SINOREF

華耐控股有限公司

SINOREF HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1020)

ANNUAL RESULTS

The board (the "Board") or directors (the "Directors") of Sinoref 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 2012, together with the comparative figures for the previous corresponding period, which have been reviewed by the audit committee of the Company prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		For the year ended 31 December	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**322,671**	323,421
Cost of sales		**(169,687)**	(142,722)
Gross profit		**152,984**	180,699
Interest income on bank deposits		**1,399**	1,700
Selling and distribution costs		**(29,474)**	(28,334)
Administrative expenses		**(31,244)**	(39,297)
Profit before taxation		**93,665**	114,768
Taxation	*5*	**(21,186)**	(22,757)
Profit and total comprehensive income for the year attributable to owners of the Company	*6*	**72,479**	92,011
Earnings per share	*8*		
Basic		**RMB6.04 cents**	RMB7.67 cents
Diluted		**RMB6.04 cents**	RMB7.67 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment		**111,604**	123,320
Prepaid land lease payments		**9,862**	10,097
Deposit paid for acquisition of plant and equipment		**–**	31
		121,466	133,448
Current assets			
Inventories	*9*	**19,979**	24,913
Trade receivables	*10*	**131,151**	117,905
Bills receivables	*11*	**46,937**	39,715
Other receivables, deposits and prepayments		**685**	688
Prepaid land lease payments		**235**	235
Tax recoverable		**4,294**	–
Bank balances and cash		**369,805**	305,572
		573,086	489,028
Current liabilities			
Trade payables	*12*	**22,537**	21,007
Other payables and accruals		**32,066**	36,185
Tax liabilities		**6,500**	11,014
		61,103	68,206
Net current assets		**511,983**	420,822
Total assets less current liabilities		**633,449**	554,270
Non-current liability			
Deferred tax liabilities		**13,720**	9,425
		619,729	544,845
Capital and reserves			
Share capital		**104,201**	104,201
Reserves		**515,528**	440,644
Total equity		**619,729**	544,845

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its subsidiaries are investment holding and manufacture and sale of advanced steel flow products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). In addition, the consolidated financial statements include applicable disclosure required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009 – 2011 Cycles Issued in 2012
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these amendments to HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycles, except for the amendments to HKAS 1[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendment to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendment to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Directors anticipate that the application of these new and revised HKFRSs, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

4. OPERATING SEGMENTS

HKFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the executive directors) ("CODM") in order to allocate resources to segments and to assess their performance.

The Group's operating activities are attributable to a single operating segment focusing on the manufacture and sale of advanced steel flow control products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that are regularly reviewed by the CODM. The CODM monitors the revenue from manufacture and sale of advanced steel flow control products for the purpose of making decisions about resource allocation and performance assessment. However, other than revenue analysis, no operating results and other discrete financial information is available for the resource allocation and performance assessment. The CODM reviews the profit for the year of the Group as a whole for performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Information about products

The revenue of the major products is analysed as follows:

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Manufacture and sale of advanced steel flow control products:		
Subentry Nozzle	**158,598**	163,129
Stopper	**82,476**	84,658
Tundish Nozzle	**62,181**	61,104
Ladle Shroud	**19,416**	14,530
	322,671	323,421

Information about geographical areas

The following table provides an analysis of the Group's revenue by geographical market:

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
The PRC (country of domicile)	**309,352**	320,903
Europe	**13,232**	2,516
Taiwan	**87**	2
	322,671	323,421

Over 99% of the Group's non-current assets are located in the PRC.

Information about major customers

Revenue from a customer amounting to RMB36,260,000 (2011: RMB40,865,000) individually represents more than 10% of the Group's revenue. Four types of products were sold to that customer.

5. TAXATION

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**16,906**	17,769
Overprovision in prior year	**(15)**	–
PRC withholding tax	**–**	6,500
Deferred tax		
Current year	**4,295**	(1,512)
	21,186	22,757

Provision for the PRC Enterprise Income Tax was made based on the estimated taxable profits calculated in accordance with the relevant income tax laws and regulations applicable to the Company's PRC subsidiary.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New EIT Law (the "Implementation Regulations"). The New EIT Law and the Implementation Regulations unify the Enterprise Income Tax rate for domestic and foreign enterprises at 25% from 1 January 2008.

In accordance with the relevant income tax law as applicable to the PRC subsidiary of the Company, it was entitled to the exemption from the PRC Enterprise Income Tax for the first two years commencing from the first profit-making year after offsetting all unexpired tax losses from previous years, and thereafter to a 50% reduction for the next three years. 2007 was the first profit-making year for the Company's PRC subsidiary. As a result, the Company's PRC subsidiary was subject to a PRC Enterprise Income Tax rate of 12.5% for the prior year presented. This exemption from the PRC Enterprise Income Tax expired at the end of 2011.

On 6 August 2012, the PRC subsidiary obtained a Hi-tech certificate which is valid for three years. According to GuoShuiHan [2009] No.203, entities qualifying for the Hi-tech status could enjoy a PRC Enterprise Income Tax preferential treatment starting from the year of obtaining the Hi-tech certificate. As a result, the PRC subsidiary was subject to a PRC Enterprise Income Tax of 15% for three years commencing from 2012.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits of PRC entities generated after 1 January 2008 are subject to PRC Enterprise Income Tax which is withheld by the PRC entity. During the year ended 31 December 2012, deferred tax expense of RMB4,295,000 (2011: RMB4,988,000) in respect of the undistributed earnings of the Company's PRC subsidiary has been recognised in the consolidated statement of comprehensive income.

6. PROFIT FOR THE YEAR

	For the year ended 31 December 2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,074**	978
Cost of inventories recognised as an expense	**165,108**	140,101
Depreciation of property, plant and equipment	**12,635**	7,532
Amortisation of prepaid land lease payments	**235**	234
Minimum lease payments in respect of office premises	**684**	685
Write-off of property, plant and equipment	**7**	–
Exchange loss, net	**194**	1,612
Staff costs (including directors' emoluments)		
– Salaries and other benefits	**35,740**	34,008
– Contributions to retirement benefits scheme	**1,037**	903
– Share-based payments (included in administrative expenses)	**12,245**	18,044
	49,022	52,955

7. DIVIDENDS

No final dividend in respect of the year ended 31 December 2012 (2011: final dividend of HK1 cents per share in respect of the year ended 31 December 2011) has been proposed by the Directors.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the year ended 31 December 2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the year attributable to the owners of the Company for the purpose of calculation of basic and diluted earnings per share	**72,479**	92,011

	Number of shares 2012 *'000*	Number of shares 2011 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,200,000**	1,200,000
Effect of dilutive potential ordinary shares:		
Share options	**–**	100
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,200,000**	1,200,100

During the year ended 31 December 2012, the computation of diluted earnings per share did not assume the exercise of the Company's options because the exercise price of the share options was higher than the average market price of the shares of the Company.

9. INVENTORIES

	2012 *RMB'000*	2011 *RMB'000*
Raw materials	**8,845**	13,827
Work-in-progress	**6,774**	6,325
Finished goods	**4,360**	4,761
	19,979	24,913

10. TRADE RECEIVABLES

The credit period granted by the Group to certain customers is within 180 days (2011: 90 days), while other customers are due immediately when goods are delivered. The following is an aged analysis of trade receivables presented based on the goods delivery date at the end of the reporting period, which approximated the respective dates on which revenue was recognised:

	2012 *RMB'000*	2011 *RMB'000*
0 – 30 days	**24,152**	18,221
31 – 60 days	**28,579**	29,761
61 – 90 days	**30,715**	31,251
91 – 120 days	**29,903**	23,123
121 – 180 days	**17,802**	15,549
	131,151	117,905

11. BILLS RECEIVABLES

The aged analysis of bills receivable at the end of the reporting period are analysed as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 90 days	**27,632**	22,902
91 – 120 days	**14,916**	11,746
121 – 180 days	**4,389**	5,067
	46,937	39,715

At 31 December 2012, the carrying value of bills receivables include bills endorsed to suppliers on a full recourse basis that are not yet due amounting to RMB16,844,000 (2011: RMB17,046,000). As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables as assets in the consolidated financial statements. The associated trade payables secured over the bills endorsed to the suppliers which were not yet due at the end of reporting period are recognised as current liabilities in the consolidated statement of financial position.

All the bills receivables are denominated in RMB.

The maturity dates of endorsed bills were less than six months from the end of the reporting period.

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the goods receipt date at the end of the reporting period.

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**10,617**	7,463
31 – 60 days	**5,686**	3,151
61 – 90 days	**2,776**	3,119
Over 90 days	**3,458**	7,274
	22,537	21,007

MARKET REVIEW

The European debt crisis has been lingering since the beginning of 2012 and, coupled with the rising concern of the US fiscal cliff in the second half of 2012, contributed to a bumpy global economic recovery. Worries about the ability of European policymakers to manage the Eurozone crisis and US policymakers to agree on a fiscal plan surely played important roles. All of these factors, coupled with the pronounced slowdown of China's domestic economic growth, the sluggish iron and steel industry has exerted significant impact on the trend of the iron and steel market. At the same time, the sustained deterioration of the market condition, overcapacity, excess inventory and the inflation of iron ore prices have brought enormous pressure and challenges for the production and operations of steel manufacturers.

Notwithstanding the considerable uncertainties about the global economy and the prospects of the domestic iron and steel industry, China's crude steel output volume in 2012 slightly increased by approximately 3.1% year-on-year to approximately 716.5 million tonnes according to the World Steel Association. Favourable government policies appear to have fuelled this growth momentum. China's 12th Five-Year Plan (5YP) is the main contributor to this increase. Green low-carbon smelting, comprehensive utilisation of resources and independent innovation are key themes of the current 5YP. Manufacturing plants not attaining required improvements are eliminated or forced to upgrade their existing facilities in order to comply with the more stringent emission reduction policy. In addition, newly built manufacturing plants are targeting at the high-end market with greater emission reduction capabilities. The result is a growing demand for advanced steel flow control products. The core competencies of the Group allow it to accommodate the specific needs of its market. The outstanding research and development achievements of the Group have attained numerous patents and entitled the Group to the Chinese High-tech Enterprise tax relief. The management remains steadfast in its development strategy for its advanced steel flow control products to better capture the blooming business opportunities driven by government policy while helping to promote a greener China in the future.

BUSINESS REVIEW

Expanded Production Capacity

As the second production line commenced its commercial production in the fourth quarter of 2011, together with the production capacity of the first production line, the annual production capacity of the Group's has been more than doubled to approximately 16,800 tonnes. During the year ended 31 December 2012, the Group's sales volume continued to grow and the utilisation rates of the first and second production lines were 100% and approximately 20% respectively. The increase in the utilisation rate was driven by the rapid expansion of our customer base in both domestic and overseas markets, which led to the gradual increase in the Group's output volume in 2012.

Broadened Customer Base in Domestic Market

As a result of the Group's top-notch advanced steel flow control products and prominent reputation in the industry, the Group received an encouraging result in expanding and further cementing our customer base. During the year ended 31 December 2012, the Group had secured new customers including top 2012 500 Chinese enterprises – namely Pangang Group Company Limited (攀鋼集團有限公司), Liuzhou Iron & Steel Company Limited (柳州鋼鐵股份有限公司) and Benxi Beiying Iron & Steel (Group) Company Limited (本溪北營鋼鐵(集團)股份有限公司). Including the new additions, the Group's total number of customers has reached 27. This comprise nine of the top 10 steel manufacturers in the PRC, including Baosteel Group, Shougang Group, Hebei Steel Group and Wuhan Steel Group. For the year ended 31 December 2012, the Group generated approximately RMB23.9 million in revenue from the new customers, representing approximately 7.4% of the total revenue.

Expanded Overseas Market

The management of the Group understands the importance of diversifying its customer base especially under nowadays volatile market condition. As such, it has devoted considerable effort to expand the overseas market and has achieved remarkable results. The Group's overseas customers include the world's largest steel and mining company, ArcelorMittal, the world's largest manufacturer, processor and distributor of special long steel products, Deutsche Edelstahlwerke GmbH and the largest steel producer in Russia, Magnitogorsk Iron & Steel Works. As a result, including both its domestic and overseas customers, the Group has established business partnerships with five of the top 10 steel manufacturers in the world. During the year, the Group generated approximately RMB13.3 million in revenue from overseas customers, an increase of approximately 432% as compared with approximately RMB2.5 million for the previous year. The Group intends to adhere to its business strategies to continuously expand its overseas network in order to increase its brand awareness globally and strengthen its leading position in the industry.

Enhanced Research and Development

The management of the Group strive to uphold and enhance its core competency technology. To further cement the Group's market leading position, its research and development team has continuously devoted time and effort to collaborate with the leading research institutions and universities to develop its own proprietary advanced steel flow products with unique technologies. During the period under review, the Group attained five new utility patents namely A ladle shroud with in-situ carbon free liner (一種in-situ無碳內襯長水口), Steel can for ladle shroud (一種鋼包長水口用鋼殼), Embedded ceramic nuts for stoppers for continuous casting of steel (鋼鐵連鑄用塞棒的陶瓷質埋入螺母), A steel can for preventing liquid steel leakage for tundish nozzle (防鋼水滲流上水口鋼殼) and A tundish nozzle design to prevent liquid steel leakage (防鋼水滲漏中間包上水口) and one new registered invention patent namely Subentry Nozzle for Thin Slab Casting Process (薄板坯浸入式水口). As at 31 December 2012, the Group had a total of 13 registered patents. Not only have the proprietary advanced steel flow products allowed the Group to enjoy the preferential tax rate, but its state-of-the-art products have also pushed the Group's sales volume to new heights.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group's revenue decreased slightly to approximately RMB322.7 million, representing an decrease of approximately 0.2% as compared with approximately RMB323.4 million for the previous year. The decrease in revenue was mainly due to the decrease in average selling price, notwithstanding the rising sales volume. Total sales volume increased by approximately 17.4% to approximately 10,100 tonnes for the year ended 31 December 2012. Such growth was a combined effect of (i) securing 3 new customers in the PRC who have collectively purchased approximately 730 tonnes from the Group during the reviewing period and contributed approximately RMB23.9 million or 7.4% to the Group's total revenue in 2012; and (ii) securing new overseas end-use customers who have made combined purchases with existing overseas end-use customers totaling approximately RMB13.2 million or 4.1% of the Group's total revenue in 2012.

Cost of Sales

The Group's cost of sales mainly comprised costs of raw materials, labour, depreciation and other direct costs of sales. During the year, the Group's cost of sales increased by approximately 18.9% from approximately RMB142.7 million in 2011 to approximately RMB169.7 million in 2012. The increase was mainly attributable to the increase in sales volume, costs of raw materials and depreciation.

Gross Profit & Gross Profit Margin

The Group's gross profit decreased by approximately 15.3% from approximately RMB180.7 million for the year ended 31 December 2011 to approximately RMB153.0 million for the year ended 31 December 2012. The Group's gross profit margin also decreased from approximately 55.9% for the year ended 31 December 2011 to approximately 47.4% for the year ended 31 December 2012. The decrease in the Group's gross profit and gross profit margin were mainly attributable to (i) the increase in costs of raw materials by approximately 13.8%; (ii) the decrease in average selling price; and (iii) the depreciation of the second production line which commenced operation in the fourth quarter of 2011.

Selling and Distribution Costs

The Group's selling and distribution costs comprised sales commission, sales staff costs and transportation costs. During the year under review, our selling and distribution costs increased slightly to approximately RMB29.5 million, representing an increase of approximately 4.2% from approximately RMB28.3 million for the previous year. The increase was mainly attributable to the increase in transportation costs due to the increased sales volume.

Administrative Expenses

The Group's administrative expenses decreased by approximately 20.6% from approximately RMB39.3 million for year ended 31 December 2011 to approximately RMB31.2 million for the year ended 31 December 2012. The decrease was primarily due to the decrease of the amortisation of non-cash expenses associated with the share options from approximately RMB18.0 million for the year ended 31 December 2011 to approximately RMB12.2 million in 2012, notwithstanding the increase in staff costs of approximately 14.8% from approximately RMB6.1 million for the year ended 31 December 2011 to approximately RMB7.0 million for the year ended 31 December 2012.

Taxation

During the period under review, the Group's PRC subsidiary has successfully applied for the Chinese High-tech Enterprise Certification (中國高新技術企業認證). As a result, the Group's PRC subsidiary was subject to the PRC Enterprise Income Tax ("EIT") rate of 15% for the period under review and the same rate will apply in the next 2 years.

Profit for the Year

As a result of the foregoing, the Group's profit for the year decreased by approximately 21.2% to approximately RMB72.5 million from approximately RMB92.0 million for the previous year. The Group's net profit margin also decreased accordingly from approximately 28.4% for the previous year to approximately 22.5% in the current year. The decrease was mainly due to a combination of factors, which include (i) the decrease in average selling price; (ii) the increase in costs of sales by approximately 18.9% from approximately RMB142.7 million for the year ended 31 December 2011 to approximately RMB169.7 million in 2012, driven by the increase in raw material costs; (iii) the decrease in administration expenses mainly attributable to the amortisation of non-cash expenses associated with share options granted to management and staff from approximately RMB18.0 million for the year ended 31 December 2011 to approximately RMB12.2 million for the year ended 31 December 2012; and (iv) the adjustment of the PRC EIT rate subject to the group to 15% as a result of the approval of the preferential tax rate for the year ended 31 December 2012. The Group's earnings per share decreased by approximately 21.3% from RMB7.67 cents for the year ended 31 December 2011 to RMB6.04 cents in 2012.

Final Dividends

The Board does not recommend the payment of a final dividend for year ended 31 December 2012 (2011: HK1 cent (equivalent to approximately RMB0.81 cent) per share).

Capital Structure, Liquidity and Financial Resources

During the year ended 31 December 2012, the Group's net cash from operating activities was approximately RMB77.7 million (2011: RMB88.0 million) and the Group's bank balances and cash was approximately RMB369.8 million (2011: RMB305.6 million).

Total equity of the Group as at 31 December 2012 was approximately RMB619.7 million (2011: RMB544.8 million). The Group does not have any outstanding bank loan as at 31 December 2012 (2011: nil).

Pledge of Assets

As at 31 December 2012, the Group did not have any pledge of assets.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

HUMAN RESOURCES AND STAFF REMUNERATION

As at 31 December 2012, the Group had 243 staff members employed in mainland China and Hong Kong (2011: 223). Total staff costs for the year were approximately RMB49.0 million (2011: RMB53.0 million). During the year, the Group continued to reinforce the training provided to its staff by providing training and study opportunities for management staff and professional technicians. In addition, the Group has provided timely update to all staff with the latest government policies of the industry to continuously enhance the professional standard and quality of the staff. Meanwhile, the Group has provided competitive remuneration for the staff which encourages them to commit themselves and serve customers whole-heartedly.

PROSPECTS

Waves of regional unrest, the slow pace of global economic recovery due to the Eurozone crisis and averting the US fiscal cliff have made 2012 the gloomiest year for the iron and steel industry in recent times. Overcapacity, excess inventory and the inflation of iron ore prices are still the main obstacles to the progressive growth of domestic steel manufacturers. However, the surplus capacity was alleviated in the fourth quarter of 2012 which helped ease the adverse condition of the steel manufacturers. According to the recent forecast by the Chinese Academy of Social Sciences, China's GDP annual growth rate is expected to increase to 8.4% in 2013 from 7.8% in the previous year. The successful structural transformation of China's economy into a domestic demand driven model has gradually uplifted steel consumption in the machinery, car manufacturing and electrical appliances industries. Coupled with the ongoing rapid urbanisation and the increasing need of upgrading infrastructure in the PRC, the management anticipates a gradual domestic economic upturn of growth in 2013.

At the same time, in response to the rising public awareness of air pollution in China, the elimination of outdated production facilities and an upgrade of emission reduction equipment are progressively moving forward. While research and development capability remains as the Group's core competence, it continues to be enhanced through collaborating with well-known universities and research institutions in enriching the Group's product range. This initiative goes beyond being a proactive market move to contributing to the policy in promoting a greener China.

The management of the Group understands the diversification of its customer base reduces the dependence on a single market. The marketing team is utilising its strength in the domestic market to solicit more customers in China as well as in overseas markets particularly Europe, Korea, Taiwan and North America.

While 2012 has been a very tough year for the iron and steel industry, the Group has leveraged its competitive edge and has successfully achieved encouraging results despite the adverse market conditions. Motivated by this modest success in 2012, the management stands firm on its development strategies for advanced steel flow control products and is more strongly resolved to overcome the challenges in the coming years.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("Former Code") which was revised and renamed as the Corporate Governance Code ("Revised Code") on 1 April 2012, contained in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange.

During the financial year under review, the Company had complied with all the Code Provisions of the former Code for the period from 1 January 2012 to 31 March 2012 and of the revised Code for the period from 1 April 2012 to 31 December 2012, except for the deviations from Code Provision A.2.1 which are explained below.

According to Code Provision A.2.1 under both of the Former Code and the Revised Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Xu Yejun, in addition to his duties as the Chairman of the Company, is also responsible for the strategic planning and overseeing all aspects of the Group's operations as the Chief Executive Officer of the Company. This constitutes a deviation from Code Provision A.2.1. Mr. Xu Yejun as one of the founders of the Group has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct (the "Code of Conduct") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the year ended 31 December 2012.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the consolidated financial statement for the year ended 31 December 2012.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

By order of the Board
Sinoref Holdings Limited
Xu Yejun
Chairman and Chief Executive Officer

Hong Kong, 19 March 2013

As at the date of this announcement, the executive Directors are Mr. Xu Yejun, Dr. Zhang Lanyin and Mr. Gu Aoxing, the non-executive Director is Mr. Gao Zhilong, and the independent non-executive Directors are Mr. Yao Enshu, Mr. Yang Fuqiang and Mr. Tsui Siu Hang, Steve.