Group's assets and results.

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

5. LAND USE RIGHTS – GROUP

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

	2011	2010
	RMB'000	*RMB'000*
Opening	**111,396**	113,929
Amortisation charge *(Note 34(a))*	**(2,533)**	(2,533)
	108,863	111,396

The Group's land use rights are located in Mainland China and the remaining lease periods were between 39 years to 48 years as at 31 December 2011.

As at 31 December 2011, none of land use rights is pledged for the Group's bank borrowings (2010: Nil).

For the year ended 31 December 2011, amortisation of the Group's land use rights amounted to RMB2,533,000 has been charged to administrative expenses in the consolidated comprehensive income statement (2010: RMB2,533,000).

Notes to the Consolidated Financial Statements

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6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Vehicles *RMB'000*	Office equipment and others *RMB'000*	Leasehold improvements *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2010							
Cost	186,075	409,857	5,876	13,812	549	101,830	717,999
Accumulated depreciation	(9,491)	(76,586)	(3,489)	(5,784)	(166)	–	(95,516)
Net book amount	176,584	333,271	2,387	8,028	383	101,830	622,483
Year ended 31 December 2010							
Opening net book amount	176,584	333,271	2,387	8,028	383	101,830	622,483
Additions	691	3,129	3,180	2,452	15	295,161	304,628
Transfer	11,809	37,576	–	38	270	(49,693)	–
Disposals	–	(1,382)	(132)	(75)	–	–	(1,589)
Depreciation	(9,049)	(38,969)	(1,173)	(2,548)	(74)	–	(51,813)
Closing net book amount	180,035	333,625	4,262	7,895	594	347,298	873,709
At 31 December 2010							
Cost	198,575	448,644	8,543	16,094	832	347,298	1,019,986
Accumulated depreciation	(18,540)	(115,019)	(4,281)	(8,199)	(238)	–	(146,277)
Net book amount	180,035	333,625	4,262	7,895	594	347,298	873,709
Year ended 31 December 2011							
Opening net book amount	180,035	333,625	4,262	7,895	594	347,298	873,709
Additions	3,295	6,397	3,187	1,029	–	367,738	381,646
Transfer	54,398	205,068	369	40	–	(259,875)	–
Disposals *(Note 34(b))*	(203)	(74)	(34)	(78)	–	–	(389)
Depreciation *(Note 34(a))*	(9,278)	(53,530)	(1,450)	(2,474)	(101)	–	(66,833)
Closing net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
At 31 December 2011							
Cost	256,044	658,490	11,747	16,999	832	455,161	1,399,273
Accumulated depreciation	(27,797)	(167,004)	(5,413)	(10,587)	(339)	–	(211,140)
Net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133

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

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

	2011	2010
	RMB'000	*RMB'000*
Cost of sales	**57,532**	41,440
Distribution costs	**413**	401
Administrative expenses	**8,888**	9,972
	66,833	51,813

As at 31 December 2011, none of property, plant and equipment is pledged for the Group's bank borrowings (2010: Nil).

For the year ended 31 December 2011, borrowing costs amounted to approximately RMB3,887,000 (2010: RMB558,000) were capitalised into the cost of property, plant and equipment at an average borrowing rate of 5.81% (2010: 4.60%).

7. INVESTMENT PROPERTIES – GROUP

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

	2011	2010
	RMB'000	*RMB'000*
Opening net book amount	**9,123**	9,578
Depreciation *(Note 34(a))*	**(455)**	(455)
Closing net book amount	**8,668**	9,123
Cost	**10,109**	10,109
Accumulated depreciation	**(1,441)**	(986)
Net book amount	**8,668**	9,123

7. INVESTMENT PROPERTIES – GROUP (CONTINUED)

For the year ended 31 December 2011, the rental income arising from investment properties amounted to approximately RMB500,000 (2010: RMB500,000) (Note 25).

As at 31 December 2011, the directors of the Company assessed the fair value of the investment properties to be approximately RMB15,439,000 (2010: RMB12,586,000) based on a valuation by an independent valuer.

8. INTANGIBLE ASSETS – GROUP

Intangible assets mainly consist of computer software purchased:

	2011	2010
	RMB'000	*RMB'000*
At beginning of year		
Cost	**3,415**	2,755
Accumulated amortisation	**(732)**	(418)
Net book amount	**2,683**	2,337
Opening net book amount	**2,683**	2,337
Additions	**726**	660
Amortisation *(Note 34(a))*	**(427)**	(314)
Closing net book amount	**2,982**	2,683
At end of year		
Cost	**4,141**	3,415
Accumulated amortisation	**(1,159)**	(732)
Net book amount	**2,982**	2,683

Amortisation of the Group's intangible assets has been charged to administrative expenses in the consolidated comprehensive income statement.

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

(a) Investments in subsidiaries

	2011	2010
	RMB'000	*RMB'000*
Unlisted investments – at cost	**921,273**	921,273
Capital contribution relating to share-based payments	**1,532**	52
	922,805	921,325

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

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

As at 31 December 2011, the Company has direct or indirect interests in following subsidiaries.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

(a) Investments in subsidiaries (continued)

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Indirect	Principal activities and place of operation
Allybest Investments Limited (“Allybest”)	British Virgin Islands 10 July 2006	Limited liability company	USD 20,000	100%	–	Investment holding, in BVI
Fortune Express Industrial Limited (“Fortune Express ”)	Hong Kong 14 July 2003	Limited liability company	HKD 10,000	–	100%	Investment holding, in Hong Kong
Jiangsu Daming Metal Products Co., Ltd. (“Jiangsu Daming”)	Mainland China 21 June 2002	Limited liability company	USD 65,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Hangzhou Wanzhou Metal Products Co., Ltd (“Hangzhou Wanzhou”)	Mainland China 8 December 2005	Limited liability company	USD 26,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Wuhan Fortune Express Metal Products Co., Ltd. (“Wuhan Fortune”)	Mainland China 28 September 2005	Limited liability company	USD 3,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Tianjin Taigang Daming Metal Products Co., Ltd (“Tianjin Taigang Daming”)	Mainland China 15 February 2007	Limited liability company	USD 36,500,000	–	91%	Processing, distribution and sales of stainless steel products, in the PRC
Daming Metals (Hong Kong) Company Limited (“Hong Kong Daming”)	Hong Kong 30 November 2009	Limited liability company	USD 2,000,000	–	100%	Purchase and sales of metal materials, in Hong Kong

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

(a) Investments in subsidiaries (continued)

Company name	Country/Place and date of incorporation	Type of legal entity	Paid-up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Jiangsu Daming Heavy Industry Co., Ltd. ("Daming Heavy Industry")	Mainland China 22 November 2010	Limited liability company	RMB 100,000,000	–	100%	Processing, distribution and sales of stainless steel products, in the PRC
Taiyuan Taigang Daming Metal Products Co., Ltd. ("Taiyuan Taigang Daming")	Mainland China 26 July 2011	Limited liability company	RMB 100,000,000	–	60%	Processing, distribution and sales of stainless steel products, in the PRC

(b) Due from/to subsidiaries

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

10. DEFERRED INCOME TAX – GROUP

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

	2011 ***RMB'000***	2010 *RMB'000*
Deferred income tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**1,039**	3,667
– Deferred tax assets to be recovered within 12 months	**12,898**	3,346
	13,937	7,013
Deferred income tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**1,651**	986
– Deferred tax liabilities to be recovered within 12 months	**254**	2,354
	1,905	3,340

10. DEFERRED INCOME TAX – GROUP (CONTINUED)

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

	Provision for write-down of inventories *RMB'000*	Deferred income *RMB'000*	Accrued expenses *RMB'000*	Provision for impairment of receivables *RMB'000*	Unrealised profit on inventories *RMB'000*	Pre-operating expenses *RMB'000*	Total *RMB'000*
At 1 January 2010	726	835	599	143	315	1,196	3,814
Recognised in the consolidated comprehensive income statement	777	3,008	(103)	33	(135)	(381)	3,199
At 31 December 2010	1,503	3,843	496	176	180	815	7,013
Recognised in the consolidated comprehensive income statement	9,868	(3,063)	498	57	(180)	(256)	6,924
At 31 December 2011	11,371	780	994	233	–	559	13,937

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 RMB1,491,000 (2010: RMB893,000) in respect of accumulated losses amounting to RMB8,872,000 (2010: RMB5,414,000) that can be carried forward against future taxable income. These accumulated losses can be carried forward indefinitely.

10. DEFERRED INCOME TAX – GROUP (CONTINUED)

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

	Interest expenses on notes payable *RMB'000*	Capitalised interest *RMB'000*	Total *RMB'000*
At 1 January 2010	–	930	930
Recognised in the consolidated comprehensive income statements	2,308	102	2,410
At 31 December 2010	2,308	1,032	3,340
Recognised in the consolidated comprehensive income statements	(2,136)	701	(1,435)
At 31 December 2011	172	1,733	1,905

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

As at 31 December 2011, no deferred income tax liabilities have been recognised for withholding tax purpose (2010: Nil). Unremitted earnings of certain subsidiaries in Mainland China are expected to be reinvested in Mainland China. Unremitted earnings as at 31 December 2011 amounted to RMB478,268,000 (2010: RMB384,264,000).

11. OTHER NON-CURRENT ASSETS – GROUP

Other non-current assets represent prepayment for purchase of land use rights. As at 31 December 2011, the rights to use the land have not been granted.

12. INVENTORIES – GROUP

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**776,778**	677,518
Finished goods	**728,203**	524,838
	1,504,981	1,202,356

The cost of materials recognised as cost of sales amounted to approximately RMB11,409,276,000 (2010: RMB8,415,388,000).

The Group has recognised a loss of approximately RMB45,891,000 for the write-down of inventories to their net realisable value (2010: RMB3,889,000) (Note 27). These amounts have been included in the cost of sales in the consolidated comprehensive income statement.

13. TRADE RECEIVABLES – GROUP

	2011	2010
	RMB'000	*RMB'000*
Accounts receivable	**115,764**	102,938
Notes receivable		
– bank acceptance notes	**341,627**	82,531
– commercial acceptance notes	**13,377**	4,000
	470,768	189,469
Less: provision for impairment	**(1,042)**	(766)
Trade receivables – net	**469,726**	188,703

The fair values of trade receivables approximate their carrying amounts.

13. TRADE RECEIVABLES – GROUP (CONTINUED)

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

	2011	2010
	RMB'000	*RMB'000*
Accounts receivable		
– Within 30 days	**92,613**	97,178
– 30 days to 3 months	**19,734**	3,970
– 3 months to 6 months	**2,691**	503
– 6 months to 1 year	**–**	19
– 1 year to 2 years	**–**	847
– 2 years to 3 years	**517**	421
– 3 years to 4 years	**209**	–
	115,764	102,938
Notes receivable		
– Within 6 months	**355,004**	86,531
	470,768	189,469

13. TRADE RECEIVABLES – GROUP (CONTINUED)

As at 31 December 2011, trade receivables of approximately RMB80,427,000 (2010: RMB 65,552,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Accounts receivable		
– Within 30 days	**58,373**	61,079
– 30 days to 3 months	**19,734**	3,970
– 3 months to 6 months	**2,320**	503
	80,427	65,552

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

	2011	2010
	RMB'000	*RMB'000*
RMB	**450,522**	186,845
USD	**20,246**	2,624
	470,768	189,469

13. TRADE RECEIVABLES – GROUP (CONTINUED)

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

Group 1 – Bank acceptance notes

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

Group 3 – Trade receivables due from customers with some defaults in the past

	2011	2010
	RMB'000	*RMB'000*
Group 1	**341,627**	82,531
Group 2	**128,044**	105,651
Group 3	**1,097**	1,287
	470,768	189,469

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

13. TRADE RECEIVABLES – GROUP (CONTINUED)

Movements of the provision for impairment of trade receivables are:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**766**	589
Provision for trade receivables *(Note 27)*	**316**	177
Written off as uncollectible	**(40)**	–
At 31 December	**1,042**	766

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 fair value of the trade receivables.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

	2011	2010
	RMB'000	*RMB'000*
Prepayment for purchase of raw materials	**433,954**	434,290
Value – added tax recoverable	**60,705**	63,944
Custom duties recoverable	**2,686**	–
Government grants receivables	**–**	17,881
Deposits and other receivables	**4,138**	5,583
	501,483	521,698

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

15. RESTRICTED BANK DEPOSITS – GROUP

	2011 **RMB'000**	2010 RMB'000
Pledged bank deposits denominated in:		
– RMB	**333,672**	404,810
– EUR	**1,179**	3,193
	334,851	408,003

The nature of pledged bank deposits is as follows:

	2011 **RMB'000**	2010 RMB'000
Deposits for issuing letter of credit	**8,024**	5,212
Deposits for issuing letter of indemnity	**456**	25
Deposits for pledged bank borrowings *(Note 22)*	**149,889**	150,346
Deposits for issuing notes payable *(Note 20)*	**170,117**	252,420
Deposits for customs duty	**6,365**	–
	334,851	408,003

As at 31 December 2011, the weighted average interest rate on pledged bank deposits was 3.10% (2010: 1.98%) per annum, and these deposits have an approximate average maturity 109 days (2010: 178 days).

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

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

16. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

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

Cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**226,641**	85,840	**–**	–
USD	**20,754**	7,348	**–**	–
HKD	**35,438**	285,845	**21,875**	283,437
EUR	**21**	3	**–**	–
	282,854	379,036	**21,875**	283,437

As at 31 December 2011, cash at bank were demand deposits and the weighted average interest rates was 0.41% per annum (2010: 0.11%).

17. SHARE CAPITAL – GROUP AND COMPANY

	Authorised share capital		
	Number of shares		
	'000	*HKD'000*	*RMB'000*
As at 31 December 2009 (ordinary shares of HKD1.00 each)	380	380	376
Sub-division on 26 July 2010	3,420	–	–
Increase on 9 November 2010	1,496,200	149,620	128,510
As at 31 December 2010 and 2011 (ordinary shares of HKD0.10 each)	1,500,000	150,000	128,886

17. SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

	Issued and fully paid up		
	Number of shares *'000*	*HKD'000*	*RMB'000*
Issued on 14 February 2007 *(a)*	1	1	1
Issuance and sub-division of shares *(b)*	299	29	25
Issue pursuant to the placing and public offer *(c)*	287,500	28,750	24,722
Capitalisation of share premium *(d)*	749,700	74,970	64,467
As at 31 December 2010 and 2011 (ordinary shares of HKD0.10 each)	1,037,500	103,750	89,215

The following changes in the Company's authorised and issued share capital took place during the period from 14 February 2007 (date of incorporation) to 31 December 2011:

(a) The Company was incorporated on 14 February 2007 with an initial authorised share capital of HKD380,000 (equivalent to RMB376,000) divided into 380,000 ordinary shares with par value of HKD1.00 each. On the date of incorporation, 1,000 Shares were allotted and issued to certain shareholders.

(b) On 6 July 2010, 19,000 Shares were allotted and issued for cash at par to certain shareholders; On 26 July 2010, the Company subdivided each of the existing and unissued Shares of nominal value HKD1.00 each in its share capital into 10 Shares of nominal value of HKD0.10 each; On 5 November 2010, the Company acquired the entire issued share capital of Allybest, the consideration of which was satisfied by the allotment and issue by the Company of 100,000 Shares, all credited as fully paid.

(c) In November and December 2010, the Company issued a total of 287,500,000 shares at HKD2.1 per share ("New Issue"), in connection with its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 1 December 2010, and raised gross proceeds of approximately HKD603,750,000 (equivalent to approximately RM519,165,000). Share issuing cost in relation to the global offering of approximately HKD50,372,000 (equivalent to approximately RMB43,315,000), were recorded as reduction from the share premium.

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

18. RESERVES

– GROUP

	Share premium	Merger reserves (a)	Statutory reserves (b)	Other reserves (c)	Retained earnings (d)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	–	14,595	48,955	29,625	587,966	681,141
Profit for the year	–	–	–	–	235,507	235,507
Appropriation to statutory reserves	–	–	24,423	–	(24,423)	–
Capital injection by equity holders of the Company	–	34,016	–	–	–	34,016
Issue of shares *(Note 17(c))*	494,443	–	–	–	–	494,443
Share issuing costs *(Note 17(c))*	(43,315)	–	–	–	–	(43,315)
Employee share options scheme – value of employee services *(Note 19)*	–	–	–	52	–	52
Capitalisation of share premium *(Note 17(d))*	(64,467)	–	–	–	–	(64,467)
At 31 December 2010	386,661	48,611	73,378	29,677	799,050	1,337,377
Profit for the year	–	–	–	–	103,641	103,641
Appropriation to statutory reserves	–	–	9,153	–	(9,153)	–
Employee share options scheme – value of employee services *(Note 19)*	–	–	–	1,480	–	1,480
Shares held for Share Award Scheme	–	–	–	(16,288)	–	(16,288)
At 31 December 2011	386,661	48,611	82,531	14,869	893,538	1,426,210

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.

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

(b) Statutory reserves

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

(c) Other reserves

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

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

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

No shares have been granted to any employees for the year ended 31 December 2011.

(d) Retained earnings

Retained earnings as at 31 December 2011 include proposed final divided of RMB29,439,000 (2010: Nil) (Note 33).

18. RESERVES (CONTINUED)

– COMPANY

	Share premium *RMB'000*	**Contributed surplus (a)** *RMB'000*	**Other reserves** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2010	–	–	–	(5,796)	(5,796)
Effect of reorganisation	–	921,264	–	–	921,264
Issue of shares	494,443	–	–	–	494,443
Share issuing costs	(43,315)	–	–	–	(43,315)
Employee share options scheme – value of employee services	–	–	52	–	52
Capitalisation of share premium	(64,467)	–	–	–	(64,467)
Loss for the year	–	–	–	(11,066)	(11,066)
At 31 December 2010	386,661	921,264	52	(16,862)	1,291,115
Employee share options scheme – value of employee services	–	–	1,480	–	1,480
Shares held for Share Award Scheme	–	–	(16,288)	–	(16,288)
Loss for the year	–	–	–	(24,885)	(24,885)
At 31 December 2011	386,661	921,264	(14,756)	(41,747)	1,251,422

18. RESERVES (CONTINUED)

(a) Contributed surplus

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

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

19. SHARE-BASED PAYMENTS – GROUP AND COMPANY

As approved by the board of directors' meeting on 21 December 2010, 6,150,000 share options were granted to a director and certain employees at an exercise price of HKD2.452 per share, which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2011		2010	
	Average exercise price in HKD per share	**Number of options (*'000*)**	Average exercise price in HKD per share	Number of options (*'000*)
At 1 January	2.452	6,150	–	–
Granted	–	–	2.452	6,150
Forfeited	2.452	(650)	–	–
At 31 December	2.452	5,500	2.452	6,150

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

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

Exercisable from	Expiry date	Exercise price in HKD per share	Number of options *('000)* 2011	2010
21 December 2013	20 December 2020	2.452	**1,650**	1,845
21 December 2014	20 December 2020	2.452	**1,650**	1,845
21 December 2015	20 December 2020	2.452	**2,200**	2,460
			5,500	6,150

The weighted average fair value of options granted during the period determined by using the Binomial Model was HKD1.31 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 57.7%, expected dividend yield of 1.83% and risk-free interest rate of 2.89%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date. The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the listed companies with similar business to the Group. The expected dividend yield is measured based on the dividend yield per companies with similar business as projected by Bloomberg, which agrees to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

For the year ended 31 December 2011, the attributable amount charged to the consolidated comprehensive income statement was approximately RMB1,480,000 (2010: RMB52,000) (Note 28).

20 TRADE PAYABLES – GROUP

	2011	2010
	RMB'000	*RMB'000*
Accounts payable	**35,195**	19,689
Notes payable	**705,800**	1,119,800
	740,995	1,139,489

Notes payable of RMB513,800,000 (2010: RMB899,800,000) was secured by pledged bank deposits approximately RMB170,117,000 (2010: RMB252,420,000) (Note 15).

The aging analysis of the trade payables is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 6 months	**740,995**	1,137,969
6 months to 1 year	**–**	1,520
	740,995	1,139,489

Trade payables are denominated in the following currencies:

	2011	2010
	RMB'000	*RMB'000*
RMB	**715,354**	1,139,489
USD	**25,641**	–
	740,995	1,139,489

The fair values of trade payables approximate their carrying amounts.

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accruals	**18,377**	2,358	**–**	–
Advances from customers	**126,393**	97,763	**–**	–
Value-added tax payable	**489**	327	**–**	–
Other taxes payables	**2,180**	1,675	**–**	–
Other payables *(a)*	**92,775**	97,491	**550**	14,908
	240,214	199,614	**550**	14,908

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Pension and other social welfare payables	**6,580**	5,992	**–**	–
Payables for purchase of property, plant and equipment	**64,467**	61,450	**–**	–
Salary payables	**13,571**	10,601	**–**	–
Payable for share issuing cost and listing expenses	**–**	14,007	**–**	14,007
Others	**8,157**	5,441	**550**	901
	92,775	97,491	**550**	14,908

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

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

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**196,365**	147,034	**–**	–
EUR	**36,061**	31,524	**–**	–
USD	**3,476**	2,556	**–**	–
JPY	**3,762**	3,592	**–**	–
HKD	**550**	14,908	**550**	14,908
	240,214	199,614	**550**	14,908

22. BORROWINGS – GROUP

	2011	2010
	RMB'000	*RMB'000*
Non – current		
Bank borrowings	**50,000**	–
Current		
Bank borrowings	**1,810,346**	868,215
Representing:		
Unsecured	**1,583,280**	630,642
Secured – Pledged *(i)*	**277,066**	237,573
	1,860,346	868,215

(i) As at 31 December 2011, bank borrowings of RMB111,066,000 (2010: RMB116,573,000) were secured by pledged bank deposits of RMB133,289,000 (2010: RMB132,196,000) in the bank. Bank borrowings of RMB166,000,000 (2010: RMB121,000,000) were secured by letter of credit issued by a commercial bank, in lieu of which Jiangsu Daming has placed pledged bank deposits of RMB16,600,000 (2010: RMB18,150,000) in the bank (Note 15).

22. BORROWINGS – GROUP (CONTINUED)

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

	2011 *RMB'000*	2010 *RMB'000*
At fixed rates in RMB	**1,102,205**	376,000
At fixed rates in USD	**53,881**	72,899
At fixed rates in EUR	**45,375**	4,042
At fixed rates in JPY	**4,078**	–
	1,205,539	452,941
At floating rates in RMB	**260,200**	298,700
At floating rates in USD	**283,541**	–
At floating rates in HKD	**111,066**	116,574
	654,807	415,274
	1,860,346	868,215

The weighted average effective interest rates per annum at 31 December 2011 and 2010 were as follows:

	2011	2010
RMB	**5.81%**	4.90%
USD	**3.29%**	1.58%
EUR	**4.70%**	2.04%
HKD	**1.52%**	1.52%
JPY	**5.69%**	N/A

22. BORROWINGS – GROUP (CONTINUED)

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

	2011	2010
	RMB'000	*RMB'000*
Within 6 months	**1,793,252**	778,215
6 months to 1 year	**67,094**	90,000
	1,860,346	868,215

The Group has the following undrawn borrowing facilities:

	2011	2010
	RMB'000	*RMB'000*
Expiring within one year	**522,906**	421,838
More than one year	**517,592**	208,270
	1,040,498	630,108

The fair values of borrowings approximate their carrying amounts.

23. DEFERRED GOVERNMENT GRANTS – GROUP

	2011	2010
	RMB'000	*RMB'000*
Deferred government grants	**15,020**	16,087
Less: Current portion included in current liabilities	**(1,067)**	(1,067)
	13,953	15,020

23. DEFERRED GOVERNMENT GRANTS – GROUP (CONTINUED)

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

	2011	2010
	RMB'000	*RMB'000*
Beginning balance of the year	**16,087**	16,640
Granted during the year	**–**	330
Amortised as income *(Note 25)*	**(1,067)**	(883)
Ending balance of the year	**15,020**	16,087

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

24. REVENUE AND SEGMENT INFORMATION

	2011	2010
	RMB'000	*RMB'000*
Sales of goods	**11,940,647**	8,972,581

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

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

24. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	2011	2010
	RMB'000	*RMB'000*
– Mainland China	**11,729,672**	8,879,001
– Hong Kong and other overseas countries and regions *(i)*	**210,975**	93,580
Total sales	**11,940,647**	8,972,581

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

25. OTHER INCOME – NET

	2011	2010
	RMB'000	*RMB'000*
Subsidy income	**1,300**	17,623
Amortisation of deferred government grants *(Note 23)*	**1,067**	883
Sales of scraps and packaging materials	**9,961**	8,024
Rental income *(Note 36(b))*	**500**	500
Other income	**12,828**	27,030
Other expenses	**(1,169)**	(1,150)
Total	**11,659**	25,880

26. OTHER LOSSES – NET

	2011 RMB'000	2010 RMB'000
Losses on disposal of property, plant and equipment – net *(Note 34(a))*	**(217)**	(959)
Foreign exchange losses – net	**(1,869)**	(5,887)
Others	**344**	555
	(1,742)	(6,291)

27. EXPENSES BY NATURE

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

	2011 RMB'000	2010 RMB'000
Changes in inventories of finished goods	**(234,847)**	(233,457)
Raw materials consumed	**11,644,123**	8,648,845
Stamp duty, property tax and other surcharges	**8,276**	6,421
Transportation costs	**58,681**	47,842
Employee benefit expenses, including directors' emoluments *(Note 28)*	**89,982**	59,641
Depreciation and amortisation *(Note 5, 6, 7, 8)*	**70,248**	55,241
Operating lease rental for buildings	**1,859**	1,828
Utilities charges	**10,256**	7,139
Provision for write-down of inventories *(Note 12, 34 (a))*	**45,891**	3,889
Auditors' remuneration	**3,400**	1,980
Provision for impairment of trade receivables *(Note 34 (a))*	**316**	177
Entertainment and travelling expenses	**19,705**	12,766
Professional service expenses	**1,519**	6,865
Bank charges	**7,890**	2,988
Others	**17,553**	14,271
Total cost of sales, distribution costs and administrative expenses	**11,744,852**	8,636,436

28. EMPLOYEE BENEFIT EXPENSES

	2011	2010
	RMB'000	*RMB'000*
Salaries, bonus and other welfares	**81,655**	53,866
Share options granted to directors and employees	**1,480**	52
Pension – defined contribution plans *(a)*	**6,847**	5,723
	89,982	59,641

(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 2010 and 2011, the Group is required to make monthly defined contributions to these plans at rates from 12% to 22%, with the base of their total salary subject to a certain ceiling.

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

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

29. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

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

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

(a) Directors' emoluments (continued)

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

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

No director of the Company waived any emolument for the year ended 31 December 2011 (2010: Nil).

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 3 (2010: 2) directors, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining 2 (2010: 3) individuals were as follows:

	2011	2010
	RMB'000	*RMB'000*
Salaries	**1,539**	1,844
Bonus	**383**	–
Pension costs	**10**	41
	1,932	1,885

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands		
HKDnil-HKD1,000,000	**–**	3
HKD1,000,001 to HKD1,500,000	**2**	–
	2	3

For the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

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For the year ended 31 December 2011

30. FINANCE COSTS – NET

	2011	2010
	RMB'000	*RMB'000*
Finance costs:		
Interest expenses on bank borrowings	**68,611**	25,335
Interest expenses on bank acceptance notes	**32,047**	31,836
Exchange gains – net	**(17,369)**	(5,033)
	83,289	52,138
Less: amounts capitalised on qualifying assets *(Note 6)*	**(3,887)**	(558)
Total finance costs	**79,402**	51,580
Finance income:		
Interest income *(Note 34(a))*	**(12,706)**	(10,535)
Finance costs – net	**66,696**	41,045

31. INCOME TAX EXPENSE

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

	2011	2010
	RMB'000	*RMB'000*
Current income tax		
– Mainland China corporate income tax	**44,146**	77,872
Deferred income tax *(Note 10)*	**(8,359)**	(789)
	35,787	77,083

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

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

31. INCOME TAX EXPENSE (CONTINUED)

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

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

Jiangsu Daming, Daming Heavy Industry and Taiyuan Taigang Daming are subject to corporate income tax rate of 25% for the year 2011. Hangzhou Wanzhou, Wuhan Fortune and Tianjin Taigang Daming have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from CIT for the first two years and 50% reduction in CIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. The tax holiday for Hangzhou Wanzhou, Wuhan Fortune and Tianjin Taigang Daming was commenced on 2008, and the applicable tax rate for 2011 was 12.5%, 12.5% and 12%, respectively.

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

	2011 ***RMB'000***	2010 *RMB'000*
Profit before income tax	**139,016**	314,689
Tax calculated at tax rates applicable to profits of the respective subsidiaries	**39,576**	86,600
Effect of tax concession	**(5,943)**	(10,601)
Tax losses for which no deferred income tax asset was recognized	**598**	128
Expenses not deductible for tax purpose	**1,556**	956
Income tax expense	**35,787**	77,083
The weighted average applicable tax rates	**25.74%**	24.49%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. EARNINGS PER SHARE

(a) Basic

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

	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**103,641**	235,507
Weighted average number of ordinary shares in issue *(thousands)*	**1,037,500**	773,596

(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.

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit used to determine diluted earnings per share	**103,641**	235,507
Weighted average number of ordinary shares in issue *(thousands)*	**1,037,500**	773,596
Adjustments for:		
– Share options *(thousands)*	**–**	–
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,037,500**	773,596

33. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Proposed final dividend of HKD0.035 (2010: Nil) per ordinary share	**29,439**	–

On 22 March 2012, the Company's Board of Directors has recommended payment of a final dividend of HKD0.035 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 2012.

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash used in operations

	2011	2010
	RMB'000	*RMB'000*
Profit after income tax	**103,229**	237,606
Adjustments for:		
– income tax expenses	**35,787**	77,083
– amortisation of land use rights *(Note 5)*	**2,533**	2,533
– depreciation of property, plant and equipment *(Note 6)*	**66,833**	51,813
– amortisation of intangible assets *(Note 8)*	**427**	314
– depreciation of investment properties *(Note 7)*	**455**	455
– amortisation of deferred income *(Note 23)*	**(1,067)**	(883)
– losses on disposal of property, plant and equipment *(Note 26)*	**217**	959
– provision for impairment of trade receivables *(Note 27)*	**316**	177
– provision for write down of inventories *(Note 27)*	**45,891**	3,889
– interest income *(Note 30)*	**(12,706)**	(10,535)
– finance costs *(Note 30)*	**79,402**	51,580
	321,317	414,991
Changes in working capital:		
– decrease in pledged bank deposits	**72,695**	52,164
– increase in trade receivables, prepayments, deposits and other receivables	**(256,723)**	(485,740)
– increase in inventories	**(348,516)**	(437,848)
– (decrease)/increase in trade payables, current income tax liabilities, accruals and other payables	**(362,790)**	416,691
Cash used in operations	**(574,017)**	(39,742)

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

	2011	2010
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	**389**	1,589
Losses on disposal of property, plant and equipment *(Note 26)*	**(217)**	(959)
Proceeds from disposal of property, plant and equipment	**172**	630

35. COMMITMENTS

(a) Capital commitments

	2011	2010
	RMB'000	*RMB'000*
Contracted but not provided for:		
Acquisition of property, plant and equipment	**305,962**	179,908

(b) Operating lease commitments

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

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

	2011	2010
	RMB'000	*RMB'000*
Not later than 1 year	**1,506**	1,438
Later than 1 year and not later than 5 years	**3,653**	3,214
	5,159	4,652

36. RELATED PARTY TRANSACTIONS

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

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

Name	Relationship with the Group
Ally Good	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 spouse of Mr. Zhou Keming and a director of the Company

(b) Transactions with related parties:

The following material transactions were carried out with related parties:

		2011	2010
		RMB'000	*RMB'000*
(i)	Lease of property to Daming Logistics		
	Rental charged to	**500**	500

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties: (continued)

	2011 RMB'000	2010 RMB'000
(ii) Loans received from Daming Logistics		
Loans received	**109,500**	171,000

Loans received from Daming Logistics were unsecured, non-interest bearing and had no fixed repayment terms, these loans have been settled by the end of December 2011.

	2011 RMB'000	2010 RMB'000
(iii) Loans repaid to Daming Logistics		
Loans repaid	**109,500**	350,008

(iv) Key management compensation

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

	2011 RMB'000	2010 RMB'000
Salaries, bonus and other welfares	**7,837**	4,484
Pension – defined contribution plans	**370**	150
	8,207	4,634

(c) Year-end balances arising from related party transactions:
The Group had no significant balances with its related parties.

Financial Summary

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**11,940,647**	8,972,581	6,447,357	7,976,837	9,034,622
Gross profit	**351,091**	461,465	379,527	99,595	135,347
Operating profit	**205,712**	355,734	283,613	43,912	81,229
Profit/(Loss) for the year	**103,229**	237,606	203,377	(12,826)	30,041
Attributable to:					
Equity holders of the Company	**103,641**	235,507	203,498	(12,593)	30,238
Non-controlling interests	**(412)**	2,099	(121)	(233)	(197)
	103,229	237,606	203,377	(12,826)	30,041
ASSETS, LIABILITIES AND EQUITY					
Total assets	**4,443,978**	3,703,720	2,198,657	1,431,438	1,649,180
Total liabilities	**(2,864,104)**	(2,252,267)	(1,510,339)	(799,497)	(1,149,140)
	1,579,874	1,451,453	688,318	631,941	500,040
Equity attributable to equity holders of the Company	**1,515,425**	1,426,592	681,142	624,644	492,510
Non-controlling interests	**64,449**	24,861	7,176	7,297	7,530
Total equity	**1,579,874**	1,451,453	688,318	631,941	500,040