



DA MING INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code :1090

2013 Interim Report



A large industrial factory with a high ceiling, steel beams, and various machinery. The floor is light-colored, and there are yellow safety railings. The background is slightly blurred.

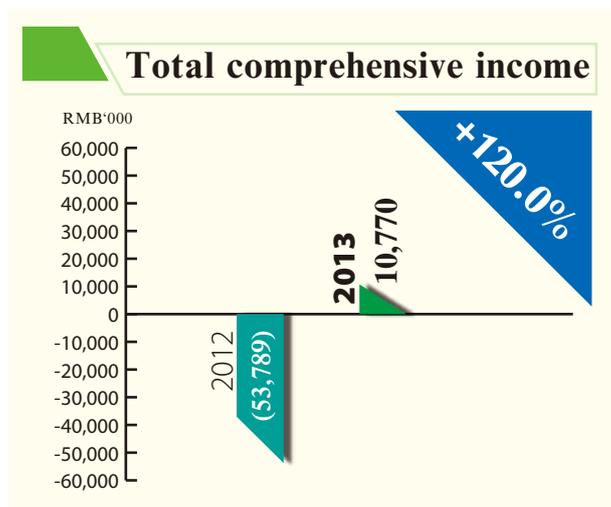
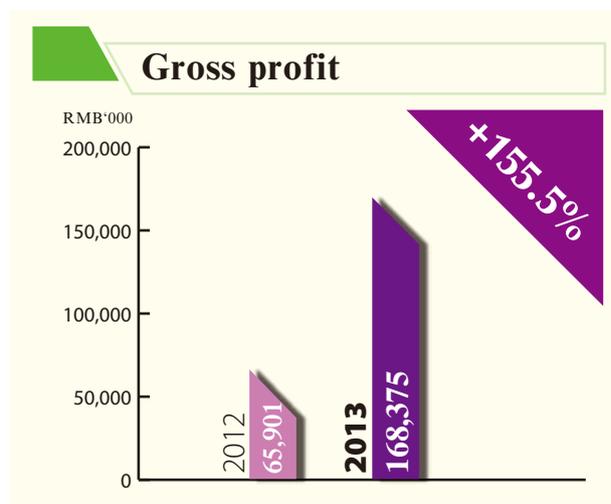
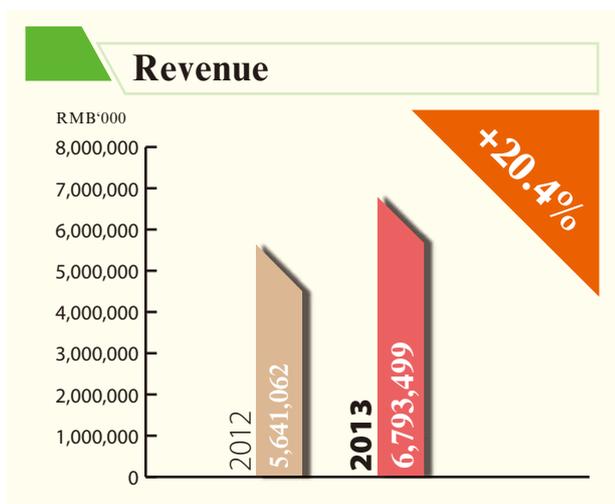
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FINANCIAL AND OPERATING HIGHLIGHTS

Financial Highlights

	Six months ended 30 June		% change
	2013 RMB'000	2012 RMB'000	
Revenue	6,793,499	5,641,062	+20.4%
Gross profit	168,375	65,901	+155.5%
Total comprehensive income	10,770	(53,789)	+120.0%

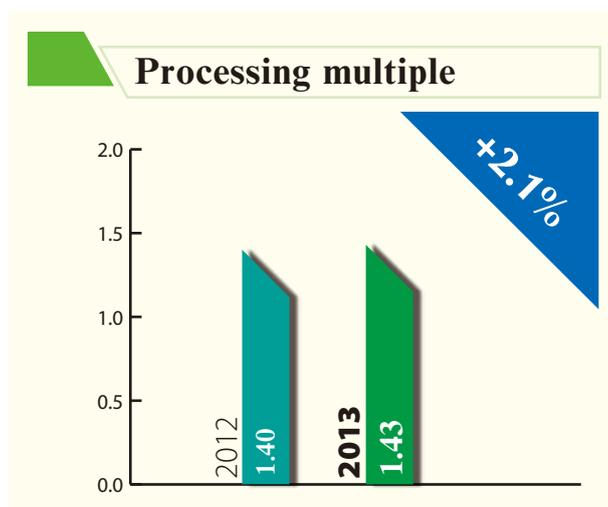
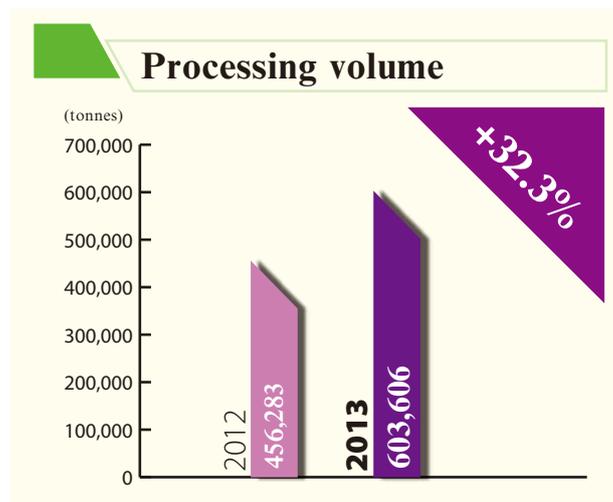
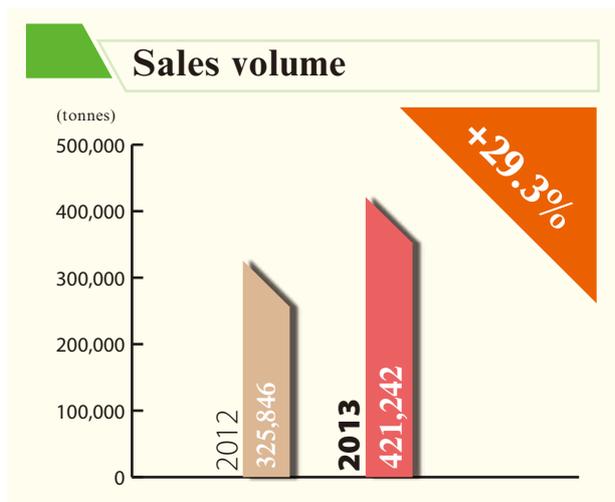


Financial and Operating Highlights

Operating Highlights

	Six months ended 30 June		
	2013	2012	% change
Stainless steel			
Sales volume (tonnes)	421,242	325,846	+29.3%
Processing volume (tonnes)	603,606	456,283	+32.3%
Processing multiple (note 1)	1.43	1.40	+2.1%
Carbon steel			
Sales volume (tonnes)	70,388	–	n/a
Processing volume (tonnes)	69,731	–	n/a
Processing multiple	0.99	–	n/a

- Note : 1. Processing multiple = Processing volume/Sales volume
 2. Carbon steel processing services was launched in early 2013, no comparative figures for 2012 can be provided.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Stainless steel processing services

We are a leading stainless steel processing service provider in China which provides processing services to customers across different industries. We have a network of five processing centres situated in Wuxi, Wuhan, Hangzhou, Tianjin and Taiyuan providing coil cutting, surface polishing, plate cutting, forming, machining, flat bar processing, precision sheet metal processing and welding services to over 8,000 active customers.

The market price of stainless steel materials continued to drop during the first half year of 2013. Despite this unfavourable market condition, the Group was able to achieve a sales volume of 421,242 tonnes and a processing volume of 603,606 tonnes in its stainless steel business for the six months ended 30 June 2013 representing an increase of approximately 29.3% and 32.3% respectively as compared with the same period in 2012.

There was a higher demand in the deep processing services provided by the Group as evidenced by a higher processing multiple of 1.43 for the six months ended 30 June 2013 as compared with 1.40 for the corresponding period in 2012. With the enhancement in management control, operating efficiency was improved and operating cost was reduced accordingly. The Group recorded a profit attributable to equity holders of the Company of approximately RMB12.8 million for the six months ended 30 June 2013 as contrasted to a loss of approximately RMB53.2 million for the corresponding period in 2012.

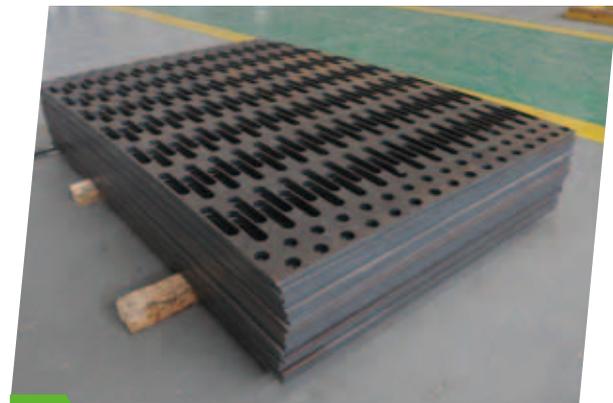
In July 2013, the sales volume of our stainless steel business achieved a record high of over 90,000 tonnes. Comparing with a monthly average of 70,207 tonnes for the six months ended 30 June 2013, it represented an increase of approximately 28%.

Carbon steel processing services

In order to widen our business scope, the Group had commenced its carbon steel processing services in March 2013. Carbon steel has high demands in a wide variety of industrial use including building infrastructures, containers and machineries and it has a lower unit price as compared with stainless steel. Developing into processing services of carbon steel will open more business opportunities to the Group. Carbon steel processing services are being provided by our Wuxi processing centre and Hangzhou processing centre currently. The current sales volume and processing volume of our carbon steel processing services reach over 20,000 tonnes per month.



Carbon steel (before processing)

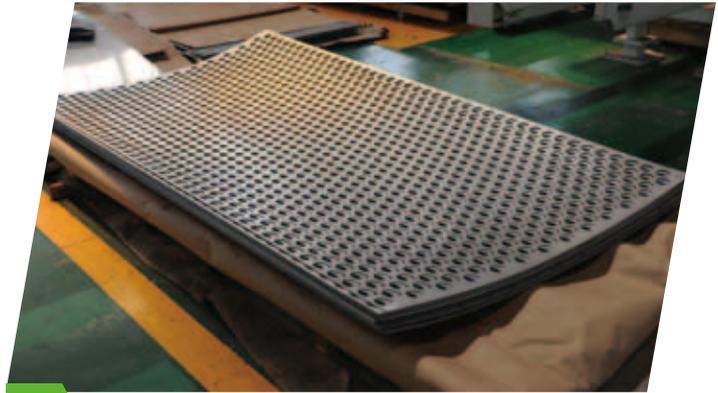


Carbon steel (after processing)

Management Discussion and Analysis

Processing centres

Recently, our Wuxi processing centre has provided processing services to a manufacturer of large scale underground heat radiators by using the newly introduced precision sheet metal processing platform. It also provided processed spare parts to be used as LNG containers supporting accessories to a renowned low temperature containers manufacturer with the use of the welding and machining platforms.



Parts for underground heat radiators from precision sheet metal platform



Support parts for LNG cylinder



Support parts for LNG cylinder

The second phase of our Hangzhou processing centre commenced its operations on 17 May 2013. Equipped with more advance processing equipments, the Hangzhou processing centre is capable to provide deep processing services as well as carbon steel processing services to satisfy the increasing demands from customers.

Our Wuhan processing centre recently received two project orders from a beverage enterprise to provide them with stainless steel materials for making beer containers. These projects amounted to over RMB25million with a consumption of stainless steel materials of over 1,500 tonnes. With an aim to consolidate the businesses of Hunan and Hubei provinces, a new processing centre which will be equipped with more processing machineries will be built in Wuhan to replace the existing processing centre.

On 28 June 2013, 瀋陽大明通順不鏽鋼有限公司 (Shenyang Daming Fortune Express Stainless Steel Company Limited) commenced its business to serve the customers in the northeastern region of China with the support of our Tianjin processing centre.

Management Discussion and Analysis



Hangzhou processing centre
Phase II



Shenyang Daming

The Taiyuan processing centre has completed its building infrastructure and processing machineries are being installed currently. To be equipped with coil and plate cutting, precision shearing and slitting, surface polishing and forming platforms, Taiyuan processing centre will provide deep processing services for both our stainless steel and carbon steel customers.



Taiyuan processing centre



Taiyuan processing centre

Outlook

The Group will continue to benefit from the development of high-end manufacturing industries in the PRC since we are able to provide advance stainless steel processing services to these high-end manufacturing customers as a consequence of our continual investment in modern processing equipments and improvement in processing techniques in recent years. Riding on the experience of our stainless steel processing business, we will expand our carbon steel processing business in the second half of 2013.

We will continue the installation of processing machineries in our Taiyuan processing centre as well as the establishment of our Wuhan processing centre in the second half of 2013. These will further strengthen our processing capability as well as widening our marketing network to serve the demands of our customers.

Management Discussion and Analysis

FINANCIAL REVIEW AND ANALYSIS

During the six months ended 30 June 2013, we recorded a revenue of approximately RMB6,793 million, gross profit of approximately RMB168 million and profit attributable to equity holders of the Company of approximately RMB13 million. Total assets of the Group as at 30 June 2013 amounted to approximately RMB4,880 million while equity attributable to equity holders of the Company amounted to approximately RMB1,523 million.

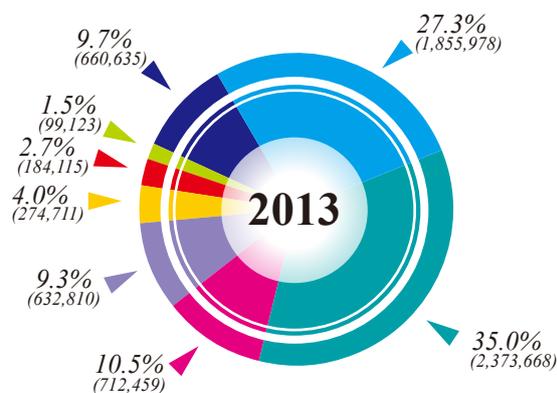
Analysis of revenue by key industry segments

During the six months ended 30 June 2013 and the corresponding period in 2012, our revenue by key industry segments are shown below:

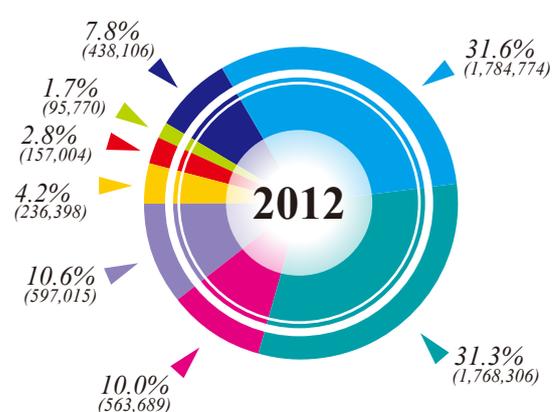
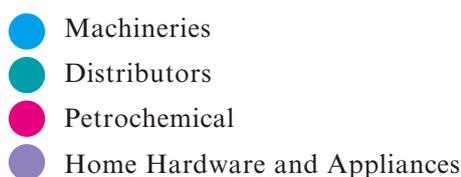
Revenue

Industry	Six months ended 30 June			
	2013		2012	
	RMB'000	%	RMB'000	%
Machineries	1,855,978	27.3	1,784,774	31.6
Distributors	2,373,668	35.0	1,768,306	31.3
Petrochemical	712,459	10.5	563,689	10.0
Home Hardware and Appliances	632,810	9.3	597,015	10.6
Automobile and Transport	274,711	4.0	236,398	4.2
Construction	184,115	2.7	157,004	2.8
Renewable Energy	99,123	1.5	95,770	1.7
Others	660,635	9.7	438,106	7.8
Total	6,793,499	100.0	5,641,062	100.0

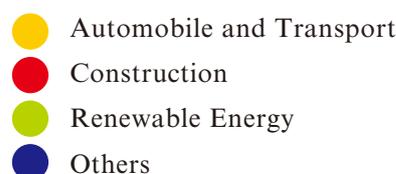
RMB'000



Total = RMB6,793,499,000



Total = RMB5,641,062,000



Management Discussion and Analysis

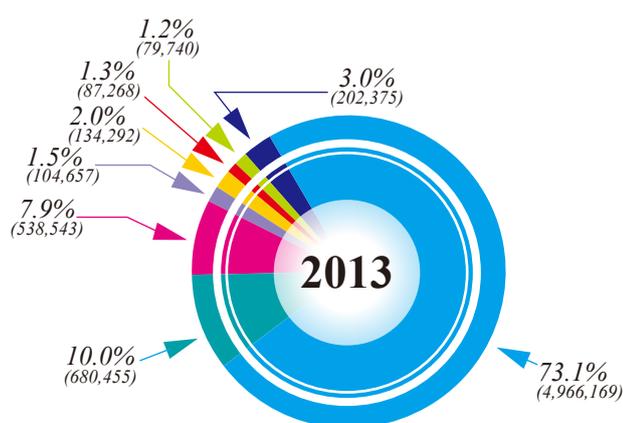
Machineries, distributors, petrochemical and home hardware and appliances remained the four largest customer segments during the six months ended 30 June 2013 and 2012. In aggregate, these accounted for over 80% of our total revenue.

Analysis of revenue by geographical regions

During the six months ended 30 June 2013 and the corresponding period in 2012, our revenue by geographical regions are shown below:

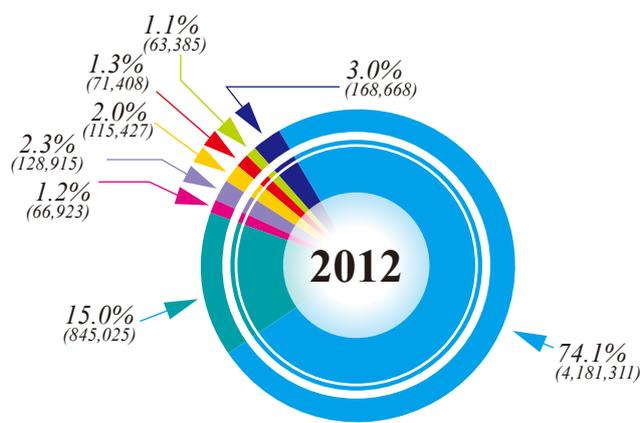
Region	Six months ended 30 June			
	2013		2012	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Eastern region, China	4,966,169	73.1	4,181,311	74.1
Northern region, China	680,455	10.0	845,025	15.0
Central region, China	538,543	7.9	66,923	1.2
Southwestern region, China	104,657	1.5	128,915	2.3
Northeastern region, China	134,292	2.0	115,427	2.0
Northwestern region, China	87,268	1.3	71,408	1.3
Southern region, China	79,740	1.2	63,385	1.1
Overseas	202,375	3.0	168,668	3.0
Total	6,793,499	100.0	5,641,062	100.0

RMB'000



Total = RMB6,793,499,000

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



Total = RMB5,641,062,000

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

Management Discussion and Analysis

The sales volume and processing volume of our processing centres for the six months ended 30 June 2013 and the corresponding period in 2012 are as follows:

Stainless steel

	Six months ended 30 June		% change
	2013 tonnes	2012 tonnes	
Sales volume			
Wuxi	272,769	211,798	28.8%
Wuhan	20,337	14,955	36.0%
Hangzhou	65,120	49,501	31.6%
Tianjin	61,374	49,592	23.8%
Taiyuan (in trial run)	1,642	–	n/a
Total	421,242	325,846	29.3%
Processing volume			
Wuxi	461,240	366,208	26.0%
Wuhan	7,783	6,306	23.4%
Hangzhou	76,498	46,719	63.7%
Tianjin	56,374	37,050	52.2%
Taiyuan (in trial run)	1,711	–	n/a
Total	603,606	456,283	32.3%

Carbon steel

	Six months ended 30 June		% change
	2013 tonnes	2012 tonnes	
Sales volume			
Wuxi	36,916	–	n/a
Hangzhou	33,472	–	n/a
Total	70,388	–	n/a
Processing volume			
Wuxi	36,423	–	n/a
Hangzhou	33,308	–	n/a
Total	69,731	–	n/a

Management Discussion and Analysis

Revenue

Our revenue for the six months ended 30 June 2013 amounted to approximately RMB6,793 million comprising approximately RMB6,565 million from our stainless steel business and approximately RMB228 million from our carbon steel business. As compared with the revenue for the six months ended 30 June 2012 of approximately RMB5,641 million, it represented an increase of approximately 20.4%. Such increase was mainly due to the increase in the sales volume of our stainless steel business from 325,846 tonnes for the six months ended 30 June 2012 to 421,242 tonnes for the six months ended 30 June 2013 representing an increase of approximately 29.3%. The increase was partially offset by a decrease in average selling price of approximately RMB17,312 per tonne for the six months ended 30 June 2012 to approximately RMB15,585 per tonne for the six months ended 30 June 2013.

Gross profit

Gross profit increased from approximately RMB65.9 million for the six months ended 30 June 2012 to approximately RMB168.4 million for the six months ended 30 June 2013 mainly due to the increase in sales volume and the increasing demands in our deep processing services. Gross profit per tonne for our stainless steel products increased from approximately RMB202 for the six months ended 30 June 2012 to approximately RMB427 for the six months ended 30 June 2013 representing an increase of approximately 111.4%.

Other income

Other income decreased from approximately RMB1.2 million for the six months ended 30 June 2012 to approximately RMB0.9 million for the six months ended 30 June 2013 due to the decrease in government grants.

Distribution costs

Distribution costs increased from approximately RMB39.5 million for the six months ended 30 June 2012 to approximately RMB46.7 million for the six months ended 30 June 2013. Such increase was mainly due to the increase in transportation costs as a result of an increase in sales volume.

Administration expenses

Administrative expenses increased from approximately RMB38.3 million for the six months ended 30 June 2012 to approximately RMB59.9 million for the six months ended 30 June 2013. Such increase was mainly due to the increase in staff costs and entertainment expenses.

Finance costs

Finance costs decreased from approximately RMB58.3 million for the six months ended 30 June 2012 to approximately RMB47.4 million for the six months ended 30 June 2013. The decrease in finance costs was mainly due to i) the decrease in interest expenses on bank borrowings which was partially offset by an increase in interest expenses on bank acceptance notes and ii) the recognition of an exchange gain in 2013 as contrasted to an exchange loss in 2012.

Income tax expense

We recorded an income tax expense of approximately RMB4.4 million for the six months ended 30 June 2013 as contrasted to an income tax credit of approximately RMB15.2 million for the six months ended 30 June 2012 due to the increase in operating profit.

Management Discussion and Analysis

Profit for the period

Our Group recorded a profit of approximately RMB10.8 million for the six months ended 30 June 2013 as contrasted to a loss of approximately RMB53.8 million for the six months ended 30 June 2012 representing an increase of approximately 120.0%. Such increase was mainly due to the increase in gross profit as a result of the enhancement in management control and improvement in operating efficiency.

Foreign exchange risk management

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

Our Group does 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, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

As at 30 June 2013, the bank borrowings of the Group amounted to approximately RMB1,550.8 million. Bank acceptance notes amounted to approximately RMB1,187.0 million while the bank balances were approximately RMB519.9 million of which approximately RMB349.8 million were pledged mainly for bank borrowings and the issuance of bank acceptance notes and letter of credit.

As at 30 June 2013, the net current assets of the Group amounted to approximately RMB22.4 million as compared with approximately RMB101.9 million as at 31 December 2012. Such decrease is mainly due to the purchase of plant and equipment with short term financing.

The gearing ratios as at 30 June 2013 and 31 December 2012 were 45.3% and 44.7% respectively. The ratios are calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents while total capital is calculated as total equity plus net debt.

CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

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 30 June 2013, approximately RMB164.8 million had been applied towards the purchase of processing equipment and the construction of the fifth phase in our Wuxi processing centre and approximately RMB40.0 million had been used for the development of the second phase in our Hangzhou processing centre. Approximately RMB139.1 million had been invested in the Jingjiang processing and logistics complex and approximately RMB65.0 million had been allocated for the development of a new processing centre in Wuhan to serve the demands from customers in the Wuhan and Changsha area. 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	<i>Note</i>	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
ASSETS			
Non-current assets			
Land use rights		212,336	175,927
Property, plant and equipment	6	1,613,641	1,455,833
Investment properties		7,987	8,213
Intangible assets		2,390	2,560
Deferred income tax assets		25,247	12,748
Other non-current assets		47,610	64,355
		<u>1,909,211</u>	<u>1,719,636</u>
Current assets			
Inventories	7	1,506,120	1,707,925
Trade receivables	8	415,093	158,547
Prepayments, deposits and other receivables	9	530,167	224,652
Restricted bank deposits		349,824	197,737
Cash and cash equivalents		170,050	182,565
		<u>2,971,254</u>	<u>2,471,426</u>
Total assets		<u>4,880,465</u>	<u>4,191,062</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	10	89,215	89,215
Reserves		1,433,964	1,428,836
		<u>1,523,179</u>	<u>1,518,051</u>
Non-controlling interests		<u>141,890</u>	<u>143,920</u>
Total equity		<u>1,665,069</u>	<u>1,661,971</u>

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	<i>Note</i>	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	11	205,000	140,000
Deferred government grants		25,040	16,732
Deferred income tax liabilities		1,980	2,811
Other non-current liabilities		34,500	–
		<u>266,520</u>	<u>159,543</u>
Current liabilities			
Trade payables	12	1,331,313	701,705
Accruals, advances from customers and other current liabilities		263,587	274,921
Current income tax liabilities		7,037	7,261
Borrowings	11	1,345,832	1,384,514
Current portion of deferred government grants		1,107	1,147
		<u>2,948,876</u>	<u>2,369,548</u>
Total liabilities		<u>3,215,396</u>	<u>2,529,091</u>
Total equity and liabilities		<u>4,880,465</u>	<u>4,191,062</u>
Net current assets		<u>22,378</u>	<u>101,878</u>
Total assets less current liabilities		<u>1,931,589</u>	<u>1,821,514</u>

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Revenue	13	6,793,499	5,641,062
Cost of sales	14	(6,625,124)	(5,575,161)
Gross profit		168,375	65,901
Other income – net		882	1,244
Other losses – net		(61)	(80)
Distribution costs	14	(46,671)	(39,492)
Administrative expenses	14	(59,947)	(38,259)
Operating profit/(losses)		62,578	(10,686)
Finance income	15	3,515	5,117
Finance costs	15	(50,931)	(63,440)
Finance costs – net	15	(47,416)	(58,323)
Profit/(Losses) before income tax		15,162	(69,009)
Income tax (expense)/credit	16	(4,392)	15,220
Profit/(Losses) for the period		10,770	(53,789)
Other comprehensive income for the period		–	–
Total comprehensive income for the period		10,770	(53,789)
Attributable to:			
Equity holders of the Company		12,800	(53,175)
Non-controlling interests		(2,030)	(614)
		10,770	(53,789)
Earnings/(Losses) per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
– basic earnings/(losses) per share	17	0.01	(0.05)
– diluted earnings/(losses) per share	17	0.01	(0.05)
Interim dividends		–	–

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to equity holders of the Company		Non- controlling interests	Total equity
	Share Capital	Reserves		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2013	89,215	1,428,836	143,920	1,661,971
Comprehensive income				
Profit/(Losses) for the period	–	12,800	(2,030)	10,770
Total comprehensive income for the period	–	12,800	(2,030)	10,770
Transaction with owners				
Employee share options scheme	–	740	–	740
Capital injection by a non-controlling shareholder	–	–	–	–
Dividend paid	–	(8,412)	–	(8,412)
Total transaction with owners	–	(7,672)	–	(7,672)
Balance at 30 June 2013	<u>89,215</u>	<u>1,433,964</u>	<u>141,890</u>	<u>1,665,069</u>

	Attributable to equity holders of the Company		Non- controlling interests	Total equity
	Share Capital	Reserves		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2012	89,215	1,426,210	64,449	1,579,874
Comprehensive income				
Losses for the period	–	(53,175)	(614)	(53,789)
Total comprehensive income for the period	–	(53,175)	(614)	(53,789)
Transaction with owners				
Employee share options scheme	–	744	–	744
Capital injection by a non-controlling shareholder	–	–	40,000	40,000
Dividend paid	–	(29,439)	–	(29,439)
Total transaction with owners	–	(28,695)	40,000	11,305
Balance at 30 June 2012	<u>89,215</u>	<u>1,344,340</u>	<u>103,835</u>	<u>1,537,390</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities	(108,978)	678,682
Cash flows from investing activities	(184,556)	(219,910)
Cash flows from financing activities	281,019	(543,611)
Net decrease in cash and cash equivalents	(12,515)	(84,839)
Cash and cash equivalents at beginning of the period	182,565	282,854
Cash and cash equivalents at end of the period	170,050	198,015

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013:

HKAS 1 (Amendment)	Presentation of financial statements: Regarding other comprehensive income
HKFRS 1 (Amendment)	'First time adoption', on government loans
HKFRSs 10, 11 and 12 (Amendment)	Transition guidance
HKAS 27 (Revised 2011)	Separate financial statements
HKFRS 11	Joint arrangements
HKAS 28 (Revised 2011)	Associates and joint ventures
HKFRS 12	Disclosure of interests in other entities
HKFRS 10	Consolidated financial statements
HKFRS 13	Fair value measurements
HKAS 19 (Amendment)	Employee benefits
HKFRS 7 (Amendment)	Financial instruments: Disclosures on asset and liability offsetting

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

- (b) 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 2013 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation on asset and liability offsetting	1 January 2014
HKFRS 9	Financial instruments: Addresses the classification, measurement and recognition of financial assets and financial liabilities	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
HKFRSs 10, 12 and 27 (Amendment)	Investment entities	1 January 2014
HKAS 36	Recoverable amount disclosures for non-financial assets	1 January 2014
HKFRIC Interpretation 21	Levies	1 January 2014

4. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

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

5.2 Fair value estimation

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

6. PROPERTY, PLANT AND EQUIPMENT

	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'00
At 1 January 2012							
Cost	256,044	658,490	11,747	16,999	832	455,161	1,399,273
Accumulated depreciation	(27,797)	(167,004)	(5,413)	(10,587)	(339)	–	(211,140)
Net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
Year ended 31 December 2012							
Opening net book amount	228,247	491,486	6,334	6,412	493	455,161	1,188,133
Additions	699	3,086	2,589	2,931	–	343,754	353,059
Transfer	42,120	189,821	389	2,600	–	(234,930)	–
Disposals	–	(12)	(27)	(111)	–	–	(150)
Depreciation	(12,677)	(67,930)	(1,970)	(2,531)	(101)	–	(85,209)
Closing net book amount	258,389	616,451	7,315	9,301	392	563,985	1,455,833
At 31 December 2012							
Cost	298,863	851,316	14,452	22,171	832	563,985	1,751,619
Accumulated depreciation	(40,474)	(234,865)	(7,137)	(12,870)	(440)	–	(295,786)
Net book amount	258,389	616,451	7,315	9,301	392	563,985	1,455,833
Six months ended 30 June 2013							
Opening net book amount	258,389	616,451	7,315	9,301	392	563,985	1,455,833
Additions	1,019	1,747	2,593	2,243	–	198,238	205,840
Transfer	–	116,073	–	91	–	(116,164)	–
Disposals	–	–	–	(65)	–	–	(65)
Depreciation	(7,244)	(38,280)	(1,170)	(1,222)	(51)	–	(47,967)
Closing net book amount	252,164	695,991	8,738	10,348	341	646,059	1,613,641
At 30 June 2013							
Cost	299,882	969,136	17,045	24,440	832	646,059	1,957,394
Accumulated depreciation	(47,718)	(273,145)	(8,307)	(14,092)	(491)	–	(343,753)
Net book amount	252,164	695,991	8,738	10,348	341	646,059	1,613,641

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

7. INVENTORIES

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Raw materials	784,897	996,109
Finished goods	721,223	711,816
	1,506,120	1,707,925

For the six months ended 30 June 2013, the Group has recognised a loss of approximately RMB22,705,000 (2012: RMB3,544,000) for the write-down of inventories to their net realisable value. These amounts have been included in the cost of sales in the consolidated comprehensive income statements.

8. TRADE RECEIVABLES

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Accounts receivable	119,924	115,871
Notes receivable		
– bank acceptance notes	293,877	38,972
– commercial acceptance notes	2,174	4,635
	415,975	159,478
Less: provision for impairment	(882)	(931)
Trade receivables – net	415,093	158,547

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

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

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Accounts receivable		
– Within 30 days	115,762	92,853
– 30 days to 3 months	760	21,112
– 3 months to 6 months	1,411	230
– 6 months to 1 year	157	21
– 1 year to 2 years	1,318	1,139
– 2 years to 3 years	–	–
– More than 3 years	516	516
	<u>119,924</u>	<u>115,871</u>
Notes receivable		
– Within 6 months	296,051	43,607
	<u>415,975</u>	<u>159,478</u>

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Prepayment for purchase of raw materials	359,867	128,489
Value added tax recoverable	102,770	89,262
Export tax refund	1,436	1,336
Deposits and other receivables	66,094	5,565
	<u>530,167</u>	<u>224,652</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

10. SHARE CAPITAL

	Number of shares '000	HKD'000	RMB'000
Authorised share capital As at 31 December 2012 and 30 June 2013	1,500,000	150,000	128,886
Issued and fully paid up As at 31 December 2012 and 30 June 2013	1,037,500	103,750	89,215

11. BORROWINGS

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current Bank borrowings	205,000	140,000
Current Bank borrowings	1,345,832	1,384,514
Representing :		
Unsecured	1,550,832	1,524,514
Pledged	–	–
	1,550,832	1,524,514

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

12. TRADE PAYABLES

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Accounts payable	144,313	12,351
Notes payable	1,187,000	689,354
	<u>1,331,313</u>	<u>701,705</u>

The ageing analysis of the trade payable is as follows:

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Within 6 months	1,331,307	701,698
6 months to 1 year	6	7
	<u>1,331,313</u>	<u>701,705</u>

13. SALES AND SEGMENT INFORMATION

	Six months ended 30 June 2013 <i>RMB'000</i>	30 June 2012 <i>RMB'000</i>
Sales of goods	<u>6,793,499</u>	<u>5,641,062</u>

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

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

	Six months ended	
	30 June 2013 <i>RMB'000</i>	30 June 2012 <i>RMB'000</i>
– Mainland China	6,591,126	5,472,394
– Hong Kong and other overseas countries and regions*	202,373	168,668
Total sales	6,793,499	5,641,062

* Other overseas countries and regions for the six months ended 30 June 2013 mainly represented Australia, New Zealand, Korea, Malaysia, USA and Canada.

Other overseas countries and regions for the six months ended 30 June 2012 mainly represented Australia, Korea, India, Malaysia, USA and Russia.

14. EXPENSES BY NATURE

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

	Six months ended	
	30 June 2013 <i>RMB'000</i>	30 June 2012 <i>RMB'000</i>
Changes in inventories of finished goods	(13,598)	33,813
Raw materials consumed	6,497,107	5,453,719
Stamp duty, property tax and other surcharges	5,076	6,919
Transportation costs	36,569	29,556
Employee benefit expenses, including directors' emoluments	80,416	54,301
Depreciation and amortisation	51,160	37,460
Operating lease rental for buildings	1,191	774
Utilities charges	8,952	6,477
Provision for write-down of inventories	22,705	3,544
Entertainment and travelling expenses	15,431	11,231
Professional service expenses	371	838
Others	26,362	14,280
Total cost of sales, distribution costs and administrative expenses	6,731,742	5,652,912

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

15. FINANCE COSTS - NET

	Six months ended	
	30 June 2013	30 June 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings	40,894	55,144
Interest expenses on bank acceptance notes	14,271	5,026
Exchange (gains)/losses, net	(4,234)	3,270
Total finance costs	50,931	63,440
Interest income	(3,515)	(5,117)
	<u>47,416</u>	<u>58,323</u>

16. INCOME TAX EXPENSE/(CREDIT)

	Six months ended	
	30 June 2013	30 June 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
– Mainland China corporate income tax	17,722	635
Deferred income tax credit	(13,330)	(15,855)
	<u>4,392</u>	<u>(15,220)</u>

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

17. EARNINGS/(LOSSES) PER SHARE

(a) **Basic**

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

	Six months ended	
	30 June 2013 RMB'000	30 June 2012 RMB'000
Profit/(Losses) attributable to equity holders of the company	12,800	(53,175)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	1,037,500	1,037,500

(b) **Diluted**

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

	Six months ended	
	30 June 2013 RMB'000	30 June 2012 RMB'000
Profit/(Losses) used to determine diluted earnings/(losses) per share	12,800	(53,175)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	1,037,500	1,037,500
Adjustments for:		
– Share options (<i>thousands</i>)	–	–
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	1,037,500	1,037,500

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

18. COMMITMENTS

(a) Capital commitments

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Contracted but not provided for:		
Acquisition of property, plant and equipment	<u>268,186</u>	<u>305,271</u>

(b) Operating lease commitments

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

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

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
Not later than 1 year	2,021	1,624
Later than 1 year and not later than 5 years	<u>1,824</u>	<u>2,881</u>
	<u>3,845</u>	<u>4,505</u>

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company is committed to ensuring high standard 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") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2013 except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. During the reporting period, the positions of the chairman and the chief executive officer were held by Mr. Zhou Keming. The Company adopted the CG Code as its own code of corporate governance.

The Company is of the view that Mr. Zhou Keming, with his profound expertise in the stainless steel industry, shall continue his dual capacity as the chairman and the chief executive officer of the Company. The Board would nevertheless review this arrangement from time to time in light of prevailing circumstances. For detailed information, please refer to the Corporate Governance Report in the Company's 2012 Annual Report.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry with all directors of the Company (the "Directors"), all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2013.

SHARE CAPITAL

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

INTERIM DIVIDENDS

The Directors do not recommend payment of an interim dividend in respect of the six months ended 30 June 2013 (2012: nil).

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2013.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed with the management and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 and considered that the Company has complied with all applicable accounting standards and requirements.

Other Information

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2012 Annual Report of the Company are set out below:

Name of Directors	Details of Changes
Zhou Keming	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Xu Xia	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Zou Xiaoping	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Tang Zhonghai	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Kang In Soo	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Jiang Changhong	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Hua Min	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Chen Xuedong	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.
Cheuk Wa Pang	Director's remuneration increased by HK\$5,000 per month to HK\$25,000 per month with effect from 1 January 2013.

Other Information

SHARE OPTIONS SCHEME

The Company adopted a share option scheme on 9 November 2010. Principal terms of the share option scheme were set out in our 2012 Annual Report.

Particulars of share options outstanding under the share option scheme at the beginning and at the end of the financial period for the six months ended 30 June 2013 and share options granted, exercised, cancelled or lapsed under the share option scheme during such period are as follows:

Name or category of participant	Date of grant	Exercise price (HK\$)	Number of share options			As at 30 June 2013	Exercise period	
			As at 1 January 2013	Granted during the period	Exercised during the period			Cancelled/ lapsed during the period
Director								
Mr. Tang Zhonghai	21 December 2010	2.452	600,000 ⁽¹⁾	-	-	-	600,000 ⁽¹⁾	21 December 2013 to 20 December 2020
Other employees in aggregate	21 December 2010	2.452	4,900,000 ⁽¹⁾	-	-	-	4,900,000 ⁽¹⁾	21 December 2013 to 20 December 2020
Total			5,500,000	-	-	-	5,500,000	

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

SHARE AWARD SCHEME

The Company adopted a share award scheme on 25 August 2011. Principal terms of the share award scheme were set out in our 2012 Annual Report.

For the period ended 30 June 2013, no shares were granted to the selected employees.

EMPLOYMENT POLICY

The Group employed a total of 1,687 staffs as at 30 June 2013 (2012: 1,492).

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

Other Information

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

As at 30 June 2013, 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 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 ⁽²⁾	735,219,000	70.86%
Ms. Xu Xia	Corporate ⁽²⁾	735,219,000	70.86%
Mr. Zou Xiaoping	Family ⁽³⁾	5,000,000	0.48%
Mr. Tang Zhonghai	Personal ⁽⁴⁾	600,000	0.06%

⁽²⁾ 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.

⁽³⁾ The shares are held by Mr. Zou Xiaoping’s spouse, Ms. Li Jun.

⁽⁴⁾ The interest represents the underlying shares in respect of the share options granted pursuant to the share option scheme as disclosed under section headed Share Option Scheme.

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

Name of Director	Name of associated corporation ⁽⁵⁾	Nature of interests	Number of shares held	% of issued share capital of associated corporation
Mr. Zhou Keming	Ally Good Group Limited	Personal ⁽⁶⁾	1,000	100%
Ms. Xu Xia	Ally Good Group Limited	Personal ⁽⁶⁾	1,000	100%

⁽⁵⁾ As at 30 June 2013, Ally Good Group Limited is the holder of 70.86% of the issued share capital of the Company and is an associated corporation under SFO.

⁽⁶⁾ 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.

Other Information

Save as disclosed above, as at 30 June 2013, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

As at 30 June 2013, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

Name of Shareholder	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
<i>Long position</i>		
Ally Good Group Limited	735,219,000 ⁽⁷⁾	70.86%

⁽⁷⁾ As Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, they have interest in these shares as disclosed under the previous section.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2013.