# DA MING INTERNATIONAL HOLDINGS LIMITED
# 大明國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
(Stock code: 1090)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

**FINANCIAL HIGHLIGHTS**

| | Year ended 31 December | | |
|---|---|---|---|
| | **2017** | 2016 | |
| | ***RMB'000*** | *RMB'000* | % change |
| Revenue | **27,724,286** | 20,518,140 | +35.1% |
| Gross profit | **675,358** | 1,071,531 | -37.0% |
| Total comprehensive income for the year | **83,342** | 406,587 | -79.5% |

**OPERATING HIGHLIGHTS**

| | Year ended 31 December | | |
|---|---|---|---|
| | **2017** | 2016 | % change |
| **Stainless steel** | | | |
| Sales volume (tonnes) | **1,716,975** | 1,607,754 | +6.8% |
| Processing volume (tonnes) | **2,548,943** | 2,322,746 | +9.7% |
| Processing multiple *(note)* | **1.48** | 1.44 | |
| **Carbon steel** | | | |
| Sales volume (tonnes) | **1,583,997** | 1,152,131 | +37.5% |
| Processing volume (tonnes) | **1,512,503** | 1,058,373 | +42.9% |
| Processing multiple *(note)* | **0.95** | 0.92 | |

*Note:* Processing multiple = Processing volume/Sales volume

**FINAL RESULTS**

The board of directors (the "Board") of Da Ming International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 together with comparative figures for the year ended 31 December 2016, as follows:

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT**

*For the year ended 31 December 2017*

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | 2 | **27,724,286** | 20,518,140 |
| Cost of sales | 3 | **(27,048,928)** | (19,446,609) |
| **Gross profit** | | **675,358** | 1,071,531 |
| Other income | 4 | **47,616** | 39,116 |
| Other expenses | 3 | **(1,141)** | (1,697) |
| Other loss – net | 5 | **(13,673)** | (184) |
| Distribution costs | 3 | **(221,614)** | (196,592) |
| Administrative expenses | 3 | **(247,052)** | (234,248) |
| **Operating profit** | | **239,494** | 677,926 |
| Finance income | 6 | **12,583** | 10,827 |
| Finance costs | 6 | **(116,701)** | (130,137) |
| Finance costs – net | 6 | **(104,118)** | (119,310) |
| **Profit before income tax** | | **135,376** | 558,616 |
| Income tax expense | 7 | **(52,034)** | (152,029) |
| **Profit for the year** | | **83,342** | 406,587 |
| **Total comprehensive income for the year** | | **83,342** | 406,587 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **67,466** | 388,215 |
| Non-controlling interests | | **15,876** | 18,372 |
| | | **83,342** | 406,587 |
| **Earnings per share for profit attributable to equity holders of the Company during the year** | | | |
| (expressed in RMB per share) | | | |
| – Basic earnings per share | 8 | **0.06** | 0.35 |
| – Diluted earnings per share | 8 | **0.06** | 0.35 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2017*

| | | As at 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | | **341,950** | 313,950 |
| Property, plant and equipment | | **3,740,888** | 3,136,776 |
| Investment properties | | **5,006** | 7,069 |
| Intangible assets | | **15,330** | 1,669 |
| Deferred income tax assets | | **61,062** | 38,808 |
| Other non-current assets | | **2,711** | 33,606 |
| | | **4,166,947** | 3,531,878 |
| **Current assets** | | | |
| Inventories | | **2,689,366** | 2,471,950 |
| Trade receivables | 10 | **419,959** | 346,715 |
| Prepayments, deposits and other receivables | | **888,085** | 669,576 |
| Restricted bank deposits | | **824,868** | 687,770 |
| Cash and cash equivalents | | **166,151** | 53,085 |
| | | **4,988,429** | 4,229,096 |
| **Total assets** | | **9,155,376** | 7,760,974 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | **106,607** | 97,400 |
| Reserves | | **2,322,971** | 2,062,317 |
| | | **2,429,578** | 2,159,717 |
| **Non-controlling interests** | | **267,626** | 254,130 |
| **Total equity** | | **2,697,204** | 2,413,847 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

*As at 31 December 2017*

| | | As at 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **1,295,161** | 867,977 |
| Deferred government grants | | **53,535** | 43,538 |
| Deferred income tax liabilities | | **11,349** | 14,331 |
| | | **1,360,045** | 925,846 |
| **Current liabilities** | | | |
| Trade payables | 11 | **2,167,165** | 2,491,814 |
| Accruals, advances from customers and other current liabilities | | **819,801** | 666,655 |
| Current income tax liabilities | | **54,583** | 67,073 |
| Borrowings | | **2,053,232** | 1,192,907 |
| Current portion of deferred government grants | | **3,346** | 2,832 |
| | | **5,098,127** | 4,421,281 |
| **Total liabilities** | | **6,458,172** | 5,347,127 |
| **Total equity and liabilities** | | **9,155,376** | 7,760,974 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2017*

| | Attributable to equity holders of the Company | | Non-controlling interests | Total equity |
|---|---|---|---|---|
| | **Share Capital** | **Reserves** | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2016** | 97,400 | 1,710,171 | 235,628 | 2,043,199 |
| **Comprehensive income** | | | | |
| Profit for the year | – | 388,215 | 18,372 | 406,587 |
| **Total comprehensive income for the year ended 31 December 2016** | – | 388,215 | 18,372 | 406,587 |
| **Transactions with owners** | | | | |
| Employee share options scheme | | | | |
| – value of employee services | – | 4,188 | 130 | 4,318 |
| Employee share award scheme | | | | |
| – value of employee services | – | 9,850 | – | 9,850 |
| Shares held for share award scheme | – | (43,970) | – | (43,970) |
| Effect of business combination under common control | – | (6,137) | – | (6,137) |
| **Total transactions with owners** | – | (36,069) | 130 | (35,939) |
| **Balance at 31 December 2016** | 97,400 | 2,062,317 | 254,130 | 2,413,847 |
| **Balance at 1 January 2017** | 97,400 | 2,062,317 | 254,130 | 2,413,847 |
| **Comprehensive income** | | | | |
| Profit for the year | – | 67,466 | 15,876 | 83,342 |
| **Total comprehensive income for the year ended 31 December 2017** | – | 67,466 | 15,876 | 83,342 |
| **Transactions with owners** | | | | |
| Employee share options scheme | | | | |
| – value of employee services | – | 3,868 | 120 | 3,988 |
| Employee share award scheme | | | | |
| – value of employee services | – | 8,909 | – | 8,909 |
| Issue of shares | 9,191 | 311,805 | – | 320,996 |
| Exercise of share option | 16 | 381 | – | 397 |
| Dividends | – | (131,775) | (2,500) | (134,275) |
| **Total transactions with owners** | 9,207 | 193,188 | (2,380) | 200,015 |
| **Balance at 31 December 2017** | 106,607 | 2,322,971 | 267,626 | 2,697,204 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash flows from operating activities | **1,044,084** | (40,508) |
| Cash flows from investing activities | **(833,940)** | (700,535) |
| Cash flows from financing activities | **(94,388)** | 582,415 |
| Net increase/(decrease) in cash and cash equivalents | **115,756** | (158,628) |
| Cash and cash equivalents at beginning of year | **53,085** | 207,007 |
| Exchange (loss)/gain on cash and cash equivalents | **(2,690)** | 4,706 |
| Cash and cash equivalents at end of year | **166,151** | 53,085 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

## 1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

**Going concern**

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB109,698,000 (31 December 2016: RMB192,185,000). Total equity of the Group amounted to RMB2,697,204,000 and total liability amounted to RMB6,458,172,000. The Group meets its day-to-day working capital requirements mainly through its bank borrowings and facilities with banks in PRC that are refinanced and/or renewed every twelve months in preparing this financial statements, the directors of the Company have considered the Group's available sources of funds as follows:

- The Group expects a satisfactory growth in the business in 2018;

- The available financing including PRC bank borrowings to be renewed during the next 12 months, the directors are confident that these bank financing could be renewed and/or extended for at least another twelve months upon renewal based on the Group's past experience and good credit standing; and

- Other available sources of financing from banks and other financial institutions given the Group's credit history and that most of the Group's property, plant and equipment are free of pledge or restriction and would be available to secure further financing.

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

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

HKAS 7 (Amendments) "Statement of cash flows" is effective for annual periods beginning on or after 1 January 2017. The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

(b) *Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group*

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKAS 12 (Amendments) | Income taxes | 1 January 2017 |
| HKFRS 12 (Amendment) | Disclosure of interest in other entities | 1 January 2017 |

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKFRS 1 (Amendment) | First time adoption of HKFRS | 1 January 2018 |
| HKFRS 2 (Amendments) | Classification and measurement of share-based payment transaction | 1 January 2018 |
| HKFRS 4 (Amendments) | Insurance contracts | 1 January 2018 |
| HKFRS 9 | Financial instruments | 1 January 2018 i |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 ii |
| HK(IFRIC) 22 | Foreign currency transactions and advance consideration | 1 January 2018 |
| HKAS 28 (Amendment) | Investments in associates and joint ventures | 1 January 2018 |
| HKAS 40 (Amendments) | Transfers of investment property | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 iii |
| HK (IFRIC) 23 | Uncertainty over income tax treatments | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| HKFRS 17 | Insurance contracts | 1 January 2021 with earlier application permitted as long as HKFRS 15 and HKFRS 9 are also applied |

(i) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instrument that are classified as available-for-sale financial assets;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15, Revenue from Contracts with Customers

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognised by applying following steps:

- Identify the contract with customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group engaged in the sales of stainless steel and carbon steel products. Management has assessed the effect of applying the new standard on the group's financial statements and has identified the following area that will be affected:

- Significant financing component – HKFRS 15 require consideration of significant financing component when determining the transaction price. Due to the large sales volume and low amount of contracts where significant financing component is identified, the financial impact of applying new HKFRS 15 is not material.

- Rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. The Group's historical goods return rate was very low and the financial impact of applying new HKFRS 15 is not expected to be material.

- Presentation of contract assets and contract liabilities on the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities on the balance sheet. The Group has assessed the adoption of this standard and concluded that it will not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018.

(iii) HKFRS 16, Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of RMB1,648,000. The Group estimates that approximately 80% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

## 2. REVENUE

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Sales of goods | **27,724,286** | 20,518,140 |

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

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

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

During the year ended 31 December 2017, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2016: None).

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| – Mainland China | **27,084,654** | 20,017,489 |
| – Hong Kong and other overseas countries and regions* | **639,632** | 500,651 |
| Total sales | **27,724,286** | 20,518,140 |

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

## 3. EXPENSES BY NATURE

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Changes in inventories of finished goods | **(109,786)** | (11,604) |
| Raw materials consumed | **26,619,661** | 19,037,491 |
| Outsourced processing cost | **22,701** | 27,597 |
| Stamp duty, property tax and other surcharges | **28,870** | 24,137 |
| Transportation costs | **127,891** | 101,676 |
| Employee benefit expenses, including directors' emoluments | **486,152** | 466,285 |
| Depreciation and amortisation | **166,597** | 141,345 |
| Operating lease rental for buildings | **5,423** | 4,804 |
| Utilities charges | **47,714** | 31,274 |
| Provision for/(Reversal of) write-down of inventories | **37,153** | (32,146) |
| Auditors' remuneration – audit services | **3,000** | 2,890 |
| Provision for impairment of trade receivables | **666** | 293 |
| Entertainment and travelling expenses | **34,896** | 29,438 |
| Professional service expenses | **3,364** | 3,787 |
| Bank charges | **8,059** | 8,220 |
| Others | **36,374** | 43,659 |
| | **27,518,735** | 19,879,146 |

## 4. OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Sales of scraps and packaging materials | **31,254** | 21,600 |
| Subsidy income | **7,714** | 8,615 |
| Amortisation of deferred government grants | **2,989** | 3,045 |
| Rental income | **370** | 477 |
| Others | **5,289** | 5,379 |
| | **47,616** | 39,116 |

## 5. OTHER LOSS – NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Gain/(losses) on disposal of property, plant and equipment – net | **15** | (266) |
| Foreign exchange (losses)/gain – net | **(9,972)** | 1,844 |
| Others | **(3,716)** | (1,762) |
| | **(13,673)** | (184) |

## 6. FINANCE COSTS – NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Finance costs: | | |
| Interest expenses on borrowings | **109,499** | 83,018 |
| Interest expenses on bank/commercial acceptance notes and letter of credit | **45,094** | 57,247 |
| Exchange (gain)/loss – net | **(18,635)** | 2,695 |
| | **135,958** | 142,960 |
| Less: amounts capitalised on qualifying assets | **(19,257)** | (12,823) |
| Total finance costs | **116,701** | 130,137 |
| Finance income: | | |
| Interest income | **(12,583)** | (10,827) |
| Finance costs – net | **104,118** | 119,310 |

## 7. INCOME TAX EXPENSE

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – Mainland China corporate income tax | **77,270** | 77,559 |
| Deferred income tax (credit)/expense | **(25,236)** | 74,470 |
| | **52,034** | 152,029 |

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

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

Subsidiaries incorporated in Hong Kong are subject to income tax at the prevailing rates of 16.5%. Hong Kong profits tax has not been provided as there is no estimated assessable profit arising in or derived from Hong Kong during the financial periods.

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

Jiangsu Daming, Daming Precision Sheet, Jingjiang Daming Heavy Industry, Qianzhou Daming, Hubei Daming, Taiyuan Taigang Daming, Hangzhou Wanzhou, Wuhan Fortune, Tianjin Taigang Daming, Allybest Trading, Zibo Daming, Daming Metal Technology, Daming Import & Export, Steel Union Logistics and Shandong Allybest are subject to corporate income tax rate of 25% for the year 2017.

## 8. 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.

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Profit attributable to equity holders of the Company (RMB'000) | **67,466** | 388,215 |
| Weighted average number of ordinary shares in issue (thousands) | **1,184,867** | 1,122,952 |
| Basic earnings per share (RMB per share) | **0.06** | 0.35 |

### (b) Diluted

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Earnings** | | |
| Profit attributable to equity holders of the Company (RMB'000) | **67,466** | 388,215 |
| Weighted average number of ordinary shares in issue (thousands) | **1,184,867** | 1,122,952 |
| Adjustments for share option plan (thousands) | **6,459** | 2,132 |
| Weighted average number of ordinary shares for diluted earnings per share (RMB'000) | **1,191,326** | 1,125,084 |
| Diluted earnings per share (RMB per share) | **0.06** | 0.35 |

## 9. DIVIDENDS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend | **–** | 122,503 |

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017.

The dividends actually paid in 2017 were RMB131,775,000 based on the number of issued shares outstanding at relevant time.

## 10. TRADE RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | **157,363** | 114,150 |
| Notes receivable | | |
| – bank acceptance notes | **260,671** | 230,594 |
| – commercial acceptance notes | **3,557** | 3,000 |
| | **421,591** | 347,744 |
| Less: provision for impairment | **(1,632)** | (1,029) |
| Trade receivables – net | **419,959** | 346,715 |

The fair values of trade receivables approximate their carrying amounts.

As at 31 December 2017, bank acceptance notes of RMB116,646,000 (2016: RMB195,616,000) were pledged as security for notes payable for the Group. RMB52,292,000 (2016: none) were pledged as security for bank borrowings.

As at 31 December 2017, bank acceptance note of RMB10,163,000 (2016: none) were pledged as security for letters of guarantee.

The majority of the Group's sales are made on (i) cash on delivery; (ii) bank or commercial acceptance notes with maturity within 1 year; and (iii) credit terms of 1-120 days. At 31 December 2017 and 2016, the aging analysis of trade receivables was as follows:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | | |
| – Within 30 days | **142,067** | 107,157 |
| – 30 days to 3 months | **11,422** | 4,644 |
| – 3 months to 6 months | **3,241** | 1,601 |
| – 6 months to 1 year | **29** | 617 |
| – 1 year to 2 years | **593** | 89 |
| – over 2 years | **11** | 42 |
| | **157,363** | 114,150 |
| Notes receivable | | |
| – Within 1 year | **264,228** | 233,594 |
| | **421,591** | 347,744 |

## 11. TRADE PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Accounts payable | **605,938** | 1,181,098 |
| Notes payable | **1,561,227** | 1,310,716 |
| | **2,167,165** | 2,491,814 |

i) As at 31 December 2017, notes payable of RMB1,037,040,000 (2016: RMB844,250,000) was secured by restricted bank deposits of approximately RMB742,768,000 (2016: RMB554,250,000).

ii) As at 31 December 2017, bank acceptance notes of RMB116,646,000 (2016: RMB195,616,000) were pledged as security for notes payable for the Group.

iii) The Group discounted certain of its notes payable and letter of credit arisen from intragroup material transaction for the Group's financing needs. Such arrangement is for financing need of the Group. As a result, the associated cashflow is classified as financing cashflow.

The aging analysis of the trade payables was as follows:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Within 6 months | **2,167,121** | 2,491,777 |
| 6 months to 1 year | **–** | – |
| 1 year to 2 years | **23** | 29 |
| 2 years to 3 years | **21** | 8 |
| | **2,167,165** | 2,491,814 |

Trade payables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **2,153,251** | 2,463,146 |
| USD | **13,914** | 13,027 |
| EUR | **–** | 15,641 |
| | **2,167,165** | 2,491,814 |

The fair values of trade payables approximate their carrying amounts.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

### Processing centres

We are a leading metals processing service provider providing comprehensive processing service to modern manufacturers in China with more than 20,000 active customers. Our processing services cover the whole manufacturing process including cutting, slitting, polishing, forming, welding, heat treating, machinery, painting and assembling. The Group has established nine processing centres strategically located in various regions in China, namely, Wuxi, Hangzhou, Tianjin, Wuhan, Taiyuan, Zibo, Jingjiang, Taian and Qianzhou.

The construction work of our eighth processing centre in Taian had been substantially completed in December 2017. Upon completion, the Taian processing centre will provide high-strength carbon steel and stainless steel processing services to customers engaged in the industries of construction machineries, paper production equipment, pressurized containers and chemical equipment.

On 18 February 2017, the Group started the construction work of its ninth processing centre in Qianzhou, Wuxi, Jiangsu province. This processing centre will specialize in providing high quality precision cutting services to high-strength carbon steel materials. The prospective customers will include those manufacturers engaged in construction machineries, environmental protection, electricity, pressurized containers and chemical equipment. The expected processing capacity of this processing centre upon completion will be 800,000 tonnes per annum.

### Deep processing services

1. ***New energy vehicle industry***

   The Group manufactures battery boxes for electric vehicle for a well-known automobile corporation in China, where the processing operations include techniques like cutting, clinching, bending, welding, grinding, electrophoresis and spraying. We involved deeply since the early stage of product design and helped customers optimising their product designs. As a result, structural strength of the products has been increased, heat dissipation has been advanced and weight has been lowered, which have not only saved materials but also improved quality.

   The Group manufactures B-pillar products for an internationally renowned high-end luxury electric vehicle. The products are made of galvalume material and processed through, among others, optical fiber cutting and stamping. During processing, we have improved the processing quality by solving problems such as irregular shape of plates.

   The Group manufactures battery bracket products for a renowned power battery corporation in China where the products are ultimately used in the power battery systems of two types of European electric buses. Such power battery bracket uses 304 stainless steel of five different thickness of 1.5-5.0mm. The processing techniques involve surface dry grinding, laser cutting, bending, welding, clinching and assembling. As the product structure is complicated, involving large amount of welding and deforms easily, our technical staff specifically developed an optimised welding solution to successfully eliminate the potential problem of welding deformation. The product is verified to be adaptable to the customer's battery module indicating the excellence in our processing accuracy.

2. ***Large mining trucks and excavators***

Recently, large mining trucks and excavators have been mass produced and delivered to Middle-East in tranches and are well received by the users. Through the cooperation of sales, technology, and production departments, we have solved the problems regarding the three key processing techniques (i.e. cutting, welding and machine processing) commissioned by our client. Processing of structural components of mining trucks involved sophisticated procedures. Special steels could only be cut by plasma cutting or laser cutting instead of flame cutting. For the welding process, the material needed to be preheated before welding while temperature of the material must be controlled during welding, and processed with thermal treatment after welding. As to the edge milling processing, due to the thickness and specialty of the material, ordinary edge milling tools are incompetent and only alloy steel tools with special material can be used.

3. ***Jingjiang processing centre "one-stop" paper-making equipment***

A well-known German multinational corporation, which mainly produces metal pipes and special equipment, was earlier identifying a manufacturer which could provide processing services for cylinders, cones and screening plates for the pulping machines for its large paper-making project. After strict assessments, the corporation cooperated with the Group for the first time in May 2017 and conducted in-depth cooperation.

The processing fully reflected the Group's comprehensive service capabilities. The products first went through plasma cutting and edge milling in Jingjiang processing centre and then carried out a series of deep processing involving tube making machine, submerged arc welding machine, pressing machine, bending machine and multi-boring machine and completed the pre-matching in the final stage which largely reduced the workload of our customer and helped assuring to meet the deadline.

4. ***Scientific and research projects***

The Group has provided deep processing services in various area including renewable energy and petrochemical industries. Collaborating with an institute of plasma physics, the Group has provided processing services for the construction of vacuum chamber components for large Tokamak nuclear fusion device (also known as the "Artificial Sun") and China's first small angle neutron scattering spectrometer for spallation neutron source.

5. ***One Belt and One Road Projects***

The Group has also provided processing services in various projects for countries situated in the "One Belt and One Road" involving the production of large muffler components, tube sheets for heat exchanger, deaerator of boilers, water separators, turbine components for power generator, large cement containers and blown-down pipes for petroleum pipeline.

6. ***Wind turbine hubs and cabin products***

The Group has mass produced 3.6MW onshore wind turbine hubs and cabin products for our client.

Due to the special structure, complex shape and large volume of wind turbine hubs and cabins coupled with the need for chain-linked blades and wind turbine rotor shafts for the hubs and wind turbine key equipment such as gear boxes and generators are installed in the cabins, resulting in high processing risks. In view of the large amount of processing and the difficulty relating to positioning and installation in cabins, the Group has developed jigs specifically for processing in cabins and optimised and designed the specific process.

Daming Heavy Industry cooperated once again with a well-known pressurized container corporation to carry out processing of large autoclave tanks. As the manufacturing process of autoclaves is under a high temperature, high pressure, flammable, explosive, toxic and hazardous working conditions, the customer has set forth high technical requirements for this processing of large autoclave tanks, and the whole process was supervised on-site. These autoclave tanks, of 7 meters in diameter and 11 meters in length, are designed according to stress analysis and manufactured in phases adopting the U.S. ASME standards. Given the high design standard, sophisticated production technique and huge volume of the tanks as well as the tight delivery time, our production and assembly teams were facing great challenges. In order to overcome the difficulties brought by the products' long diameter, thin walls (8mm/10mm), intricate coils on the internal face and deformation and difficult control of welding, our production department has, after repeated discussion and demonstration, eventually decided to form the cylinders on spot and to assemble the coils unit-by-unit in advance and splice the components together so as to solve the problems. In the final assembly stage, process was supervised on-site by our project team and workshop leaders in person. During the hoisting process, the components were positioned precisely and assembled perfectly without any deviation or scratch. The products passed the pressure test in the first time and the quality has been highly valued by the customer.

**Business development**

The conditional subscription agreement entered into between the Company and Tisco Stainless Steel (H.K.) Limited ("TISCO HK") on 20 March 2017 in relation to the conditional subscription of 103,750,000 new shares of the Company was completed on 20 April 2017.

As a result, TISCO HK had subscribed for 103,750,000 new shares of the Company at HK$3.50 per share and the total subscription price was approximately HK$363.1 million which was equivalent to approximately RMB321.0 million. The shareholding of TISCO HK was approximately 8.33% of the enlarged issued share capital of the Company upon completion.

On 19 March 2018, the Group entered into a joint venture agreement with Hanwa Co, Ltd. in respect of the formation of a joint venture in the PRC. The joint venture will be primarily engaged in the processing and sales of stainless steel, carbon steel and steel alloy, research and development, manufacturing, processing and sales of mechanical and metal parts, as well as import and export of various commodities and technology.

**Operating results**

Due to the decline in the market price of both stainless steel and carbon steel raw materials during the first five months of the year, the Group recorded a net loss of approximately RMB59.7 million for the six months ended 30 June 2017. The market price of both stainless steel and carbon steel raw materials rebounded during the third quarter of 2017 and the Group was able to recover from its interim loss and recorded a net profit of approximately 83.3 million for the year ended 31 December 2017.

The annual sales volume of our stainless steel processing business increased from approximately 1,608,000 tonnes for the year ended 31 December 2016 to approximately 1,717,000 tonnes for the year ended 31 December 2017 representing an increase of approximately 6.8% while the processing volume increased from approximately 2,323,000 tonnes for the year ended 31 December 2016 to approximately 2,549,000 tonnes for the year ended 31 December 2017 representing an increase of approximately 9.7%.

The annual sales volume of our carbon steel processing business increased from approximately 1,152,000 tonnes for the year ended 31 December 2016 to approximately 1,584,000 tonnes for the year ended 31 December 2017 representing an increase of approximately 37.5% while the annual processing volume increased from approximately 1,058,000 tonnes for the year ended 31 December 2016 to approximately 1,513,000 tonnes for the year ended 31 December 2017 representing an increase of approximately 43%.

## FUTURE DEVELOPMENT

The Group will continued to complete the development of its processing centres in Taian and Qianzhou in 2018 to enhance its processing capacity to serve the needs of its customers.

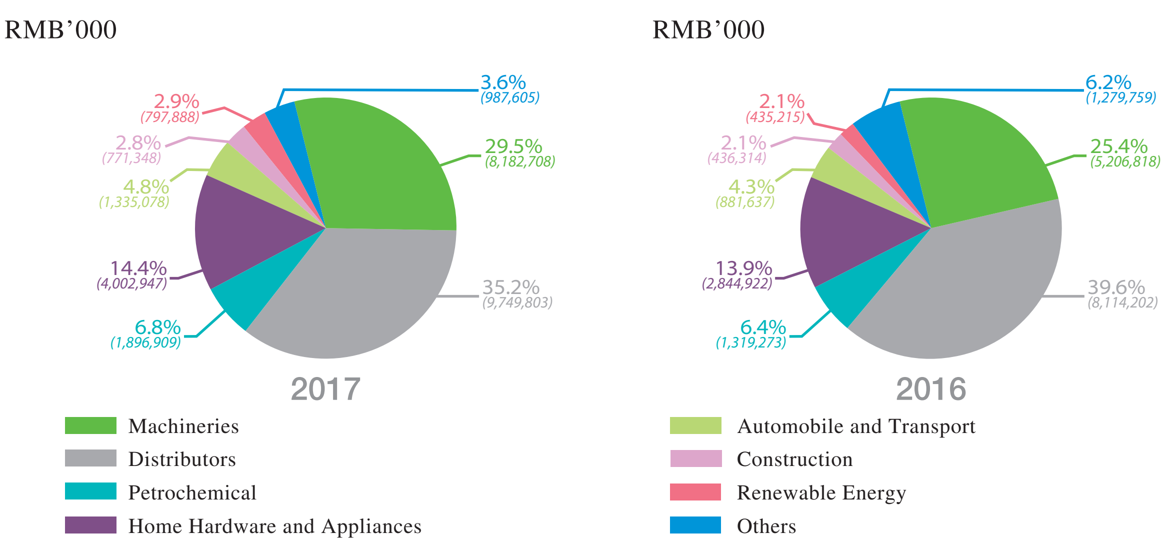
## FINANCIAL REVIEW AND ANALYSIS

During the year under review, we recorded a revenue of approximately RMB27,724 million, gross profit of approximately RMB675 million and the profit attributable to equity holders of the Company of approximately RMB67 million. Total assets of the Group as at 31 December 2017 amounted to approximately RMB9,155 million while equity attributable to equity holders of the Company amounted to approximately RMB2,430 million.

### Analysis of revenue by key industry segments

During the years ended 31 December 2017 and 2016, our revenue by key industry segments are shown below:

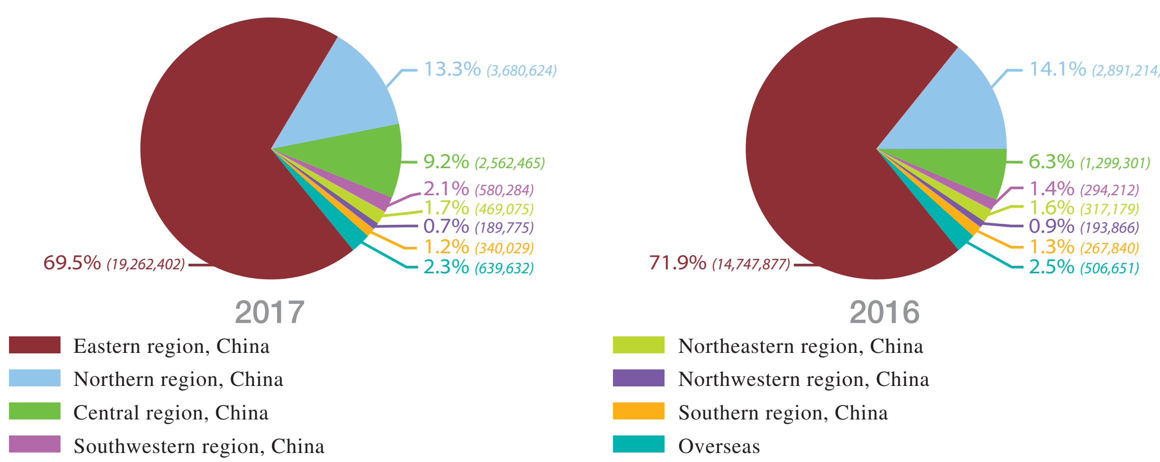
| | **Revenue** | | | |
|---|---|---|---|---|
| | **For the year ended 31 December** | | | |
| | **2017** | | 2016 | |
| Industry | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Machineries | **8,182,708** | **29.5** | 5,206,818 | 25.4 |
| Distributors | **9,749,803** | **35.2** | 8,114,202 | 39.6 |
| Petrochemical | **1,896,909** | **6.8** | 1,319,273 | 6.4 |
| Home Hardware and Appliances | **4,002,947** | **14.4** | 2,844,922 | 13.9 |
| Automobile and Transport | **1,335,078** | **4.8** | 881,637 | 4.3 |
| Construction | **771,348** | **2.8** | 436,314 | 2.1 |
| Renewable Energy | **797,888** | **2.9** | 435,215 | 2.1 |
| Others | **987,605** | **3.6** | 1,279,759 | 6.2 |
| Total | **27,724,286** | **100.0** | 20,518,140 | 100.0 |



### Analysis of revenue by geographic regions

| | Revenue | | | |
|---|---|---|---|---|
| | For the year ended 31 December | | | |
| | **2017** | | 2016 | |
| Region | ***RMB'000*** | **%** | *RMB'000* | % |
| Eastern region, China | **19,262,402** | **69.5** | 14,747,877 | 71.9 |
| Northern region, China | **3,680,624** | **13.3** | 2,891,214 | 14.1 |
| Central region, China | **2,562,465** | **9.2** | 1,299,301 | 6.3 |
| Southwestern region, China | **580,284** | **2.1** | 294,212 | 1.4 |
| Northeastern region, China | **469,075** | **1.7** | 317,179 | 1.6 |
| Northwestern region, China | **189,775** | **0.7** | 193,866 | 0.9 |
| Southern region, China | **340,029** | **1.2** | 267,840 | 1.3 |
| Overseas | **639,632** | **2.3** | 506,651 | 2.5 |
| | **27,724,286** | **100.0** | 20,518,140 | 100.0 |

RMB'000 RMB'000




### Revenue

Our revenue for the year ended 31 December 2017 amounted to approximately RMB27,724 million comprising approximately RMB22,244 million from our stainless steel processing business and approximately RMB5,480 million from our carbon steel processing business. As compared with the revenue for the year ended 31 December 2016 of approximately RMB20,518 million, it represented an increase of approximately 35.1%. Such increase was mainly due to the increase in the sales volume of stainless steel and carbon steel processing services.

**Gross profit**

Gross profit decreased from approximately RMB1,071.5 million in 2016 to approximately RMB675.4 million in 2017 mainly due to the decrease in the market price of both stainless steel and carbon steel materials during the first five months of the year.

**Other income**

Other income increased from approximately RMB39.1 million for the year ended 31 December 2016 to approximately RMB47.6 million for the year ended 31 December 2017 mainly due to the increase in sales of scraps and packaging materials.

**Other loss – net**

Other loss increased from approximately RMB0.2 million for the year ended 31 December 2016 to approximately RMB13.7 million for the year ended 31 December 2017 mainly due to the significant increase in foreign exchange losses.

**Distribution costs**

Distribution costs increased from approximately RMB196.6 million for the year ended 31 December 2016 to approximately RMB221.6 million for the year ended 31 December 2017. Such increase was mainly due to the increase in transportation costs as a result of the increase in sales volume.

**Administrative expenses**

Administrative expenses increased from approximately RMB234.2 million for the year ended 31 December 2016 to approximately RMB247.1 million for the year ended 31 December 2017. Such increase was mainly due to the increase in staff costs and stamp duty paid.

**Finance costs – net**

Net finance costs decreased from approximately RMB119.3 million for the year ended 31 December 2016 to approximately RMB104.1 million for the year ended 31 December 2017. The decrease in finance costs was mainly due to the increase in exchange gain on borrowings in 2017.

**Income tax expense**

Income tax expense decreased from approximately RMB152.0 million for the year ended 31 December 2016 to approximately RMB52.0 million for the year ended 31 December 2017. Such decrease was due to the decrease in net profit in 2017.

### Profit for the year

The Group recorded a profit of approximately RMB83.3 million for the year ended 31 December 2017 as compared with a profit of approximately RMB406.6 million for the year ended 31 December 2016 representing a decrease of approximately 79.5%.

### Capital Expenditure

In 2017, our capital expenditure consisted of additions of property, plant and equipment which amounted to approximately RMB774.8 million (2016: RMB501.8 million).

### Foreign Exchange Risk Management

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the borrowings of the Group amounted to approximately RMB3,348.4 million of which approximately RMB2,053.2 million were repayable within one year, notes payables amounted to approximately RMB1,561.2 million while the bank balances were approximately RMB991.0 million of which approximately RMB824.9 million were restricted mainly for the issuance of notes payable and letter of credit.

As at 31 December 2017, the Group recorded a net current liabilities of approximately RMB109.7 million mainly due to the use of short term borrowings to finance the Group's capital expenditure in the current year. According to our experience, the Group will be able to extend the short term borrowings when due and will not cause any going concern issue. The Group will also review and monitor its financing structure in the coming year.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The gearing ratio as at 31 December 2017 and 2016 calculated on this basis were 54.12% and 45.41% respectively.

## HUMAN RESOURCES

The Group employed a total of 4,617 staffs as at 31 December 2017 (2016: 3,846). There was a 20.0% growth in our workforce in 2017 as compared with 2016. The increase in headcounts was due to the business expansion of our Group. The remuneration of employees was based on their performance, skills, knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis. In addition to basic salaries, employees may be offered with discretionary bonus on individual performance. The Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

## FINAL DIVIDEND

The Board do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: HK$0.12).

## CORPORATE GOVERNANCE

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

The Company has complied with the Corporate Governance Code (the "CG Code"), including new code provisions, of the revised Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2017 except for the deviation from code provisions A.2.1 and A.6.7. The Company adopted the CG Code as its own code of corporate governance.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. During the reporting period, the positions of the chairman and the chief executive officer were held by Mr. Zhou Keming. The Company is of the view that Mr. Zhou Keming, with his profound expertise in the stainless steel industry, shall continue his dual capacity as the chairman and the chief executive officer of the Company. The Board would nevertheless review this arrangement from time to time in light of prevailing circumstances.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meeting of the Company. Mr. Chen Xuedong and Mr. Cheuk Wa Pang, both are independent non-executive directors of the Company, were absent from the annual general meeting of the Company held on 25 May 2017 due to their other business commitments.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## ANNUAL GENERAL MEETING

The AGM of the Company will be held on Wednesday, 30 May 2018. A notice convening the AGM will be published and dispatched to the shareholders of the Company (the "Shareholders") in the manner as required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders who are entitled to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Friday, 25 May 2018 to Wednesday, 30 May 2018, both days inclusive. During the aforementioned periods, no request for the transfer of shares will be accepted. All transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 24 May 2018 in order to qualify for attending the above AGM.

## 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 2017 and considered that the Company has complied with all applicable accounting standards and requirements.

## PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.dmssc.net) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2017 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board of
**Da Ming International Holdings Limited**
**Zhou Keming**
*Chairman*

Hong Kong, 23 March 2018

*As at the date of this announcement, the executive Directors are Mr. Zhou Keming (Chairman and Chief Executive Officer), Ms. Xu Xia, Mr. Zou Xiaoping, Mr. Jiang Changhong, Mr. Tang Zhonghai, Dr. Fukui Tsutomu, Mr. Zhang Feng and Mr. Wong Jian; and the independent non-executive Directors are Mr. Chen Xuedong, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Lu Daming and Mr. Liu Fuxing.*