XIWANG SPECIAL STEEL COMPANY LIMITED
西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

Stock Code: 1266

2012
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors
Mr. WANG Liang *(General Manager)*
Mr. WANG Gang
Mr. WANG Tao

Non-Executive Directors
Mr. WANG Yong *(Chairman)*
Mr. WANG Di
Mr. SUN Xinhu

Independent Non-Executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue
Mr. YU Kou

COMMITTEES

Audit Committee
Mr. LEUNG Shu Sun Sunny *(Chairman)*
Mr. SUN Xinhu
Mr. ZHANG Gongxue

Remuneration Committee
Mr. ZHANG Gongxue *(Chairman)*
Mr. WANG Di
Mr. YU Kou

Nomination Committee
Mr. ZHANG Gongxue *(Chairman)*
Mr. WANG Di
Mr. YU Kou

COMPANY SECRETARY

Ms. LAM Wai Lin (FCCA, CPA)

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Ms. LAM Wai Lin

REGISTERED OFFICE

Unit 2110, 21/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

HEADQUARTERS

Xiwang Industrial Area
Zouping County
Shandong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2110, 21/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China
Industrial and Commercial Bank of China
China Construction Bank

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISER

Eversheds
21/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Guangdong Securities Limited
Units 2505–06, 25/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th floor, Tesbury Centre
28 Queen's Road East
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INVESTOR RELATIONS CONTACT

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WEBSITE

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Chairman's Statement

Dear shareholders,

The European debt crisis coupled with the slowdown of China's economic growth stormed global markets and created an unfavourable market environment in 2012 for the iron and steel sector. The demand for steel witnessed a significant fall as a result of the negative operating environment and the austerity policy by the Central Government of China on curbing rising house price and property development. The problem of over-supply has led to the selling price of steel to drop significantly. According to the figures from the Shanghai Futures Exchange, price of steel rebar dropped by approximately 40% from historical high RMB5,200 per tonne in 2011 to RMB3,200 per tonne in September 2012. Turnover of the whole sector slashed in 2012. Although prices of raw materials also fell in different magnitudes, our gross profit margins still dropped as the cost cut was insufficient to cover the falling product prices.

Our business was inevitably affected by the unfavourable operating environment and we developed at a slower pace in 2012. We have deteriorated results when compared with 2011. In 2012, our annual revenue decreased about 19% to approximately RMB6,891 million; and the net profit dropped about 62% to approximately RMB345 million as compared with the results in 2011. During the year ended 31 December 2012 (the "**Year**"), revenue of our ordinary steel products accounted for about 70% of the Group's total revenue (2011: 62%), and dropped about 9% to approximately RMB4,795 million (2011: RMB5,259 million). Revenue of our special steel products, which have higher values and higher profit margin, was approximately RMB2,032 million (2011: RMB3,203 million) and accounted for about 29% of the total revenue (2011: 37%).

The board of directors of the Company (the "**Board**") proposed a final dividend of RMB1.5 cents (2011: RMB13.7 cents) per ordinary share for the Year. The final dividend represents a payout ratio of approximately 9% (2011: 30%).

The Central Government of China has noticed the issue of over-supply and overcapacity of iron and steel industry, and the difficult and challenging operating environment for the whole sector as a result of market imbalance. In view of this, the Central Government announced the plan in the "Twelfth Five-Year Plan" (2011 to 2015), to consolidate the industry by merging and reorganizing companies and improving the overall quality of iron and steel production. In October 2011, the State Council approved to launch industrial restructure of iron and steel industry and assigned Shandong Province as a trial base. Since corporate reorganization is an important part of the industrial restructuring, the People's Government of Shandong announced on 1 November 2012 the proposal for merging and reorganizing iron and steel companies in Shandong Province. The move will consolidate the sector and create a healthy operating environment for the long-term development of the industry. Special steel, being a high-quality and unique product, will benefit from the sector restructuring and policy support.

As a leading steel manufacturer in Shandong Province with the largest electric arc furnace ("**EAF**") capacity, we initiated in 2012 the research and development and trial production of stainless steel, a specific type of special steel which is highly resistant to corrosion and applicable to a variety of high-growth industries with higher average selling price. Our capacity to produce stainless steel not only enriches our product mix and customer base, but also provides us with flexibility and diversity in production. We will actively monitor the market and adjust our product mix to satisfy market needs and to stay competitive in order to maximize our profit.

We believe the iron and steel sector will continue to face a challenging market condition in the short run. The World Steel Association predicted that the growth rate of global iron and steel consumption in 2012 and 2013 are 2.1% and 3.2% respectively, significantly lower than that of 6.2% in 2011. The call for urbanization, coupled with the increase of investment in infrastructure and affordable housing by the Central Government are favourable factors that will simulate the demand from downstream industries for iron and steel. While in the medium to long run, a healthy market and reasonable profit level of the whole sector will only be achieved if feasible measures are launched to control expansion of production capacity, to improve quality and added value of products and to diversify product mix in the market. In the future, we believe that the iron and steel industry will still have very positive prospects as China is under gradual development and is expecting further growth in its economy.

Chairman's Statement

I am grateful for the effort and contribution of the Board and fellow staff in the past year amid the challenging environment. I would also like to take this opportunity to express my heartfelt gratitude to our shareholders, business partners and customers for their invaluable support. In the years to come, we are confident we will move forward together and grasp fruitful returns.

WANG Yong
Chairman

25 March 2013

Management Discussion and Analysis

1. INTRODUCTION

Xiwang Special Steel Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") is a leading EAF-based special steel manufacturer located in Shandong Province of China.

Founded in 2003, the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012. As an EAF-based steel manufacturer, we operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Our products consist of ordinary steel that are used primarily in real estate and infrastructures, as well as special steel that are used in automobile, chemical and petrochemical, machinery and equipment sectors.

We use ordinary steel billets and special steel billets as raw materials for our rolling lines. We meet our need for ordinary steel billets by purchasing from third party suppliers or by producing them in-house using our EAFs. We produce all of the special steel billets in-house in our EAFs. The raw materials used to produce steel billets are steel scraps, molten iron and pig iron. To produce special steel billets we also add alloys to get the desired chemistry composition.

Currently, we have an aggregate designed annual EAFs smelting capacity of approximately 1.0 million tonnes, and an aggregate designed annual rolling capacity of 2.1 million tonnes.

Our production activities are conducted in our production facilities located in Xiwang Industrial Area, Zouping County, Shandong Province of China. Our steel production facilities, as of the date of this annual report, consisted of:

- two EAFs, EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, primarily steel scraps, molten iron and pig iron into molten steel which will then be cast to produce ordinary steel billets and special steel billets. The ordinary steel billets are rolled into ordinary steel products of rebars and wire rods. The special steel billets are rolled into special steel products, which include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire;

- two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 500,000 tonnes each. Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel, alloy structural steel and bearing steel. These are the most common type in the market;

- a wire rolling line, with a designed annual capacity of 600,000 tonnes. This wire rolling line manufactures steel products in the form of wire rod, which include wire rod, quality carbon structural steel, bearing steel and stainless steel;

- a large bar rolling line, Bar III, with a designed annual capacity of 500,000 tonnes. Bar III manufactures large bar of special steel products including quality carbon structural steel, alloy structural steel, alloy structural steel, bearing steel and stainless steel.

Segment Description:

The Group's two major types of products:

1. Ordinary steel, which includes rebars and wire rods.

2. Special steel, which includes quality carbon structural steel, alloy structural steel, bearing steel, steel welding wire and stainless steel.

1. Ordinary steel

Rebar

Rebar is mainly used in building construction and infrastructure projects. Our rebar has cross sectional diameters ranging from 12 millimetres to 32 millimetres.

Wire rod

We produce ribbed and plain wire rods, both have cross sectional diameters ranging from 6 millimetres to 12 millimetres. Our wire rod is used to make coil, spring, electronic and precise machinery parts.

2. Special steel

Quality carbon structural steel

Our quality carbon structural steel include steel billets with cross sectional diameters ranging from 160 millimetres to 250 millimetres, and steel bars and steel wires with cross sectional diameters ranging from 6.5 millimetres to 60 millimetres. Quality carbon structural steel contains carbon which is less than 0.8% and has less sulfur, phosphorus and non-metallic contents than regular carbon structural steel. Because of the higher purity, quality carbon structural steel has better mechanical properties such as yield strength and tensile strength than regular carbon structural steel. This product is mainly used for buildings and infrastructures.

Alloy structural steel

Alloy structural steel is mostly used in machinery. We add manganese, silicon, nickel, chromium and molybdenum to adjust the chemical composition in order to get the desired steel properties. Our alloy structural steel include steel billets with cross sectional diameters ranging from 160 millimetres to 250 millimetres, and steel bars with cross sectional diameters ranging from 22 millimetres to 60 millimetres.

Bearing steel

We produce bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres which are used for manufacturing rollers or ball bearings for automobile industry. Our bearing steel products are of relatively high level of purity and are harder in structure than ordinary steel.

Steel welding wire

Our steel welding wire has a cross sectional diameter of 5.5 millimetres and is used for manufacturing of welding electrode wires in the electrode conduit, liner of welding guns and welding torches.

Stainless steel

Stainless steel is highly resistant to corrosion, stain and dust. It contains at least 10% of chromium, and/or other metals such as nickel and manganese which give rise to its anti-corrosion ability. Stainless steel is used in machineries and equipments, seamless pipes for petroleum refining and chemical processing plants, automobile components, transportation, buildings and infrastructures. We produce long products of stainless steel including wire rods and steel bars.

2. REVIEW OF FINANCIAL RESULTS

A summary of the financial results of the Group for the Year, together with the comparative figures in 2011, is as follows:

For the year ended 31 December	2012 RMB'000	2011 RMB'000	Increase/ (Decrease) %
Revenue	**6,891,056**	8,541,004	(19.3)
Gross profit	**533,501**	1,292,973	(58.7)
Operating profit	**492,419**	1,245,775	(60.5)
Net profit	**344,937**	909,319	(62.1)
Gross profit margin	**7.7%**	15.1%	(7.4% points)
Operating profit margin	**7.1%**	14.6%	(7.5% points)
Net profit margin	**5.0%**	10.6%	(5.6% points)

We recorded deteriorated financial performance for the Year as compared with that of 2011. During 2012, the global economy was uncertain and domestic operating environment was unfavourable due to the slowdown of the economic growth of China and the austerity measures launched by the Central Government on property sector, the iron and steel sectors was adversely affected. Demand for steel from downstream industries fell coupled with the problem of overcapacity of the steel industry led to the decrease in selling price of steel products. Although cost of raw materials also dropped, the gross profit margin of our products was squeezed as the cost cut was insufficient to cover the drop of our product selling prices.

In 2012, average selling prices of our ordinary steel products and special steel products (except stainless steel) dropped by approximately 18.7% and 13.4% respectively from 2011, while the average unit costs of major raw materials, decreased by approximately from 14% to 17% respectively as compared with 2011. In addition, the production of stainless steel was in development stage during the Year and incurred gross loss margin of approximately 27.2%. As a result, gross profit margins of both ordinary steel and special steel products was squeezed and the overall gross profit margin of the Group was approximately 7.7% (2011: 15.1%).

Revenue

Revenue by operating segments:

For the year ended 31 December	2012 RMB'000	2011 RMB'000	Increase/ (Decrease) %
Ordinary Steel			
Rebars	**2,507,132**	2,022,113	24.0
Wire rods	**2,287,679**	3,236,999	(29.3)
Subtotal Ordinary Steel	**4,794,811**	5,259,112	(8.8)
Special Steel			
Quality carbon structural steel	**1,601,375**	2,804,435	(42.9)
Alloy structural steel	**134,783**	123,858	8.8
Bearing steel	**136,702**	257,052	(46.8)
Steel welding wire	**–**	17,270	N.A.
Stainless steel	**158,758**	–	N.A.
Subtotal Special Steel	**2,031,618**	3,202,615	(36.6)
By-products	**64,627**	79,277	(18.5)
Total	**6,891,056**	8,541,004	(19.3)

During the Year, revenue of ordinary steel was approximately RMB4,795 million (2011: RMB5,259 million), accounted for approximately 70% of the total revenue (2011: 62%). Revenue of special steel was approximately RMB2,032 million (2011: RMB3,203 million) represented approximately 29% of the total revenue (2011: 37%).

Sales Volumes:

For the year ended 31 December	2012 Tonnes	2011 Tonnes	Increase/ (Decrease) %
Ordinary Steel			
Rebars	**760,035**	500,603	51.8
Wire rods	**627,704**	737,547	(14.9)
Subtotal Ordinary Steel	**1,387,739**	1,238,150	12.1
Special Steel			
Quality carbon structural steel	**414,561**	626,873	(33.9)
Alloy structural steel	**37,616**	27,020	39.2
Bearing steel	**27,509**	52,465	(47.6)
Steel welding wire	**–**	3,881	N.A.
Stainless steel	**15,565**	–	N.A.
Subtotal Special Steel	**495,251**	710,239	(30.3)
Total	**1,882,990**	1,948,389	(3.4)

Average Selling Prices:

For the year ended 31 December	2012 RMB per tonne Tax-inclusive	2012 RMB per tonne Tax-exclusive	2011 RMB per tonne Tax-inclusive	2011 RMB per tonne Tax-exclusive	Increase/ (Decrease) %
Ordinary Steel					
Rebars	**3,860**	**3,299**	4,726	4,039	(18.3)
Wire rods	**4,265**	**3,645**	5,135	4,389	(17.0)
Special Steel					
Quality carbon structural steel	**4,520**	**3,863**	5,235	4,474	(13.7)
Alloy structural steel	**4,192**	**3,583**	5,363	4,584	(21.8)
Bearing steel	**5,814**	**4,969**	5,733	4,900	1.4
Steel welding wire	**–**	**–**	5,207	4,450	N.A.
Stainless steel	**11,934**	**10,200**	–	–	N.A.

Utilization Rate:

		2012	2011
		EAF I + EAF II	
Smelting	Total designed capacity[1] *(tonnes)*	**1,000,000**	1,000,000
	Total effective capacity[2] *(tonnes)*	**750,000**	958,333
	Total actual production *(tonnes)*	**461,268**	1,088,188
	Overall utilization rate[3]	**61.5%**	113.6%
		Bar I + Bar II + wire rolling line + Bar III	**Bar I + Bar II + wire rolling line**
Rolling	Total designed capacity[1] *(tonnes)*	**2,100,000**	1,600,000
	Total effective capacity[2] *(tonnes)*	**1,850,000**	1,600,000
	Total actual production *(tonnes)*	**1,984,675**	1,815,028
	Overall utilization rate[3]	**107.3%**	113.4%

1 Designed capacity represents the full annual capacity designed by the provider of the manufacturing facilities. It is based on the assumption that the line commenced full calendar year production without any interruption.

2 Effective capacity is calculated based on the designed annual capacity divided by 12 and multiplied by the number of months that such production line had been in normal operation during the year. "Normal operation" refers to a status of operation that excludes either: (i) the monthly production is less than 5% of the designed capacity of the line during trial production, or (ii) such production line is under the process of technical upgrading with monthly production mostly less than 5% of its designed capacity.

3 Utilization rate equals actual production volume divided by effective capacity times 100%.

Revenue by geographical segments:

The Group conducts all its business in China, no geographical representation is presented.

Cost of sales

The Group's cost of sales primarily consists of the cost of raw materials (which mainly include steel billets, steel scraps, molten iron and pig iron), electricity, depreciation and labour costs.

The cost of sales in 2012 declined by 12.3% as compared with 2011 due to the decrease of utilization rates of our production lines. Production volume dropped and consumption of raw materials including steel scraps, molten iron and pig iron, together with relevant overheads also declined.

The table below shows the breakdown of cost of sales:

For the year ended 31 December	2012 RMB'000	2012 % of total	2011 RMB'000	2011 % of total	Increase/ (Decrease) %
Steel billets	**4,386,945**	**69.0%**	3,116,358	43.0%	40.8
Steel scraps	**711,017**	**11.2%**	1,788,979	24.7%	(60.3)
Molten iron	**274,169**	**4.3%**	1,138,219	15.7%	(75.9)
Pig iron	**21,980**	**0.3%**	208,297	2.9%	(89.4)
Ferroalloys	**77,823**	**1.2%**	–	–	N/A
Other raw materials	**501,267**	**7.9%**	554,790	7.6%	(9.6)
Raw materials subtotal	**5,973,201**	**93.9%**	6,806,643	93.9%	(12.2)
Electricity	**143,937**	**2.3%**	241,936	3.3%	(40.5)
Depreciation	**157,357**	**2.5%**	109,305	1.5%	44.0
Labour Costs	**76,471**	**1.2%**	79,266	1.1%	(3.5)
Others	**6,589**	**0.1%**	10,881	0.2%	(39.4)
Total cost of sales	**6,357,555**	**100%**	7,248,031	100%	(12.3)

Below were the average unit costs of our major raw materials:

For the year ended 31 December	2012 RMB per tonne Tax-exclusive	2011 RMB per tonne Tax-exclusive	Increase/ (Decrease) %
Steel billets	**2,937**	3,535	(16.9%)
Steel scraps	**1,946**	2,353	(17.3%)
Molten iron	**2,737**	3,288	(16.8%)
Pig iron	**2,829**	3,305	(14.4%)
Ferroalloys	**5,321**	–	N/A

Gross profit margins

Gross profit margins of respective products and the Group's overall gross profit margin were as follows:

For the year ended 31 December	2012 %	2011 %	Increase/ (Decrease) % points
Ordinary Steel			
Rebars	**4.4**	8.7	(4.3)
Wire rods	**9.3**	13.2	(3.9)
Weighted average gross profit margin	**6.7**	11.5	(4.8)
Special Steel			
Quality carbon structural steel	**14.0**	19.5	(5.5)
Alloy structural steel	**(2.4)**	21.3	(23.7)
Bearing steel	**6.8**	23.9	(17.1)
Steel welding wire	**–**	20.3	N.A.
Stainless steel	**(27.2)**	–	N.A.
Weighted average gross profit margin	**9.2**	20.0	(10.8)
Overall gross profit margin	**7.7**	15.1	(7.4)

In 2012, gross profit margins of ordinary and special steel products decreased to 6.7% (2011: 11.5%) and 9.2% (2011: 20%) respectively as compared with 2011. The Group's overall gross profit margin witnessed a drop of 7.4 percentage points to 7.7% (2011: 15.1%).

The decline of gross profit margins was mainly due to the falling average selling prices of our products during 2012 under the unfavourable operating environment.

Other income and gain

The Group's other income and gain for 2012 was approximately RMB27.5 million (2011: RMB16.5 million). Other income and gain for the Year mainly included bank interest income of approximately RMB26.6 million (2011: RMB13.1 million) and foreign exchange gain of approximately RMB0.9 million (2011: foreign exchange gain of RMB2.2 million).

Selling and distribution expenses

The Group's selling and distribution expenses mainly consisted of salaries and welfares for sales and marketing staff, travelling, transportation and office expenses.

Selling and distribution expenses for 2012 were approximately RMB6.0 million (2011: RMB5.4 million).

Administrative expenses

Administrative expenses comprised staff cost of management and other non-production staff, professional fees and general administrative overheads.

The Group's administration expenses for 2012 amounted to approximately RMB62.6 million (2011: RMB58.2 million). The increase was mainly due to the listing and relevant expenses of the Group's initial public offering ("**IPO**") activities.

Finance costs

The Group's finance costs for the Year increased to approximately RMB70.9 million for the Year (2011: RMB57.4 million). The gross interest expense of the Group for the Year decreased by approximately RMB13.1 million compared with 2011, as the average balance of the Group's interest bearing borrowings decreased in 2012. However, as construction in progress completed during the Year, interest expense capitalised for the Year decreased by approximately RMB26.6 million as compared with 2011.

Income tax expense

The Group's income tax expenses for the Year amounted to approximately RMB76.6 million (2011: RMB278.5 million).

Pursuant to the PRC Corporate Income Tax Law (the "**New CIT Law**") effective on 1 January 2008, the CIT rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rates for the Company's wholly-owned subsidiaries including Shandong Xiwang Steel Co., Ltd. ("**Xiwang Steel**") (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel Co., Ltd. ("**Shandong Xiwang Special Steel**") (山東西王特鋼有限公司) and Shandong Xiwang Recycling Resources Co., Ltd. ("**Xiwang Recycling Resources**") (山東西王再生資源有限公司) was 25% in 2012.

The Company's wholly-owned subsidiary, Shandong Xiwang Metal Materials Co., Ltd. ("**Xiwang Metal**") (山東西王金屬材料有限公司) was registered as a foreign investment enterprise on 20 April 2004. Pursuant to the approval of the tax bureau, Xiwang Metal is exempted from CIT for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New CIT Law, a company is still able to enjoy the above-mentioned tax holiday within a five-year transition period starting from 1 January 2008. Xiwang Metal has started its tax holiday in 2008 and was exempted from CIT for the years ended 31 December 2008 and 2009 and was subject to the CIT rate of 12.5% for the year ended 31 December 2010, 2011 and 2012.

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Pursuant to the Announcement [2012] No. 30 released by the China State Administration of Taxation on 29 June 2012, a lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The applicable tax rate for the Group is reduced from 10% to 5%. As a result, there was a credit of deferred tax of approximately RMB13.6 million to the income statement in 2012.

The Group's effective income tax rate for the Year was 18.2% (2011: 23.4%).

Liquidity, capital resources and gearing ratio:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash and cash equivalents	**370,172**	154,496
Total borrowings	**1,808,020**	1,644,453
Net current liabilities	**878,645**	445,769
Total equity	**2,784,599**	1,892,712
Current ratio[4]	**0.76**	0.84
Gearing ratio[5]	**0.52**	0.79

4 Current ratio equals to total current assets divided by total current liabilities.

5 Gearing ratio equals to total interest-bearing bank and other borrowings minus cash and cash equivalents, and divided by total equity.

The Group's cash and cash equivalents as at 31 December 2012 amounted to approximately RMB370 million (31 December 2011: RMB154 million).

During the Year, the Group had net cash inflow from operating activities of approximately RMB1,751 million (2011: RMB1,568 million). The increase mainly came from decrease of income tax paid due to the drop of taxable profit during the Year. Net cash used in investing activities was approximately RMB2,190 million (2011: RMB1,751 million). The Group paid an amount of approximately RMB1,559 million for capital expenditure and there was a net addition of pledged deposits of approximately RMB631 million.

The Group's net cash inflow from financing activities in 2012 was approximately RMB654 million for the Year (2011: RMB262 million). In 2012, net proceeds received from the IPO of the Group was approximately RMB808 million. During the Year, the Group obtained new borrowings amounted to approximately RMB2,288 million (2011: RMB1,764 million), and repaid borrowings amounted to approximately RMB2,124 million (2011: RMB1,061 million), so the total borrowings increased to approximately RMB1,808 million as at 31 December 2012 (as at 31 December 2011: RMB1,644 million). The Group also paid out 2011 final dividend amounted to approximately RMB274 million during the Year.

As at 31 December 2012, the Group's total borrowings amounted to approximately RMB1,808 million, of which approximately RMB590 million (2011: RMB458 million) were short term bank borrowings and approximately RMB518 million (2011: Nil) was a finance lease with a lease term within four years. Approximately RMB1,758 million (2011: RMB1,338 million) of the total borrowings were of fixed rate structures.

Certain of the Group's inventories and leasehold land with carrying amounts of approximately RMB152 million and RMB32 million respectively as at 31 December 2012 were pledged as security for the Group's bank loans and other borrowings. The net carrying amounts of the Group's fixed assets held under finance lease at 31 December 2012 amounted to approximately RMB553 million.

The Group's total bills payable amounting to approximately RMB2,211 million were secured by the Group's time deposits of approximately RMB1,376 million, inventories of the Group with an aggregate carrying amount of approximately RMB419 million as of 31 December 2012, and certain prepaid land lease payments of the Group with net carrying amount of approximately RMB58 million as at 31 December 2012.

Use of proceeds from the Company's IPO

The Company was listed on the Main Board of the Stock Exchange on 23 February 2012. The gross proceeds was approximately Hong Kong Dollars ("**HK$**") 1,060 million, equivalent to approximately RMB861 million. The net proceeds were approximately HK$991 million (equivalent to approximately RMB806 million) after deducting the listing and relevant expenses.

During the Year, the new proceeds were utilized as follows:

		Planned allocation percentage of net proceeds	Planned allocation amount of net proceeds RMB million	Amount of net proceeds utilized RMB million	Amount of net proceeds remained as at 31 December 2012 RMB million
1	Construction of high-duty alloy pipe production line	75%	605	278	327
2	The unpaid construction costs incurred in connection with installing EAF II and the remaining construction costs for installing Bar III	20%	161	161	–
3	General working capital	5%	40	40	–
		100%	806	479	327

The Group held the unutilised net proceeds in short-term deposits with authorised financial institutions in China as at 31 December 2012.

Capital Investment

The Group's capital expenditures for the Year was approximately RMB1,495 million (2011: RMB1,242 million) which was mainly used for technological renovation of EAFs, mainly for the improvements of the supply and the efficiency of the inputs of raw materials and the foundation work of high-duty alloy pipe production line.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2012 (31 December 2011: nil).

Foreign exchange risk

As all of the operating income of the Group was denominated in RMB and all of the assets held and committed borrowings of the Group were denominated in RMB, the directors of the Company ("**Directors**") believed the foreign exchange risk was insignificant. The Group also did not enter into any derivative financial instruments to hedge against foreign exchange risk exposure.

Human resources

As at 31 December 2012, the Group had 2,772 employees (31 December 2011: 2,579). The Group regularly reviewed the remuneration packages of the directors and employees with respect to their experience and responsibilities to the Group's business. A remuneration committee was set up to determine and review the terms of remuneration packages, bonuses, and other compensation payable to the directors and members of the senior management of the Group.

3. OUTLOOK AND FUTURE PLANS

Figures from the National Bureau of Statistics of China showed that Gross Domestic Product ("**GDP**") of China in 2012 grew by 7.8% year-on-year to RMB51.9 trillion, experiencing the slowest growth rate in the past 13 years. The worldwide economic situation is still uncertain and there seems to be a long way to go for full recovery of the economy. Global economic slowdown curtailed demand and the steel sector in China is still facing the problem of overcapacity. However, the World Bank predicted that the actual GDP growth rate of China for 2013 is 8.4%, which would be higher than the 7.9% in 2012. The economic outlook of China in 2013 is expected to be better when compared to 2012.

The steel sector of China was encountering problems of overcapacity, under demand and low product prices in 2012. We believe the best solutions are adjustment in production volume, renovation of technology and product types, and improvement in product quality.

In the fourth quarter of 2012, National Development and Reform Commission approved investments of RMB7 trillion in infrastructure facilities including rail transportation, highway and airport and increased the target of fixed-asset investment in railway to RMB650 billion for 2013. This move will fuel the engine of economic development of China. As growth of the iron and steel sector are highly correlates with macro-economy development, we believe the operating environment will be improved in 2013 as compared with that of 2012.

In 2013, there will be new opportunity for the steel sector arising from the call for urbanization by the Central Government as highlighted in the Central Economic Work Conference in December 2012. Expert from the National Development and Reform Commission predicts that urbanization would boost at least RMB30 trillion investments in the coming decade. This favourable policy will not only simulate demand for steel from property developers, but also revitalize a number of related downstream sectors such as infrastructure, automobile and energy. We expect the domestic demand for steel from these downstream industries in 2013 will be higher than that of 2012.

Looking ahead, there will be challenges and opportunities and we will continue to closely monitor the market environment in China with an aim to capture business expansion opportunities. With the help of our advanced technology, strong production capacity and professional management team, we strive to enhance operational efficiency and expense control to improve our competitiveness to becoming a leading industry player in the special steel sector.

DIVIDEND

Pursuant to the meeting of the Board on 25 March 2013, the Board has recommended the payment of a final dividend of RMB0.015 (2011: RMB0.137) per ordinary share to shareholders of the Company whose names shall appear on the register of members of the Company on Tuesday, 28 May 2013. Subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") of the Company to be held on Wednesday, 22 May 2013, the final dividend will be payable on or about Friday, 7 June 2013.

EVENTS AFTER THE REPORTING PERIOD

On 7 January 2013, the Group entered into a bank loan agreement for a loan in the principal amount of RMB100 million. The bank loan has a term of 12 months and bears interest at 7.8% per annum. The bank loan is guaranteed by an independent third party.

On 8 January 2013, the Group issued a fixed rate note of US$12,5 million to a bank. The note has a term of 12 months and bears interest at 2.5% per annum.

On 25 March 2013, the Board proposed a final dividend of RMB0.015 per ordinary share of the Company, totaling approximately RMB30 million. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming AGM.

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WANG Liang (王亮), aged 42, was appointed as an Executive Director and General Manager of the Company on 2 June 2011. Mr. WANG is responsible for the overall management of the Group. He started to work at the Xiwang Group Company Limited ("**Xiwang Group**") on 1 April 1988 and has been the chief executive officer of Xiwang Sugar Holdings Company Limited ("**Xiwang Sugar**") (a company publicly listed on the Stock Exchange under stock code 2088 since February 2005 and is effectively held as to 57.98% of ordinary shares and 99.64% of convertible preference shares by Xiwang Investment Company Limited ("**Xiwang Investment**")) from 2001 to 2008, the president of Xiwang First Industrial Area (西王集團第一工業園) from 2008 to 2009, and the executive vice president of Xiwang Group from 2009 to 2010. Mr. WANG studied mechanical engineering at Zouping Secondary School (鄒平成人中專) in the PRC and graduated in July 1998. Mr. WANG was a director of Xiwang Sugar from 2005 to 2010, and resigned as a director of Xiwang Sugar in November 2010.

Mr. WANG Gang (王剛), aged 53, was appointed as an Executive Director of the Company on 2 June 2011. Mr. WANG is mainly responsible for the management of energy and utilities and environmental protection of the Group. Mr. WANG joined Xiwang Group on 1 October 1986, and has served as head of several factories of the subsidiaries of Xiwang Group. Since May 2001, Mr. WANG has been serving as the member of the Communist Party Council of Xiwang Group (西王集團共產黨委員會) and vice president of the Xiwang Group. He received a diploma from Huang Shan High School (黃山中學) in July 1977.

Mr. WANG Tao (王濤), aged 35, is our vice president of the production department and was appointed as an Executive Director of the Company on 2 June 2011. He has been leading the production department of the Group since 2007. Mr. WANG joined Xiwang Group on 15 August 1998 and has served as the head of factory at a variety of production lines within Xiwang Group. Mr. WANG studied and completed the graduate program in business administration at Shandong University (山東大學) in December 2005 and received a professional diploma in mechanical engineering from Harbin Institute of Technology (哈爾濱工業大學) in July 1998.

NON-EXECUTIVE DIRECTORS

Mr. WANG Yong (王勇), aged 62, was appointed as the chairman and Non-executive Director of the Company in June 2011. Mr. WANG is father of Mr. WANG Di (王棣), who is an Non-executive Director of the Company. Mr. WANG is one of the founders of the Group. As a Non-executive director, Mr. WANG regularly attends the board meetings and is responsible for the strategic planning of the Group, but does not engage in the day-to-day management of the Group. Mr. WANG was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group from 1996 to 2001. Mr. WANG has been the chairman of the board of directors of Xiwang Group since 2001. Mr. WANG has been assessed by Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist and was appointed as the vice president of the third council of China Fermentation Industry Association (中國發酵工業協會) in December 2004. Mr. WANG received secondary education in the PRC.

Mr. WANG was awarded with several prizes and titles, including the National Advanced Worker in Quality Management of Township Enterprise (全國鄉鎮企業質量管理先進工作者) awarded by the Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2000. Mr. WANG was awarded The National Labour Role Model (全國勞動模範) by the State Council in April 2000, the Fourth National Township Entrepreneur Award (第四屆全國鄉鎮企業家) and National Advanced Worker in Technological Progress of Township Enterprise of the Eighth Five-year Plan (「八五」全國鄉鎮企業科技進步先進工作者) awarded by the Ministry of Agriculture of the PRC in 2001.

Mr. WANG has several positions in listed companies. Mr. WANG is the chairman and executive director of Xiwang Sugar. He is also a director of Xiwang Foodstuffs Co. Ltd ("**Xiwang Foodstuffs**") (a company publicly listed on the Main Board of the Shenzhen Stock Exchange since February 2010 and is effectively held as to 52.08% by Xiwang Group).

Mr. WANG Di (王棣), aged 29, was appointed as a Non-executive Director of the Company in November 2007. He is the son of Mr. WANG Yong. Mr. WANG has been serving as the head of branding of the Group since March 2010. Mr. WANG attended the bachelor's degree course of Information Conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍電子工程學院) from 2001 to 2005. Mr. WANG joined Xiwang Group in August 2005 and has been in charge of the international trading business of Xiwang Group for more than seven years. Mr. WANG has been granted various awards and honours, including outstanding worker for enterprise education and training of Shandong Province of the PRC in 2006, labour model of Binzhou city of Shandong Province of the PRC, labour model of Shandong Province, the PRC and outstanding entrepreneur in food industry of Shandong Province of the PRC. Mr. WANG is director and the chairman of Xiwang Foodstuff, and director and the deputy chairman of Xiwang Sugar.

Mr. SUN Xinhu (孫新虎), aged 38, was appointed as our non-executive Director in June 2011. He has been serving as vice general manager since he joined Xiwang Group in March 2003. Mr. SUN earned his master's degree in food science from Southern Yangtze University (江南大學) in July 2004 and bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997. Mr. SUN was an executive director of Xiwang Sugar since December 2008 and re-designated as a non-executive director of Xiwang Sugar on July 2012. Mr. SUN is also director and secretary of the board of Xiwang Foodstuffs since 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEUNG Shu Sun Sunny (梁樹新), aged 49, was appointed as an Independent Non-executive Director of the Company commencing from 23 February 2012. He is the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Company. He has over 20 years' working experience in, among other things, accounting, treasury management, budgeting and corporate finance. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified General Accountants' Association of Canada. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Sugar. From 2001 to date, he was a director of a company providing accounting, tax and corporate finance services. From 1999 to 2001, he held key finance position in a listed company in Hong Kong. From 1998 to 1999, he was a finance director of a company principally engaged in the provision of network infrastructure solutions. From 1993 to 1998, he was the financial controller of a company principally engaged in property investment, trading and securities. From 1987 to 1990, he had worked in international accounting firms, handling audit, tax and accounting matters. Mr. LEUNG received a professional diploma in accountancy from Hong Kong Polytechnic University in November 1994 and earned a master's degree in business administration, which is a long distance course from the University of South Australia in 1997.

Mr. ZHANG Gongxue (張公學), aged 48, was appointed as an Independent Non-executive Director of the Company commencing from 23 February 2012. Mr. ZHANG is currently the director of Tian Jian Attorneys-At-Law (天健律師事務所) in Shandong Province, PRC. Mr. ZHANG has been practising law since 1994, and was awarded the title of excellent attorney of Binzhou City in 2008. He is an arbitrator on the Binzhou Arbitration Committee. Mr. ZHANG earned his bachelor's degree in laws from East China Institute of Political Science and Law (華東政法學院) in July 2001.

Mr. YU Kou (于叩), aged 65, was appointed as an Independent Non-executive Director of the Company commencing from 23 February 2012. Mr. YU is the deputy secretary general of China Special Steel Enterprise Association (中國特鋼企業協會) since 2008. He served as vice president of the Shougang Group (首鋼集團) from 2005 to 2008, and was with Shougang Group since 1983. Mr. YU has worked in the steel industry since 1969. He studied in the master program at the Party School of the Central Committee of C.P.C. (中共中央黨校) in economics and management from September 2004 to July 2007. Mr. YU received a professional diploma in industrial management from Beijing Institute of Economic Management (北京市經濟管理幹部學院) in December 1986.

SENIOR MANAGEMENT

Mr. WANG Baoming (王保民), aged 60, was appointed as the executive vice president of the Group in July 2003. Mr. WANG assists the president of Xiwang Steel to oversee daily operations and is in charge of new projects and product management and development, the supervision of the respective departments within the Group and the management and implementation of the Group's workplace safety rules and policies. Mr. WANG joined Xiwang Steel on 13 July 2003. He earned his bachelor's degree from Shandong Institute of Mining and Technology (山東礦業學院) in July 1977.

Mr. ZHANG Qingsheng (張慶生), aged 34, was appointed as the vice president of the technical department of the Group in November 2008. Mr. ZHANG is responsible for the overall management and supervision for the technical support and issues related to the steel production process and the large bar rolling line project. Mr. ZHANG has served as the vice president of Shandong Xiwang Special Steel since 2008. Mr. ZHANG worked for Xiwang Sugar overseeing technical issues for its factories and was its vice president from 2005 to 2008. Mr. ZHANG earned his bachelor's degree from Liaoning Shihua University (遼寧石油化工大學) in July 2002.

Mr. CHUNG Kwokmo (鍾國武), aged 44, was appointed as our chief financial officer in September 2011. Mr. CHUNG was the chief financial officer of Xiwang Sugar from May 2008 to September 2011. He is the Financial Consultant of Xiwang Sugar since September 2011. Mr. CHUNG has been acting as an independent non-executive director of Zhengye International Holdings Company Limited, a company listed on the Stock Exchange under stock code 3363 since March 2011.

Mr. CHUNG has about 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in an international accounting firm during 1992 to 1999. Since 2000 and prior to joining us, Mr. CHUNG had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. CHUNG has a bachelor degree of Economics from Macquarie University, Australia in April 1992. He is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

Mr. WANG Honggang (王宏剛), aged 33, was appointed as the vice president of the purchasing department of the Group in December 2004. Mr. WANG is responsible for the management and supervision of all purchasing related matters within the Group. Mr. WANG joined Xiwang Steel on 1 July 2003. He earned his bachelor's degree in finance from Tianjin University of Finance and Economics (天津財經大學) in July 2000.

Mr. DONG Ming (董明), aged 35, was appointed as the vice president of the sales and marketing department of the Group in June 2004. Mr. DONG is responsible for the planning and implementation of the sales and marketing initiatives and the supervision of our sales and marketing department of the Group. Mr. DONG joined Xiwang Steel on 1 July 2004. Mr. DONG earned his master's degree in international economy and trade from Wuhan University of Technology (武漢理工大學) in June 2005 and his bachelor's degree in international finance from Wuhan University of Technology (武漢理工大學) in June 1999.

Mr. ZHAO Fusheng (趙福生), aged 48, was appointed as the lead engineer of the Group in August 2008. He is responsible for the research, planning and implementation of all of production related technologies, and the supervision of the technical department of the Group. He assists the vice president of the technical department of the Group to manage and oversee daily operations. Mr. ZHAO has 26 years' experience in the special steel industry and owns three patents in related field in the PRC. Prior to joining the Group, he was the engineer at Xining Special Steel Co., Ltd. (西寧特殊鋼股份有限公司). Mr. ZHAO earned his professional diploma in metallurgy with Shanxi Engineering Vocational College (山西冶金工業學院) in August 1985.

Corporate Governance Report

The Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012 (the "**Listing Date**").

CORPORATE GOVERNANCE MEASURES

The Company is committed to maintain good corporate governance practices and procedures. The Company has adopted the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "**Former CG Code**") and the Corporate Governance Code and Corporate Governance Report (effective from 1 April 2012) (the "**New CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. The Board considers that the Company was in compliance with all applicable code provisions set out in both the Former CG Code and New CG Code from 23 February 2012, the Listing Date of the Company to 31 December 2012, except for the code provision A.6.7 of the New CG Code. Code provision A.6.7 of the New CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings of the Company and develop a balanced understanding of the views of shareholders. Mr. WANG Di, Mr. ZHANG Gongxue and Mr. YU Kou did not attend the annual general meeting of the Company held on 11 May 2012 due to other business commitment.

The Board is committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders. The Board is responsible for performing the duties on corporate governance function as set out below:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance and legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the New CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2012, the Board has developed and reviewed the Company's corporate governance practices, including the terms of reference for the Remuneration Committee, Nomination Committee and the Audit Committee.

Set out below is a detailed discussion of the major corporate governance practices adopted and observed by the Company during the Year or where applicable, up to the date of this report.

A. Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code as from the Listing Date to 31 December 2012.

B. Board of directors

(i) Board composition

The Board currently comprises a combination of three executive Directors, three Non-executive Directors and three Independent Non-executive Directors. As of the date of this annual report, the Board consisted of the following Directors:

Executive Directors
Mr. WANG Liang *(General Manager)*
Mr. WANG Gang
Mr. WANG Tao

Non-executive Directors
Mr. WANG Yong *(Chairman)*
Mr. WANG Di
Mr. SUN Xinhu

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue
Mr. YU Kou

During the Year, the Board at all times met the requirements under Rule 3.10 (1) and (2) and 3.10A of the Listing Rules that, at least one-third of members of the Board being Independent Non-executive Directors, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

(ii) Appointment and re-elections of directors

In accordance with the Articles of Association of the Company (the "**Articles**"), the Board is authorized to appoint any person as a director of the Company either to fill a casual vacancy on the Board or, subject to authorization by the members in general meeting, as an additional member of the Board.

Nomination Committee would make recommendations to the Board regarding the appointment and re-appointment of both Executive and Non-executive Directors, with reference to the skills, knowledge and experiences of each candidate.

According to the Articles of the Company, additional directors appointed by the Board are subject to re-election by shareholders at the next following AGM. Directors, including Non-executive Directors, shall be elected or replaced by the Company in general meeting and shall serve a term of office of 3 years. A Director may serve consecutive terms if re-elected by the Company in general meeting upon the expiration of his term.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. The Board considers that all Independent Non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company as a whole. One of the Independent Non-executive Directors, Mr. LEUNG Shu Sun Sunny, has over 20 years of experience, in among other things, accounting, treasury management, budgeting and corporate finance. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified General Accountants' Association of Canada.

The Company has received the annual written confirmations from each of Mr. LEUNG Shu Sun Sunny, Mr. ZHANG Gongxue and Mr. YU Kou in respect of their independence respectively pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers that all Independent Non-executive Directors to be independent.

(iii) Responsibilities and contributions of the Board

The Board, with the assistance from the senior management, forms the core management team of the Company. The Board takes the overall responsibility for management of the Company, formulating the business strategies development plan of the Company, decision making on important issues, including but not limited to substantial mergers and acquisitions and disposals, directors' appointments and significant operational and financial matters, and review and approval of annual and interim results of the Company. The senior management are responsible for supervising and executing the Board policies and strategies, including the provision of monthly updates of the Group's performance, position and prospects to the Board to enable the Board and each of the Directors to deliver and discharge their duties under the Listing Rules. Daily management, administration and operation of the Company are delegated to the management team of the Company.

The Board has timely and full access to all relevant information of the Company. The Company Secretary of the Company provides advice and services to the Board to ensure the Board follows all the Company's Board procedures and all applicable rules and regulations. Company Secretary of the Company notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

(iv) Financial reporting

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012, which give a true and fair view of the state of affairs of the Group, and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The financial statements of the Company and the Group for the year ended 31 December 2012 were prepared on a going concern basis. The Audit Committee reviewed and recommended the Board to adopt the audited accounts for the year ended 31 December 2012. The Board is not aware of any material uncertainties relating to the events or condition that may undermine the Company's ability to continue as a going concern.

The statements of the external auditors of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Auditor's Report on page 34.

(v) Relationship among members of the Board

Each of the Executive Directors, except Mr. WANG Tao, and all the Non-executive Directors are ultimate beneficial shareholders of the Company and Xiwang Group which is a connected person of the Group.

Mr. WANG Di, a Non-executive Director of the Company is the son of Mr. WANG Yong, the Chairman and Non-executive Director of the Company. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors during the Year.

Each of the Mr. WANG Liang, Mr. WANG Gang, Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xinhu, among others, have entered into a voting agreement in respect of their shares held in Xiwang Holdings Limited ("**Xiwang Holdings**") dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. Under these agreements, each of the shareholders of Xiwang Holdings shall only vote, when in the capacity of a shareholder of Xiwang Holdings, in accordance with the instruction of Mr. WANG Yong at any shareholders meeting of Xiwang Holdings.

(vi) Continuous professional development of directors

Induction seminars of comprehensive guidance on directors' duties and liabilities are provided by the Company's legal advisors to directors once they joined the Board. Senior management of the Company provides briefings to all directors of the Company for updates of their knowledge and skills of the industry of the Company. Company Secretary provides updates or amendments of the Listing Rules of the Stock Exchange and other statutory regulations for directors' fulfillment of their responsibilities and duties in the Company.

During the Year, the Company provided a seminar of "Directors' Duties and Responsibilities under Listing Rules of the Hong Kong Stock Exchange and Securities and Futures Ordinance", lectured by a partner of a recognized international law firm, to all the directors and senior management of the Company. All directors of the Company, except Mr. WANG Gang, attended the seminar, and the Company received attendance record of the directors of this seminar. Although Mr. WANG Gang was absent from this seminar, he received the materials of this seminar for his own updates.

C. Chairman and chief executive officer

Mr. WANG Yong is the Chairman of the Board who is principally responsible for formulation of plans and policies of the Group. The Chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The Company did not appoint chief executive officer and Mr. WANG Liang, General Manger of the Company, is vested the role of the chief executive officer of the Company. The General Manager of the Company, Mr. WANG Liang is responsible for the supervision for the execution of the plans and policies determined by the Board.

D. Board committees

We have established the following board committees in compliance with the New CG Code.

(i) Audit Committee

In accordance with the written terms of reference of the Audit Committee, all members of the Audit Committee should be Non-executive Directors with majority of the members being Independent Non-executive Directors. At least one of them shall be an Independent Non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. Former partner of the Company's existing external auditors from time to time may not act as a member of the Audit Committee for a period of at least one year from the date of his ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is later.

During the Year, the members of the Audit Committee comprised Mr. LEUNG Shu Sun Sunny (Chairman), Mr. SUN Xinhu and Mr. ZHANG Gongxue. Mr. LEUNG Shu Sun Sunny and Mr. ZHANG Gongxue are Independent Non-executive Directors of the Company. The chairman has the appropriate professional qualifications as required under the Listing Rules and none of the members of the Audit Committee was a former partner of the Company's existing external auditors.

The primary responsibilities of the Audit Committee are to monitor the integrity of the Group's financial statements and reports and review significant financial reporting judgements contained in them, to exercise independent judgment in reviewing and supervising the Company's financial reporting process and internal control procedures; to provide recommendations to the Board for the improvements of the Group's financial reporting system and internal control procedures and system and to provide recommendations to the Board for the appointment and renewal of external auditors. The terms of reference of the Audit Committee are available on the Company's website and the website of the Stock Exchange.

Two meetings were held by the Audit Committee during the Year. During the Year, the Audit Committee reviewed the Company's internal control procedures. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final result announcement for the year ended 31 December 2011 and the unaudited accounts and interim result announcement for the six months ended 30 June 2012. The Audit Committee reviewed and recommended the Board for the re-appointment of external auditor.

The Audit Committee has reviewed the Company's annual results for the year ended 31 December 2012 at the meeting held on 25 March 2013.

(ii) Remuneration Committee

In accordance with the written terms of reference of the Remuneration Committee, majority of members of the Remuneration Committee should be Independent Non-executive Directors, with the chairman must be an Independent Non-executive Director. The terms of reference of the Remuneration Committee are available on the Company's website and the website of the Stock Exchange.

During the Year, Mr. ZHANG Gongxue (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Remuneration Committee, and Mr. ZHANG Gongxue and Mr. YU Kou are Independent Non-executive Directors of the Company.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the policy and structure of the Company for all directors and senior management remuneration, and to review and recommend to the Board on the remuneration packages of individual executive director and senior management, by reference to the duties, responsibilities, experience and qualifications of each candidate.

Two meetings were held by the Remuneration Committee during the Year, to have periodic review of the remuneration policy of the Company for all directors and senior management remuneration, and remuneration packages of directors and senior management.

Details of remuneration payable to members of senior management by band are set out in note 9 to the financial statements.

(iii) Nomination Committee

In accordance with the written terms of reference of the Nomination Committee, majority of members of the Nomination Committee should be Independent Non-executive Directors, with the chairman must be an Independent Non-executive Director. The terms of reference of the Nomination Committee are available in the Company's website and website of the Stock Exchange.

During the Year, Mr. ZHANG Gongxue (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Nomination Committee, and Mr. ZHANG Gongxue and Mr. YU Kou are Independent Non-executive Directors of the Company.

The primary responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and make recommendations to the Board on the nominees for appointment as directors and senior management of the Group, by reference to the experience and qualification of each candidate.

Two meetings were held by the Nomination Committee during the Year. During the Year, the Nomination Committee performed annual review of the structure of the Board, and re-assess the independence of the Independent Non-executive Directors of the Company.

(iv) Attendance record of the Board and Board Committee meetings and General Meetings

The details of Directors' attendance of the Board and Board Committee meetings and general meetings held during the Year are set out in the following table:

	No. of meetings attended/no. of meetings held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors:					
WANG Liang *(General Manager)*	4/5	N/A	N/A	N/A	0/1
WANG Gang	3/5	N/A	N/A	N/A	0/1
WANG Tao	4/5	N/A	N/A	N/A	0/1
Non-executive Directors:					
WANG Yong *(Chairman)*	5/5	N/A	N/A	N/A	1/1
WANG Di	4/5	N/A	1/2	1/2	0/1
SUN Xinhu	4/5	2/2	N/A	N/A	1/1
Independent Non-executive Directors:					
LEUNG Shu Sun Sunny	4/5	2/2	N/A	N/A	1/1
ZHANG Gongxue	3/5	2/2	2/2	2/2	0/1
YU Kou	3/5	N/A	2/2	2/2	0/1

Note: Mr. WANG Yong, the Chairman of the Board, had a meeting with the Non-executive Directors (without the presence of the Executive Directors of the Company) of the Company during the Year. Non-executive Directors recommended improvements on internal control, product mix and financing policy of the Company.

E. Auditors' remuneration

A breakdown of the remuneration of the Group's external auditor is as follows:

	For the year ended 31 December 2012 (RMB'000)
Service rendered	
Ernst & Young	
Annual audit services	1,700
Non-audit services	–

F. Internal control

All Directors acknowledge their responsibility for establishing and maintaining a sound and effective internal control system to safeguard the Group's assets and shareholders' interests, and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations.

During the Year, the Board has reviewed through the Audit Committee the effectiveness of the Group's internal control systems and financial reporting system and also the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. Relevant recommendations made by the Audit Committee and external auditors who perform the reviews at least annually would be adopted, if appropriate, as soon as practicable by the Group to improve its internal control systems. There were no irregularities or material deficiencies found during the Year.

G. Company secretary

The Company Secretary of the Company provides advice and services to the Board to ensure the Board follows all the Company's Board procedures and all applicable rules and regulations. Company Secretary of the Company notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

The Company Secretary of the Company has sufficient relevant professional training during the Year as required under Rule 3.29 of the Listing Rules.

H. Directors' and Officers' liability insurance

The Company has taken out liability insurance to indemnify its directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the Year.

I. Shareholders' Rights and Investor Relations

The Company's shareholders' communication policy is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors.

General meetings of the Company are formal channels for communication between shareholders and the Board. The chairmen of the Board and the Board Committees are invited to attend the general meetings to have direct communication with the shareholders. External auditor of the Company also attend annual general meetings to answer shareholders' enquires.

Pursuant to article 50 of the articles of association of the Company and section 113 of the Companies Ordinance, shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meeting of the Company may by written requisition request to the Board convene and put forward proposals at an extraordinary general meeting. The procedures for shareholders to convene extraordinary general meetings and put forward proposal are as follows:

1. The requisitionist(s) must sign a written request stating the objects of the meeting to be convened, and deposit the same at the registered office of the Company situated at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, for the attention of the Company Secretary. The written request may consist of several documents in like form, each signed by one or more requisitionist(s).

2. The Company will then verify the particulars of the requisitionist(s) in their written request with the Company's share registrar, and upon confirmation from the Company's share registrar that the written request is in order, the Company Secretary will arrange with the Board to convene an extraordinary general meeting by serving sufficient notice to all the registered shareholders in accordance with all the relevant statutory and regulatory requirements and the provisions in the articles of association of the Company.

3. In the event that the written request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, an extraordinary general meeting will not be convened as requested.

4. If the Directors do not within 21 days from the date of the deposit of the written request proceed duly to convene an extraordinary general meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an extraordinary general meeting, but any extraordinary general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written request.

The investor relations and corporate communication department of the Company in Hong Kong maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 852 3188 4518 / 86 543 4891888).

Shareholders can also send their written enquiries or suggestions on the business of the Company to Company Secretary at the Company's business address in Hong Kong. The Board and senior management of the Company will seriously consider shareholders' enquiries and address them accordingly and in compliance with the Listing Rules. During the Year, no shareholders' written enquiry was received.

Shareholders and investors can also visit the Company's website at www.xiwangsteel.com and the Stock Exchange's website for the Company's announcements, circulars, financial information, corporate governance practices, annual reports, interim reports and other corporate information and updates of business development and operations.

J. Compliance of Non-Competition Undertaking

The Company has entered into a deed of non-competition dated 30 January 2012 (the "**Non-competition Deed**") with each of the controlling shareholders of the Company named therein (the "**Controlling Shareholders**") pursuant to which each of the Controlling Shareholders has jointly and severally undertaken to the Company (for itself and for the benefit of other members of the Group) that each of them will not, and procure that its/his/her associates will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their respective associate, subsidiary, partnership, joint venture or other contractual arrangement) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business which is, in each case, the same as, similar to or in direct or indirect competition with any business relating to steel manufacturing and such other business conducted or carried on by any member of the Group from time to time. Details of the Non-competition Deed are set out in the paragraph headed "Non-competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 13 February 2012.

The Company has received the annual confirmation from all of its Controlling Shareholders in compliance with the terms of the Non-competition Deed. The Independent Non-executive Directors have reviewed the annual confirmation from the Controlling Shareholders relating to the compliance with the non-competition undertaking by the Controlling Shareholders under the Non-competition Deed and are satisfied that the same has been complied with by the Controlling Shareholders under the Non-competition Deed.

For details of the corporate governance measures adopted by the Company to manage the conflicts of interests arising from any competing business and to safeguard the interests of the shareholders of Company, please refer to the paragraph headed "Corporate Governance Measures" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 13 February 2012.

On behalf of the Board

WANG Yong
Chairman

Hong Kong, 25 March 2013

Directors' Report

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is an electric arc furnace, or EAF-based, integrated steel manufacturer in Shandong Province. Our products consist of ordinary steel products that are used primarily in construction and infrastructure projects, as well as special steel products that are used in a variety of applications, including production of seamless steel pipes, bearings, gearings, machines parts and steel welding wires.

DIVIDEND

Pursuant to the meeting of the Board on 25 March 2013, the Board has recommended the payment of a final dividend of RMB0.015 (approximately HK$0.019) (2011: RMB0.137) per ordinary share of the Company for the Year to shareholders of the Company whose names shall appear on the register of members of the Company on Tuesday, 28 May 2013. Subject to shareholders' approval at the forthcoming AGM of the Company to be held on Wednesday, 22 May 2013, the final dividend will be payable on or about Friday, 7 June 2013.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at its listing on the Stock Exchange amounted to approximately HK$991 million (approximately RMB806 million), which are intended to be or have been applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 13 February 2012. Up to the date of this report and in line with the plan to construct a high-duty alloy pipe production line, approximately RMB278 million was utilized. The Group also utilized approximately RMB161 million for the settlements of the unpaid construction costs incurred in connection with installing EAF II and the Bar III and approximately RMB40 million for the general working capital, as accordance with the Group's plan set out in the Prospectus. The remaining un-utilized net proceeds amounted to approximately RMB327 million is for the completion of the construction of the high-duty alloy pipe production line. The construction of the high-duty alloy pipe production line is expected to be completed in 2013. The un-utilized net proceeds is temporarily placed in short term deposits with licensed banks in the PRC.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

BORROWINGS

Details of the Group's borrowings as at the end of the reporting period are set out in note 23 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2012 are set out in note 26 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 93.

SHARE OPTION SCHEME

The Company did not adopt any share option scheme since its incorporation and up to the date of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's memorandum and articles of association or the laws of Hong Kong, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group during the Year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 52.9% (2011: 59.9%) of the Group's total cost of purchase for the Year. The largest suppliers accounted for approximately 20.3% (2011: 14.7%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 41.6% (2011: 40.7%) of the Group's total revenue for the Year. The largest customers accounted for approximately 16.1% (2011: 15.2%) of the Group's total revenue for the Year.

To the knowledge of the Directors, none of the Directors, their respective associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) owned any direct or indirect interest in the Company's suppliers and customers mentioned above during the Year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors
Mr. WANG Liang *(General Manager)*
Mr. WANG Gang
Mr. WANG Tao

Non-executive Directors
Mr. WANG Yong *(Chairman)*
Mr. WANG Di
Mr. SUN Xinhu

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue
Mr. YU Kou

Each of the Executive Directors and Non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from 2 June 2011. Each of these service agreements may be terminated by either party by giving to the other not less than three months' prior notice in writing.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 23 February 2012. Each of these appointment may be terminated by either party by giving not less than three months' prior notice in writing.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Board considered each of the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 16 to 18 of the annual report.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "Connected transactions" below and in note 31 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party subsisting during or at the end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries or the holding company or a subsidiary of the Company's holding company a party to any arrangements to enable the directors to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Year and up to the date of this annual report, none of the Directors has any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our Group's business.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (" **SFO**")) which were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

Name of Company/ Associated corporations	Name of director	Capacity	Number and class of securities held/interest and interests in debentures (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2012
Company	WANG Yong	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	75%
Xiwang Holdings	WANG Yong	Beneficial owner (Note 2) Other (Note 2)	128,722 shares (L) 71,278 shares (L)	64.36% 35.64%
Xiwang Investment	WANG Yong	Interest of controlled corporations (Notes 2 and 3)	3 shares (L)	100%
Xiwang Sugar	WANG Yong	Interest of controlled corporations (Note 3)	584,790,077 ordinary shares (L) (Note 3)	57.98%
			904,454,180 Convertible preference Shares (L) (Note 3)	99.64%
			promissory note amounting RMB308,000,000 (Note 3)	100%
Xiwang Holdings	WANG Di	Beneficial owner (Note 2)	3,546 shares (L)	1.77%
Xiwang Holdings	WANG Liang	Beneficial owner (Note 2)	4,610 shares (L)	2.31%
Xiwang Holdings	WANG Gang	Beneficial owner (Note 2)	4,610 shares (L)	2.31%
Xiwang Holdings	SUN Xinhu	Beneficial owner (Note 2)	1,773 shares (L)	0.89%

Notes:

(1) The letter "L" represents the Director's long position in the shares of the relevant corporation.

(2) Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings, the voting rights of all the issued shares of Xiwang Holdings are in turn controlled as to 100% by Mr. WANG Yong. Mr. WANG Yong is therefore deemed to be interested in the entire issued share capital in Xiwang Investment and Xiwang Holdings. Mr. WANG Yong is the sole director of Xiwang Investment and Xiwang Holdings.

Xiwang Holdings is directly and beneficially owned as to 64.36% by Mr. WANG Yong,1.77% by Mr. WANG Di, 2.31% by each of Mr. WANG Liang, Mr. WANG Gang and 0.89% by Mr. SUN Xinhu.

(3) As at 31 December 2012, Xiwang Investment, which is deemed to be wholly owned by Mr. WANG Yong, held 57.98% of ordinary shares of Xiwang Sugar and 99.64% of convertible preference shares of Xiwang Sugar and the promissory note issued by Xiwang Sugar to Xiwang Investment in the principal amount of RMB308 million. The said promissory note was issued for the settlement of the consideration payable by Xiwang Sugar to Xiwang Investment pursuant to an acquisition between Xiwang Sugar and Xiwang Investment. Details of the acquisition and the promissory note can be found in the circular and announcement of Xiwang Sugar dated 11 December 2012 and 31 December 2012 respectively.

(4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to have interest in all shares of the Company held by Xiwang Investment.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

(a) Substantial shareholders of the Company

As at 31 December 2012, so far as it is known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held/interest (Note 1)	Approximate percentage of interest in the Company as at 31 December 2012
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	75%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	75%
ZHANG Shufang	Interest of spouse (Note 3)	1,500,000,000 ordinary shares (L)	75%

Notes:

(1) The letter "L" represents the entity's long position in the shares of the Company.

(2) Xiwang Investment is a wholly owned subsidiary of Xiwang Holdings. Xiwang Holdings is deemed to be interested in the shares in which Xiwang Investment is interested.

(3) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 31 December 2012, no other person had interests or short positions in the shares or underlying shares of the Company which are recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

The related party transactions set out in note 31(a) to the consolidated financial statements constitute continuing connected transactions under Chapter 14A of the Listing Rules after the listing of the Company on the Stock Exchange.

Such continuing connected transactions were exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules and are exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 26 of this annual report.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference based upon the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures and system of the Group. At present, members of the audit committee comprise two Independent Non-executive Directors, Mr. LEUNG Shu Sun Sunny (chairman) and Mr. ZHANG Gongxue and a Non-executive Director Mr. SUN Xinhu.

The Group's audited consolidated financial statements for the year ended 31 December 2012 have been reviewed by the audit committee, which is of the opinion that such statement compiled with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and as far as the Directors are aware, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this annual report.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Wednesday, 22 May 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Monday, 20 May 2013 to Wednesday, 22 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2013; and

(ii) from Wednesday, 29 May 2013 to Friday, 31 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Tuesday, 28 May 2013.

AUDITORS

The financial statements for the Year have been audited by Ernst & Young. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint Ernst & Young as auditors of the Company.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Xiwang Special Steel Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Xiwang Special Steel Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
REVENUE	5	**6,891,056**	8,541,004
Cost of sales		**(6,357,555)**	(7,248,031)
Gross profit		**533,501**	1,292,973
Other income and gain	5	**27,482**	16,453
Selling and distribution expenses		**(5,986)**	(5,415)
Administrative expenses		**(62,578)**	(58,236)
Other expenses		**–**	(522)
Finance costs	7	**(70,913)**	(57,432)
PROFIT BEFORE TAX	6	**421,506**	1,187,821
Income tax expense	10	**(76,569)**	(278,502)
PROFIT FOR THE YEAR		**344,937**	909,319
Profit attributable to owners of the parent	11	**344,937**	909,319
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**RMB17.8 cents**	RMB56.8 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR	**344,937**	909,319
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**175**	374
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**175**	374
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**345,112**	909,693
Total comprehensive income attributable to owners of the parent	**345,112**	909,693

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,599,585**	3,269,488
Prepaid land lease payments	15	**92,895**	94,903
Deferred asset	24	**1,760**	–
Deferred tax assets	25	**2,969**	1,370
Total non-current assets		**4,697,209**	3,365,761
CURRENT ASSETS			
Inventories	17	**572,834**	421,921
Trade and bills receivables	18	**49,198**	547,594
Prepayments, deposits and other receivables	19	**475,998**	498,228
Pledged deposits	20	**1,376,000**	744,951
Cash and cash equivalents	20	**370,172**	154,496
Total current assets		**2,844,202**	2,367,190
CURRENT LIABILITIES			
Trade and bills payables	21	**2,429,739**	1,578,883
Receipts in advance, other payables and accruals	22	**452,604**	536,458
Interest-bearing bank and other borrowings	23	**789,195**	644,453
Due to a related party	31(c)	**22,099**	–
Income tax payable		**29,210**	53,165
Total current liabilities		**3,722,847**	2,812,959
NET CURRENT LIABILITIES		**(878,645)**	(445,769)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,818,564**	2,919,992

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	**31 December 2012 RMB'000**	31 December 2011 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**1,018,825**	1,000,000
Deferred tax liability	25	**15,140**	27,280
Total non-current liabilities		**1,033,965**	1,027,280
Net assets		**2,784,599**	1,892,712
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**165,903**	133,392
Reserves	27	**2,588,696**	1,485,320
Proposed final dividend	12	**30,000**	274,000
Total equity		**2,784,599**	1,892,712

WANG Yong
Director

WANG Liang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent								
	Share capital RMB'000 (note 26)	Share premium account RMB'000 (note 26)	Contributed surplus RMB'000	Statutory surplus reserve RMB'000 (note 27(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Total equity RMB'000
At 1 January 2011	–	–	78,938	135,315	5,920	628,335	–	848,508	848,508
Profit for the year	–	–	–	–	–	909,319	–	909,319	909,319
Other comprehensive income for the year:									
Exchanges differences on translation of foreign operations	–	–	–	–	374	–	–	374	374
Total comprehensive income for the year	–	–	–	–	374	909,319	–	909,693	909,693
Profit appropriated to reserve	–	–	–	86,425	–	(86,425)	–	–	–
Issue of shares (note 26)	133,392	1,119	–	–	–	–	–	134,511	134,511
Proposed final 2011 dividend (note 12)	–	–	–	–	–	(274,000)	274,000	–	–
At 31 December 2011	133,392	1,119	78,938	221,740	6,294	1,177,229	274,000	1,892,712	1,892,712

	Attributable to owners of the parent									
	Share capital RMB'000 (note 26)	**Share premium account** RMB'000 (note 26)	**Contributed surplus** RMB'000	**Statutory surplus reserve** RMB'000 (note 27(a))	**Special reserve** RMB'000 (note 27(b))	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000	**Total equity** RMB'000
At 1 January 2012	133,392	1,119	78,938	221,740	-	6,294	1,177,229	274,000	1,892,712	1,892,712
Profit for the year	-	-	-	-	-	-	344,937	-	344,937	344,937
Other comprehensive income for the year:										
Exchanges differences on translation of foreign operations	-	-	-	-	-	175	-	-	175	175
Total comprehensive income for the year	-	-	-	-	-	175	344,937	-	345,112	345,112
Profit appropriated to reserve	-	-	-	42,961	37,220	-	(80,181)	-	-	-
Issue of new shares for the global offering (note 26)	32,511	829,036	-	-	-	-	-	-	861,547	861,547
Share issue expenses (note 26)	-	(40,225)	-	-	-	-	-	-	(40,225)	(40,225)
Final 2011 dividend declared	-	-	-	-	-	-	(547)	(274,000)	(274,547)	(274,547)
Proposed final 2012 dividend (note 12)	-	-	-	-	-	-	(30,000)	30,000	-	-
At 31 December 2012	165,903	789,930*	78,938*	264,701*	37,220*	6,469*	1,411,438*	30,000	2,784,599	2,784,599

* These reserve accounts comprise the consolidated reserves of RMB2,588,696,000 (2011: RMB1,485,320,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**421,506**	1,187,821
Adjustments for:			
Finance costs	7	**70,913**	57,432
Bank interest income	5	**(26,628)**	(13,096)
Exchange gain, net	5	**(854)**	(2,238)
Depreciation	14	**165,273**	110,491
Recognition of prepaid land lease payments	15	**1,976**	1,792
		632,186	1,342,202
Increase in inventories		**(150,913)**	(115,131)
Decrease/(increase) in trade and bills receivables		**498,396**	(490,459)
Decrease/(increase) in prepayments, deposits and other receivables		**11,064**	(303,717)
Decrease in amounts due from fellow subsidiaries		**–**	10,990
Increase in trade and bills payables		**850,856**	1,372,489
(Decrease)/increase in receipts in advance, other payables and accruals		**(4,784)**	65,442
Decrease in amounts due to fellow subsidiaries		**–**	(67,895)
Increase in an amount due to a related party		**22,099**	–
Cash generated from operations		**1,858,904**	1,813,921
Interest received		**23,524**	7,793
Interest element of finance lease rental payments		**(17,612)**	–
PRC tax paid		**(114,264)**	(253,239)
Net cash flows from operating activities		**1,750,552**	1,568,475
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,558,722)**	(1,276,527)
Proceeds from refund of a prepaid land lease payment		**–**	60,274
Proceeds from disposal of items of property, plant and equipment		**–**	515
Increase in pledged deposits		**(631,049)**	(534,951)
Net cash flows used in investing activities		**(2,189,771)**	(1,750,689)

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in an amount due to the ultimate holding company		**–**	(384,189)
New bank loans		**1,770,000**	1,764,453
Proceeds from a sale and leaseback arrangement		**570,000**	–
Capital element of finance lease rental payments		**(34,368)**	–
Repayment of bank loans		**(1,124,453)**	(1,061,200)
Repayment of other loans		**(1,000,000)**	–
Proceeds from issue of shares		**861,547**	–
Share issue expenses		**(53,552)**	–
Dividend paid		**(274,000)**	–
Interest paid		**(61,143)**	(57,432)
Net cash flows from financing activities		**654,031**	261,632
NET INCREASE IN CASH AND CASH EQUIVALENTS		**214,812**	79,418
Cash and cash equivalents at beginning of year		**154,496**	72,528
Effect of foreign exchange rate changes, net		**864**	2,550
CASH AND CASH EQUIVALENTS AT END OF YEAR		**370,172**	154,496
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**370,172**	154,496
Cash and cash equivalents as stated in the statement of cash flows		**370,172**	154,496

Statement of Financial Position

As at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**683,958**	108,336
CURRENT ASSETS			
Due from subsidiaries	16	**27,073**	18,210
Prepayments	19	**212**	4,753
Cash and cash equivalents	20	**8,278**	1,386
Total current assets		**35,563**	24,349
CURRENT LIABILITIES			
Other payables and accruals	22	**1,700**	4,668
Due to a subsidiary	16	**75,327**	10,878
Total current liabilities		**77,027**	15,546
NET CURRENT (LIABILITIES)/ASSETS		**(41,464)**	8,803
Net assets		**642,494**	117,139
EQUITY			
Share capital	26	**165,903**	133,392
Reserves	27	**446,591**	(290,253)
Proposed final dividend	12	**30,000**	274,000
Total equity		**642,494**	117,139

WANG Yong
Director

WANG Liang
Director

Notes to Financial Statements

1. CORPORATE INFORMATION

Xiwang Special Steel Company Limited (the "**Company**") is a limited company and was incorporated in Hong Kong on 6 August 2007. The Company's registered office is located at unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the production and sale of steel products in Mainland China. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012.

In the opinion of the Directors, the immediate holding company of the Company is Xiwang Investment Limited Company (西王投資有限公司) which is wholly owned by Xiwang Holdings Limited (西王控股有限公司), the ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2012, the Group had net current liabilities of approximately RMB878,645,000. The Directors of the Company are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the financial statements on a going concern basis notwithstanding the net current liabilities position.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "**Additions**") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("**FVO**"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("**OCI**"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of Directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (a group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.3%
Machinery and equipment	6.6%
Motor vehicles	20%
Office equipment and fixtures	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, an amount due to a related party, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

The Group's subsidiaries which operate in Mainland China participate in defined contribution retirement benefit schemes operated by the local municipal government. These subsidiaries are required to make contributions to the retirement benefit schemes which are based on a certain percentage of the total salary of these employees and have no further obligation for post-retirement benefits. The contributions are charged to the consolidated income statement of the Group as they become payable in accordance with the rules of the schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 6.1% and 10.5% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Company is the Hong Kong dollar ("**HK$**"). The functional currency of the Company's subsidiaries in Mainland China is RMB. As at the end of the reporting period, the assets and liabilities of the Company are translated into the presentation currency of the Group at the exchange rate prevailing at the end of the reporting period and its income statement is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from the subsidiaries in Mainland China according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in Mainland China will not be distributed in the foreseeable future, no withholding taxes are provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

- **Impairment of non-financial assets (other than goodwill)**

  The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

- **Useful lives and residual values of property, plant and equipment**

  In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from changes in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

- **Deferred tax assets**
  Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

- **Write-down of inventories to net realisable value**
  Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

- **Recognition of deferred tax liability for withholding taxes**
  Deferred tax liability is recognised for 5% withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liability that can be recognised, based upon the likely dividends declared.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has three reportable operating segments as follows:

(a) the ordinary steel segment, which engages in the production and sale of ordinary steel products;

(b) the special steel segment, which engages in the production and sale of special steel products; and

(c) the "others" segment, which includes the sale of by-products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax.

Geographical information

The Group operates within one geographical area and 100% of its revenue was generated in Mainland China. The principal assets and capital expenditure of the Group were located and incurred in Mainland China. Accordingly, no geographical information is presented.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

For the year ended 31 December 2012, sales to one of the Group's customers of RMB1,108,460,000 (2011: RMB1,300,059,000), which represented 16.1% (2011: 15.2%) of the Group's total revenue, were derived from sales by the ordinary steel segment and the special steel segment.

The segment results and other segment items included in profit before tax for the reporting period are as follows:

	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Year ended 31 December 2012				
Segment revenue:				
Sales to external customers	**4,794,811**	**2,031,618**	**64,627**	**6,891,056**
Cost of sales	**(4,473,179)**	**(1,844,777)**	**(39,599)**	**(6,357,555)**
Gross profit	**321,632**	**186,841**	**25,028**	**533,501**
Reconciliation:				
Other income and gain				**27,482**
Selling and distribution expenses				**(5,986)**
Administrative expenses				**(62,578)**
Other expenses				**–**
Finance costs				**(70,913)**
Profit before tax				**421,506**

	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Year ended 31 December 2011				
Segment revenue:				
Sales to external customers	5,259,112	3,202,615	79,277	8,541,004
Cost of sales	(4,654,788)	(2,563,263)	(29,980)	(7,248,031)
Gross profit	604,324	639,352	49,297	1,292,973
Reconciliation:				
Other income and gain				16,453
Selling and distribution expenses				(5,415)
Administrative expenses				(58,236)
Other expenses				(522)
Finance costs				(57,432)
Profit before tax				1,187,821

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax and government surcharges during the year.

An analysis of revenue, other income and gain is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Revenue		
Sale of ordinary steel	**4,794,811**	5,259,112
Sale of special steel	**2,031,618**	3,202,615
Sale of by-products	**64,627**	79,277
	6,891,056	8,541,004
Other income		
Bank interest income	**26,628**	13,096
Rental income from fellow subsidiaries (note 31(a))	**–**	25
Others	**–**	1,094
	26,628	14,215
Gain		
Foreign exchange gain, net	**854**	2,238
	27,482	16,453

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	Group 2012 RMB'000	2011 RMB'000
Cost of inventories sold^		**6,357,555**	7,248,031
Depreciation^	14	**165,273**	110,491
Amortisation of prepaid land lease payments^	15	**1,976**	1,792
Auditors' remuneration		**1,700**	1,324
Employee benefit expense (including directors' remuneration)^:			
Wages and salaries		**115,922**	90,860
Pension scheme contributions*		**4,710**	6,218
Staff welfare expenses		**3,523**	9,424
		124,155	106,502
Foreign exchange differences, net	5	**(854)**	(2,238)
Bank interest income	5	**(26,628)**	(13,096)
Write-down of inventories to net realisable value^		**5,329**	–

^ Included in the cost of inventories sold are direct employee benefit expense, depreciation of manufacturing facilities, amortisation of prepaid land lease payments and write-down of inventories to net realisable value amounting to approximately RMB239,157,000 (2011: RMB188,571,000). These amounts are also included in the amounts for the respective types of expenses disclosed above.

* As at the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2012 RMB'000	2011 RMB'000
Interest on bank borrowings wholly repayable within five years	**74,445**	87,621
Interest payable to the ultimate holding company (note 31(a))	**–**	17,542
Interest on a finance lease	**17,612**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**92,057**	105,163
Less: Interest capitalised	**(21,144)**	(47,731)
	70,913	57,432

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	**162**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**217**	622
Pension scheme contributions	**16**	9
	395	631

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Mr. LEUNG Shu Sun Sunny	**128**	–
Mr. ZHANG Gongxue	**17**	–
Mr. YU Kou	**17**	–
	162	–

There were no other emoluments payable to the Independent Non-executive Directors during the year (2011: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive Directors and Non-executive Directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012				
Executive Directors:				
Mr. WANG Liang	–	64	5	69
Mr. WANG Gang	–	–	–	–
Mr. WANG Tao	–	153	11	164
	–	217	16	233
Non-executive Directors:				
Mr. WANG Yong	–	–	–	–
Mr. WANG Di	–	–	–	–
Mr. SUN Xinhu	–	–	–	–
	–	217	16	233

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011				
Executive Directors:				
Mr. WANG Liang	–	480	5	485
Mr. WANG Gang	–	–	–	–
Mr. WANG Tao	–	142	4	146
	–	622	9	631
Non-executive Directors:				
Mr. WANG Yong	–	–	–	–
Mr. WANG Di	–	–	–	–
Mr. SUN Xinhu	–	–	–	–
	–	622	9	631

There were no emoluments payable to Non-executive Directors during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2011: two directors), details of whose remuneration are set out in note 8(b) above. Details of the remuneration for the year of the remaining four (2011: three), highest paid employees who are neither a director of the Company are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,018**	598
Performance related bonus	**206**	531
Pension scheme contributions	**40**	13
	2,264	1,142

Remuneration to each of the non-director and highest paid employees, for each of the reporting period, was less than HK$1,000,000.

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong for the reporting period. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law (the "**New CIT Law**") effective on 1 January 2008, the CIT rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rate for Shandong Xiwang Steel Co., Ltd. ("**Xiwang Steel**") (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel Co., Ltd. ("**Shandong Xiwang Special Steel**") (山東西王特鋼有限公司) and Shandong Xiwang Recycling Resources Co., Ltd. ("**Xiwang Recycling Resources**") (山東西王再生資源有限公司) was 25% for the reporting period.

Shandong Xiwang Metal Material Co., Ltd. ("**Xiwang Metal**") (山東西王金屬材料有限公司) was registered as a foreign investment enterprise on 20 April 2004. Pursuant to the approval of the tax bureau, Xiwang Metal is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New CIT Law, a company is still able to enjoy the above-mentioned tax holiday within a five-year transitional period from 1 January 2008. The company would be deemed to trigger the tax holiday from 1 January 2008 if it had not yet started to enjoy the tax holiday at that time. Since Xiwang Metal was under an accumulative loss position and had not yet started to enjoy the tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it made profit in 2008. Therefore, Xiwang Metal was exempted from CIT for the years ended 31 December 2008 and 2009 and was subject to the CIT rate of 12.5% for the years ended 31 December 2010, 2011 and 2012.

10. INCOME TAX EXPENSE (continued)

	Group 2012 RMB'000	Group 2011 RMB'000
Group:		
Current – Mainland China		
Charge for the year	**90,308**	252,592
Deferred (note 25)	**(13,739)**	25,910
Total tax charge for the year	**76,569**	278,502

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for the location in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group 2012 RMB'000	%	Group 2011 RMB'000	%
Profit before tax	**421,506**		1,187,821	
Tax at the statutory tax rate	**105,377**	**25**	296,955	25
Lower tax rate enacted by local authority	**(28,739)**	**(7)**	(51,235)	(4)
Expenses not deductible for tax	**226**	**–**	1,525	–
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**(12,140)**	**(3)**	27,280	2
Effect of gain on intra-group disposal of interest in a subsidiary (note 16)	**8,287**	**2**	–	–
Tax losses not recognised	**3,558**	**1**	3,977	–
Tax charge at the Group's effective tax rate	**76,569**	**18**	278,502	23

The Group has tax losses arising in Hong Kong of approximately RMB45,936,000 as at 31 December 2012 (2011: RMB24,371,000), that are available for offsetting against future taxable profits of the Company in which they arose. A deferred tax asset has not been recognised as at the end of the reporting period in respect of the tax losses as the directors of the Company consider that it is uncertain of the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB21,565,000 (2011: loss of RMB24,100,000) which has been dealt with in the financial statements of the Company (note 27).

12. DIVIDEND

	2012 **RMB'000**	2011 RMB'000
Proposed final dividend (not recognised as a liability as at 31 December) – RMB0.015 (2011: RMB0.137) per ordinary share	**30,000**	274,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 22 May 2013.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year ended 31 December 2012 attributable to ordinary equity holders of the parent of RMB344,937,000 (2011: RMB909,319,000) and the weighted average number of ordinary shares of 1,935,519,126 (2011: 1,600,000,000) deemed to have been in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2012 includes the 400,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 23 February 2012 in addition to the 1,600,000,000 ordinary shares in issue.

The calculation of the basic earnings per share is based on:

	2012 **RMB'000**	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**344,937**	909,319
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation, as adjusted retrospectively to reflect the Share Split and the Debt Settlement (note 26) (thousands)	**1,935,519**	1,600,000
Basic earnings per share (RMB per share)	**0.178**	0.568

There were no potentially dilutive ordinary shares in issue during the year and therefore the diluted earnings per share is equivalent to the basic earnings per share.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	689,696	911,786	4,855	9,116	1,897,385	3,512,838
Accumulated depreciation	(69,342)	(170,313)	(601)	(3,094)	–	(243,350)
Net carrying amount	620,354	741,473	4,254	6,022	1,897,385	3,269,488
At 1 January 2012, net of accumulated depreciation	620,354	741,473	4,254	6,022	1,897,385	3,269,488
Additions	–	5,138	–	376	1,489,856	1,495,370
Depreciation provided during the year	(47,612)	(113,764)	(717)	(3,180)	–	(165,273)
Transfers	1,113,862	1,047,367	–	13,983	(2,175,212)	–
At 31 December 2012, net of accumulated depreciation	1,686,604	1,680,214	3,537	17,201	1,212,029	4,599,585
At 31 December 2012:						
Cost	1,803,558	1,964,291	4,855	23,475	1,212,029	5,008,208
Accumulated depreciation	(116,954)	(284,077)	(1,318)	(6,274)	–	(408,623)
Net carrying amount	1,686,604	1,680,214	3,537	17,201	1,212,029	4,599,585

As at 31 December 2012, the Group has not yet obtained the building ownership certificates in respect of the buildings with a net book value of RMB778,045,000.

The net carrying amounts of the Group's fixed assets held under finance lease included in the amount of machinery and equipment at 31 December 2012 amounted to RMB552,781,000.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 1 January 2011:						
Cost	680,796	898,485	129	7,005	685,093	2,271,508
Accumulated depreciation	(32,178)	(99,038)	(47)	(1,598)	–	(132,861)
Net carrying amount	648,618	799,447	82	5,407	685,093	2,138,647
At 1 January 2011, net of accumulated depreciation	648,618	799,447	82	5,407	685,093	2,138,647
Additions	7,416	6,528	4,726	2,113	1,220,928	1,241,711
Disposal	(379)	–	–	–	–	(379)
Depreciation provided during the year	(37,164)	(71,275)	(554)	(1,498)	–	(110,491)
Transfers	1,863	6,773	–	–	(8,636)	–
At 31 December 2011, net of accumulated depreciation	620,354	741,473	4,254	6,022	1,897,385	3,269,488
At 31 December 2011:						
Cost	689,696	911,786	4,855	9,116	1,897,385	3,512,838
Accumulated depreciation	(69,342)	(170,313)	(601)	(3,094)	–	(243,350)
Net carrying amount	620,354	741,473	4,254	6,022	1,897,385	3,269,488

15. PREPAID LAND LEASE PAYMENTS

	Group 2012 RMB'000	Group 2011 RMB'000
Carrying amount at 1 January	**96,847**	158,913
Refund	**–**	(60,274)
	96,847	98,639
Recognised during the year	**(1,976)**	(1,792)
Carrying amount at 31 December	**94,871**	96,847
Current portion included in prepayments, deposits and other receivables (note 19)	**(1,976)**	(1,944)
Non-current portion	**92,895**	94,903

The leasehold land is situated in Mainland China and is held under a long term lease.

Certain of the Group's leasehold land with a carrying amount of RMB57,817,000 as at 31 December 2012 (2011: Nil) were pledged as security for the Group's issuance of bills payable (note 21).

Certain of the Group's leasehold land with a carrying amount of RMB32,076,000 as at 31 December 2012 (2011: Nil) were pledged as security for the Group's bank loans and other borrowings (note 23).

16. INVESTMENTS IN SUBSIDIARIES

	Company 2012 RMB'000	Company 2011 RMB'000
Unlisted shares, at cost	**683,958**	108,336

The amount due from and to a subsidiary included in the Company's current assets and liabilities of RMB27,073,000 (31 December 2011: RMB18,210,000) and RMB75,327,000 (31 December 2011: RMB10,878,000), respectively as at 31 December 2012 are unsecured, interest-free and have no fixed terms of repayment.

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Win Goal Trading Limited	Hong Kong 9 November 2012	HK$1	100	–	#
Xiwang Metal*	People's Republic of China ("**PRC**")/ Mainland China 20 April 2004	US$61,000,000	100	–	Production and sale of steel products
Xiwang Steel*	PRC/Mainland China 31 December 2003	RMB240,000,000	–	100	Production and sale of steel products
Shandong Xiwang Special Steel*	PRC/Mainland China 29 December 2007	US$50,800,000	100	–	Production and sale of steel products
Xiwang Recycling Resources*	PRC/Mainland China 7 May 2009	RMB30,000,000	–	100	Purchase and sale of steel scrap

* Companies registered as limited liability companies under the PRC law.

\# The company has not yet commenced operation.

During the year, Xiwang Steel transferred 11.85% equity interest in Shandong Xiwang Special Steel to the Company at a consideration of RMB75,330,000, and recognised a gain on disposal of interest in a subsidiary of RMB33,150,000.

17. INVENTORIES

	Group	
	2012 RMB'000	2011 RMB'000
Raw materials	278,617	244,733
Work in progress	4,227	19,381
Finished goods	289,990	157,807
	572,834	421,921

Certain of the Group's inventories with a carrying amount of RMB418,982,000 as at 31 December 2012 (2011: RMB214,302,000), were pledged as security for the Group's issuance of bills payable (note 21).

Certain of the Group's inventories with a carrying amount of RMB152,401,000 as at 31 December 2012 (2011: RMB180,382,000), were pledged as security for the Group's bank loans and other borrowings (note 23).

18. TRADE AND BILLS RECEIVABLES

	Group	
	2012 RMB'000	2011 RMB'000
Bills receivable	29,681	516,608
Trade receivables	19,517	30,986
	49,198	547,594

The Group requires advance payments from its customers, except for certain long term customers which are granted credit terms by the Group. The credit period is generally three months and each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice dates, is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within 3 months	36,117	547,594
3 to 6 months	12,577	–
6 months to 1 year	504	–
	49,198	547,594

18. TRADE AND BILLS RECEIVABLES (continued)

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**48,694**	547,594
Less than 1 month past due	**–**	–
1 to 3 months past due	**504**	–
	49,198	547,594

Receivables that were neither past due nor impaired relate to certain customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**402,360**	471,537	**212**	4,753
Bank interest receivables	**8,408**	5,303	**–**	–
VAT recoverable	**62,496**	19,130	**–**	–
Deposits and other receivables	**758**	314	**–**	–
Current portion of prepaid land lease payments (note 15)	**1,976**	1,944	**–**	–
	475,998	498,228	**212**	4,753

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2012	2011	**2012**	2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**370,172**	154,496	**8,278**	1,386
Time deposits		**1,376,000**	744,951	**–**	–
		1,746,172	899,447	**8,278**	1,386
Less: Pledged time deposits:					
Guarantee deposits for issuance of bills payable	21	**(1,376,000)**	(673,400)	**–**	–
Guarantee deposits for certain bank borrowings		**–**	(71,551)	**–**	–
Cash and cash equivalents		**370,172**	154,496	**8,278**	1,386

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB361,894,000 (2011: RMB153,110,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short time deposits are made for varying periods of between one month and six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and bank deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

	Group 2012 RMB'000	2011 RMB'000
Bills payable	**2,211,000**	1,402,000
Trade payables	**218,739**	176,883
	2,429,739	1,578,883

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group 2012 RMB'000	2011 RMB'000
Within 1 month	**598,387**	103,750
1 to 3 months	**1,182,340**	1,009,134
3 to 6 months	**623,808**	465,999
6 to 12 months	**20,492**	–
Over 12 months	**4,712**	–
	2,429,739	1,578,883

The Group's bills payable amounting to RMB2,211,000,000 (2011: RMB1,402,000,000) were secured by the pledged time deposits of RMB1,376,000,000 (2011: RMB673,400,000), the Group's inventories of RMB418,982,000 (2011: RMB214,302,000) and the Group's leasehold land of RMB57,817,000 (2011: Nil).

Additionally, an independent third party guaranteed certain of the Group's bills payable up to RMB490,000,000 as at 31 December 2012. Mr. WANG Yong, the Chairman and Non-executive Director of the Company, guaranteed certain of the Group's bills payable up to RMB300,000,000 as at 31 December 2012 (note 31 (b)(i)). Xiwang Group Company Limited ("**Xiwang Group**")（西王集團有限公司）, a company controlled by Mr. WANG Yong, guaranteed certain of the Group's bill payable up to RMB180,000,000 as at 31 December 2012 (note 31 (b)(i)).

The trade payables are non-interest-bearing and are normally settled within 30 days.

22. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Advances from customers	**104,023**	191,431	**–**	–
Salaries and welfare payables	**24,674**	21,261	**–**	–
Other tax payables	**4,616**	13,769	**–**	–
Other payables	**319,291**	309,997	**1,700**	4,668
	452,604	536,458	**1,700**	4,668

Other payables are non-interest-bearing and have an average term of six months.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2012			2011		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payable (note 24)	**7.13**	**2013**	**199,195**	–	–	–
Interest-bearing bank loans – secured	**6.60-7.57**	**2013**	**590,000**	5.85-7.35	2012	457,753
Current portion of long term interest-bearing other loan – secured	**–**	**–**	**–**	10.75	2012	186,700
			789,195			644,453
Non-current						
Finance lease payable (note 24)	**7.13**	**2015**	**318,825**	–	–	–
Long term interest-bearing bank loans – secured	**10.50**	**2014**	**700,000**	–	–	–
Long term interest-bearing other loans – secured	**–**	**–**	**–**	6.06	2013	1,000,000
			1,018,825			1,000,000
			1,808,020			1,644,453

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group 2012 RMB'000	2011 RMB'000
Analysed into:		
Bank and other loans repayable:		
Within one year	**789,195**	644,453
In the second year	**700,000**	1,000,000
In the third year	**318,825**	–
	1,808,020	1,644,453

Notes:

(i) Certain of the Group's bank loans are secured by:

a. certain of the Group's inventories totaling RMB152,401,000 as at 31 December 2012 (2011: RMB180,382,000) (note 17).

b. certain of the Group's leasehold land with a carrying amount of RMB32,076,000 as at 31 December 2012 (2011: Nil) (note 15).

In addition, Xiwang Group guaranteed certain of the Group's bank loans up to RMB870,000,000 as at 31 December 2012 (2011: Nil) (note 31(b)(ii)). Mr. WANG Yong guaranteed certain of the Group's bank loans up to RMB820,000,000 as at 31 December 2012 (2011: Nil) (note 31(b)(ii)). Two independent third parties guaranteed certain of the Group's bank loans of RMB300,000,000 and RMB700,000,000, respectively, as at 31 December 2012 (2011: RMB306,700,000). Certain leasehold land of an independent third party was pledged to secure a bank loan of the Group up to RMB80,400,000 as at 31 December 2012 (2011: Nil).

(ii) The carrying amounts of the Group's borrowings approximate to their fair values.

On 7 January 2013, the Group entered into a bank loan agreement amounting to RMB100 million. Additionally, on 8 January 2013, the Group issued a fixed rate note of US$12,500,000 to a bank. Details are set out in note 35.

24. FINANCE LEASE PAYABLES

The Group entered into a sale and leaseback arrangement in respect of certain of its machinery and equipment (note 14). This lease is classified as a finance lease and has a remaining lease term within four years.

The excess of the carrying amount of the machinery and equipment over the sales proceeds was accounted for as a deferred asset. As at 31 December 2012, deferred asset of RMB1,760,000 will be amortised over the lease term.

At 31 December 2012, the total future minimum lease payments under finance lease and their present values were as follows:

Group	Minimum lease payments 2012 RMB'000	Minimum lease payments 2011 RMB'000	Present value of minimum lease payments 2012 RMB'000	Present value of minimum lease payments 2011 RMB'000
Amounts payable:				
Within one year	211,529	–	199,195	–
In the second year	211,529	–	185,938	–
In the third to the fourth year	160,614	–	132,887	–
Total minimum finance lease payments	583,672	–	518,020	–
Future finance charges	(65,652)	–		
Total net finance lease payables	518,020	–		
Portion classified as current liabilities (note 23)	(199,195)	–		
Non-current portion (note 23)	318,825	–		

25. DEFERRED TAX

The movements in deferred tax assets and liability during the year are as follows:

Deferred tax assets

	Group 2012 RMB'000	2011 RMB'000
At 1 January	**1,370**	–
Deferred tax credited to the income statement during the year (note 10)	**1,599**	1,370
Gross deferred tax assets at the end of the year	**2,969**	1,370

For the year ended 31 December 2012, deferred tax assets were recognised in respect of the unrealized profit arising from intra-group sales and write-down inventories to net realisable values.

Deferred tax liability

	Group 2012 Withholding tax on the distributable profits RMB'000	2011 Withholding tax on the distributable profits RMB'000
At 1 January	**27,280**	–
Deferred tax (credited)/charged to the income statement during the year (note 10)	**(12,140)**	27,280
At 31 December	**15,140**	27,280

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 10%. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Pursuant to the Announcement [2012] No. 30 released by the China State Administration of Taxation on 29 June 2012, a lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The applicable tax rate for the Group is reduced from 10% to 5%. As a result, these was a credit of deferred tax of RMB13,640,000 to the income statement during the year.

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liability has not been recognised totaled approximately RMB95,706,000 (2011: RMB123,941,000).

26. SHARE CAPITAL

	2012 HK$'000	2011 HK$'000
Authorised:		
100,000,000,000 (2011: 100,000,000,000) ordinary shares of HK$0.1 each	**10,000,000**	10,000,000
Issued and fully paid:		
2,000,000,000 (2011: 1,600,000,000) ordinary shares of HK$0.1 each	**200,000**	160,000

During the year, the movements in share capital were as follows:

	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 31 December 2010 and 1 January 2011	1	–	–	–
Share split	9	–	–	–
Issue of shares	1,599,999,990	133,392	1,119	134,511
At 31 December 2011 and 1 January 2012	1,600,000,000	133,392	1,119	134,511
Issue of new shares for global offering	400,000,000	32,511	829,036	861,547
Share issue expenses	–	–	(40,225)	(40,225)
At 31 December 2012	**2,000,000,000**	**165,903**	**789,930**	**955,833**

In connection with the Company's initial public offering, 400,000,000 ordinary shares of HK$0.1 each were issued at a price of HK$2.65 per share for a total cash consideration, before listing expenses, of HK$1,060,000,000 (equivalent to RMB861,547,000). Dealings of these shares on the Stock Exchange commenced on 23 February 2012.

Notes:

(a) The Company was incorporated in Hong Kong on 6 August 2007, with authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each. One ordinary share of HK$1 was issued and fully paid as at 31 December 2010.

(b) On 23 February 2012, the Company was listed on the Stock Exchange with the issue of 400,000,000 ordinary shares on the main board, with an offer price of HK$2.65 per share.

The increase in share premium was credited with the net proceeds from the allotment and issue of the offer share pursuant to the global offering of the Company.

27. RESERVES

Group

(a) In accordance with the PRC Company Law and the respective articles of association of the subsidiaries registered in the PRC (the "PRC Subsidiaries"), each of the PRC Subsidiary is required to appropriate 10% of its annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase the capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

(b) In accordance with the regulation regarding safety production expenditures jointly issued by the Ministry of Finance and the State Administration of Work Safety on 14 February 2012, the subsidiaries of the Group engaged in the covered industry were required to accrue the safety production expenditure according to their sales of the previous year in a progressive way. The special reserve was used to improve the production safety of these subsidiaries.

Company

	Exchange reserve RMB'000	Accumulated losses RMB'000	Share premium RMB'000	Proposed final dividend RMB'000	Total reserves RMB'000
Balance at 1 January 2011	5,264	(271)	–	–	4,993
Exchange differences on translation of foreign operations	1,735	–	–	–	1,735
Loss for the year	–	(24,100)	–	–	(24,100)
Issue of shares (note 26)	–	–	1,119	–	1,119
Proposed final 2011 dividend	–	(274,000)	–	274,000	–
At 31 December 2011 and 1 January 2012	6,999	(298,371)	1,119	274,000	(16,253)
Exchange differences on translation of foreign operations	145	–	–	–	145
Loss for the year	–	(21,565)	–	–	(21,565)
Issue of new shares for the global offering (note 26)	–	–	829,036	–	829,036
Share issue expenses (note 26)	–	–	(40,225)	–	(40,225)
Final 2011 dividend declared	–	(547)	–	(274,000)	(274,547)
Proposed final 2012 dividend	–	(30,000)	–	30,000	–
At 31 December 2012	**7,144**	**(350,483)**	**789,930**	**30,000**	**476,591**

28. PLEDGE OF ASSETS

Details of the Group's bills payable and bank loans, which were secured by the assets of the Group, are included in notes 21 and 23, respectively, to the financial statements.

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group under operating lease arrangements. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within one year	**369**	369
In the second to fifth years, inclusive	**1,475**	1,475
After five years	**4,886**	5,255
	6,730	7,099

30. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Group	
	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**928,172**	130,121

The Group entered into a cooperation agreement with a German steel consulting company on 28 October 2010, pursuant to which the Group would pay €800,000 (equivalent to RMB7,045,200) in aggregate for its services provided in the three years from December 2010 to December 2013. The Group had the following commitment under the cooperation agreement at the end of the reporting period:

	Group	
	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
Consulting services	**573**	1,265

31. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	Group 2012 RMB'000	Group 2011 RMB'000
Purchase of raw materials from:			
Fellow subsidiaries		–	377,547
Purchase of machinery from:			
A fellow subsidiary		–	22,269
Interest expenses to:			
The ultimate holding company	7	–	17,542
Rental income from:			
Fellow subsidiaries	5	–	25
Rental expenses to:			
The ultimate holding company	(a)(i)	–	116
A related company	(a)(i)	**369**	150
		369	266

(i) The rental expenses to the ultimate holding company and a related company were charged by reference to the market prices.

(ii) In the opinion of the directors, the above related party transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

31. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Other related party transactions:

(i) As detailed in note 21, Xiwang Group has guaranteed certain of the Group's bills payable up to RMB180,000,000 as at 31 December 2012. Mr. WANG Yong has guaranteed certain of the Group's bills payable up to RMB300,000,000 as at 31 December 2012. The guarantees provided by the related parties as at 31 December 2012 will expire on 26 April 2013 and 14 May 2013, respectively.

(ii) As detailed in note 23(i), Xiwang Group has guaranteed certain of the Group's bank loans up to RMB870,000,000 as at 31 December 2012. Mr. WANG Yong has guaranteed certain of the Group's bank loans up to RMB820,000,000 as at 31 December 2012. The guarantees provided by the related parties will expire from 1 August 2013 to 23 October 2014.

(c) The Group had the following balance with a related party:

	Group 2012 RMB'000	2011 RMB'000
Due to a related party		
Zouping Xiwang Power Co., Ltd ("Xiwang Power")（鄒平縣西王動力有限公司）	**22,099**	–

The amount was arisen from the payments made by Xiwang Power on behalf of the Group, which is unsecured, interest-free and has no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

	Group 2012 RMB'000	2011 RMB'000
Employee benefit expenses	**2,575**	1,525
Pension scheme contributions	**78**	21
Total compensation paid to key management personnel	**2,653**	1,546

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of item 31(a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group	
	2012	2011
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Trade and bills receivables	**49,198**	547,594
Financial assets included in prepayments, deposits and other receivables	**9,166**	5,617
Pledged deposits	**1,376,000**	744,951
Cash and cash equivalents	**370,172**	154,496
Total	**1,804,536**	1,452,658

Financial liabilities

	Group	
	2012	2011
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and bills payables	**2,429,739**	1,578,883
Financial liabilities included in receipts in advance, other payables and accruals	**343,965**	331,258
Due to a related party	**22,099**	–
Interest-bearing bank and other borrowings	**1,808,020**	1,644,453
Total	**4,603,823**	3,554,594

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

	Company 2012 Loans and receivables RMB'000	2011 Loans and receivables RMB'000
Due from subsidiaries	**27,073**	18,210
Cash and cash equivalents	**8,278**	1,386
Total	**35,351**	19,596

Financial liabilities

	Company 2012 Financial liabilities at amortised cost RMB'000	2011 Financial liabilities at amortised cost RMB'000
Other payables	**1,700**	4,668
Due to a subsidiary	**75,327**	10,878
Total	**77,027**	15,546

33. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade and bills receivables	**49,198**	547,594	**49,198**	547,594
Financial assets included in prepayments, deposits and other receivables	**9,166**	5,617	**9,166**	5,617
Pledged deposits	**1,376,000**	744,951	**1,376,000**	744,951
Cash and cash equivalents	**370,172**	154,496	**370,172**	154,496
	1,804,536	1,452,658	**1,804,536**	1,452,658
Financial liabilities				
Trade and bills payables	**2,429,739**	1,578,883	**2,429,739**	1,578,883
Financial liabilities included in receipts in advance, other payables and accruals	**343,965**	331,258	**347,365**	331,258
Due to a related party	**22,099**	–	**22,099**	–
Interest-bearing bank and other borrowings	**1,808,020**	1,644,453	**1,808,020**	1,644,453
	4,603,823	3,554,594	**4,607,223**	3,554,594

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Due from a subsidiary	**27,073**	18,210	**27,073**	18,210
Cash and cash equivalents	**8,278**	1,386	**8,278**	1,386
	35,351	19,596	**35,351**	19,596
Financial liabilities				
Other payables	**1,700**	4,668	**1,700**	4,668
Due to a subsidiary	**75,327**	10,878	**75,327**	10,878
	77,027	15,546	**77,027**	15,546

33. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in receipts in advance, other payables and accruals, amounts due from/to fellow subsidiaries, an amount due to the ultimate holding company and an amount due to the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and other borrowings, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings.

The Group's policy is to obtain the most favourable interest rate available. The effective interest rate and terms of repayment of the interest-bearing bank loan of the Group are set out in note 23 to the financial statements.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. At the end of the reporting period, approximately 97% (2011: 81%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) and the Group's equity during the year.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2012			
RMB	**100**	**(210)**	**–**
RMB	**(100)**	**210**	**–**
31 December 2011			
RMB	100	(2,867)	–
RMB	(100)	2,867	–

* Excluding retained profits

Foreign currency risk

The Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

A reasonably possible change of 5% in the US$, HK$ and RMB exchange rates would have no material impact on the Group's profit or loss during each of the reporting periods and there would be no impact on the Group's equity.

Credit risk

The carrying amount of the trade receivables represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from fellow subsidiaries, and deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, deposits and other receivables are disclosed in note 18 and note 19, respectively, to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2012					
Group	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	180,970	716,669	1,129,514	–	2,027,153
Trade and bills payables	–	904,344	1,525,395	–	–	2,429,739
Financial liabilities included in receipts in advance, other payables and accruals	–	124,988	222,377	–	–	347,365
	–	1,210,302	2,464,441	1,129,514	–	4,804,257

	31 December 2011					
Group	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	361,401	364,578	1,012,618	–	1,738,597
Trade and bills payables	–	493,451	1,085,432	–	–	1,578,883
Financial liabilities included in receipts in advance, other payables and accruals	11,496	71,206	248,556	–	–	331,258
	11,496	926,058	1,698,566	1,012,618	–	3,648,738

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	31 December 2012					
Company	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables	–	1,700	–	–	–	1,700
Due to a subsidiary	75,327	–	–	–	–	75,327
	75,327	1,700	–	–	–	77,027

	31 December 2011					
Company	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables	–	4,668	–	–	–	4,668
Due to a subsidiary	10,878	–	–	–	–	10,878
	10,878	4,668	–	–	–	15,546

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt includes interest-bearing bank and other borrowings, and an amount due to the ultimate holding company. The Group's policy is to maintain the gearing ratio between 20% and 50%. The gearing ratios as at the end of the reporting periods were as follows:

Group

	Note	**2012 RMB'000**	2011 RMB'000
Interest-bearing bank and other borrowings	23	**1,808,020**	1,644,453
Total assets		**7,541,411**	5,732,951
Gearing ratio		**24.0%**	28.7%

35. EVENTS AFTER THE REPORTING PERIOD

On 7 January 2013, the Group entered into a bank loan agreement for a loan in the principal amount of RMB100 million. The bank loan has a term of 12 months and bears interest at 7.8% per annum. The bank loan is guaranteed by an independent third party.

On 8 January 2013, the Group issued a fixed rate note of US$12,500,000 to a bank. The note has a term of 12 months and bears interest at 2.5% per annum.

On 25 March 2013, the board of directors proposed a final dividend of RMB0.015 per ordinary share of the Company, totaling approximately RMB30,000,000. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

36. APPROVAL OF THE FINANCIAL STATEMENTS

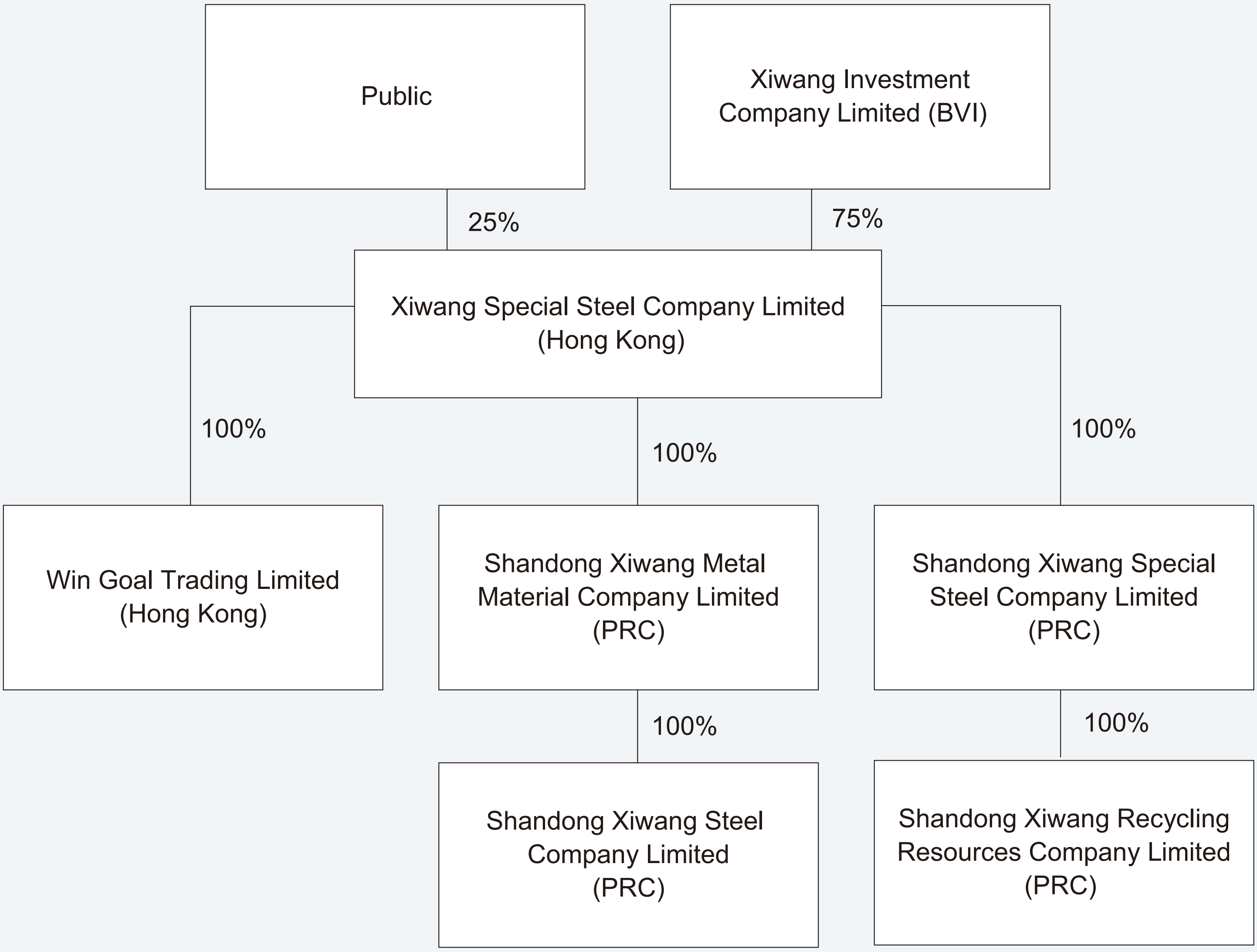
The financial statements were approved and authorised for issue by the board of directors on 25 March 2013.

Five-Year Financial Summary

	2012	2011	2010	2009	2008
For the year (RMB million)					
Revenue	**6,891**	8,541	5,387	3,777	3,858
Gross profit	**533**	1,293	601	246	126
EBITDA	**633**	1,341	654	248	129
Operating profit	**492**	1,246	622	252	137
Net profit	**345**	909	493	199	80
As at December 31 (RMB million)					
Current assets	**2,844**	2,367	850	2,291	608
Non-current assets	**4,697**	3,366	2,294	1,563	600
Total assets	**7,541**	5,733	3,144	3,854	1,208
Current liabilities	**3,723**	2,813	2,296	3,504	995
Non-current liabilities	**1,034**	1,027	–	–	35
Total liabilities	**4,757**	3,840	2,296	3,504	1,030
Total equity	**2,785**	1,893	848	350	178
Total liabilities and equity	**7,542**	5,733	3,144	3,854	1,208
Per share (RMB)					
Basic earnings per share	**0.178**	0.568	0.308	0.121	0.027
Dividends per share	**0.015**	0.137	–	–	–
Financial and performance ratios					
Gross profit margin (%)	**7.7**	15.1	11.2	6.5	3.3
Operating profit margin (%)	**7.1**	14.6	11.6	6.7	3.6
Net profit margin (%)	**5.0**	10.6	9.1	5.3	2.1
Current ratio	**0.76**	0.84	0.37	0.65	0.61
Net debts to equity	**0.52**	0.79	1.02	1.55	1.29
Average inventory turnover days	**28.6**	18.3	25.7	32.4	26.8
Average debtor turnover days	**1.3**	1.0	0.5	0.3	0.7
Average creditor turnover days	**11.3**	7.1	5.3	3.3	1.7

Organization Structure

As at the date of this annual report:



Information for Shareholders

Corporate calendar

Announcement of 2012 annual results	25 March 2013 (Monday)
Annual general meeting	22 May 2013 (Wednesday)

Website

www.xiwangsteel.com

Stock code

The Stock Exchange of Hong Kong Limited	1266
Bloomberg	1266 HK EQUITY

Board lot

1,000 shares

Financial year-end date

31 December

As at 31 December 2012

Market Value:	HK$2,580 million
Issued shares:	2,000,000,000 shares
Closing market price:	HK$1.29 per share

Annual report

This annual report is printed in English and Chinese and is available on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwangsteel.com).

Closure of register of members

(i) For the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 May 2013 to Wednesday, 22 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Thursday, 16 May 2013;

(ii) The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders of the Company at the AGM. For the purpose of ascertaining shareholders' entitlement to the proposed dividend, the register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Tuesday, 28 May 2013.

Information for Shareholders

Annual general meeting
The annual general meeting of the Company will be held on Wednesday, 22 May 2013. A notice convening the annual general meeting will be published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwangsteel.com). The proxy form together with the annual report will be dispatched to shareholders on or around Monday, 15 April 2013.

Hong Kong share registrar and transfer office
Tricor Investor Services Limited
26th floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Cautionary Statement Regarding Forward-Looking Statements
This annual report contains certain forward-looking statements and opinions with respect to the operations and businesses of Xiwang Special Steel Company Limited (the "**Company**"). These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, would or other results of actions that may or are expected to occur in the future. Shareholders and potential investors should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this annual report. These forward looking statements are based on the Company's own information and on information from other sources which the Company believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. Neither the Company nor its directors and employees assume any liability in the event that any forward-looking statements or opinions does not materialize or turn out to be incorrect. Subject to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Company does not undertake to update any forward-looking statements or opinions contained in this annual report.

Miscellaneous
In the event of inconsistency, the English texts of this annual report shall prevail over the Chinese texts.