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

(incorporated in Hong Kong with limited liability)
(於香港註冊成立之有限公司)

Stock Code 股份代號: 1266

Annual Report 年報
2015

Contents

Company Profile

Xiwang Special Steel Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is a leading high-end special steel manufacturer located in Shandong Province of the People's Republic of China (the "**PRC**" or "**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. Our production base is located in Xiwang Industrial Area, Zouping County, Shandong Province of China. We operate an integrated production process from iron smelting and steel smelting to secondary metallurgy, continuous casting and steel rolling. Our products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

Currently, the Group has an aggregate designed annual smelting capacity of electric arc furnaces ("**EAFs**") and converters of approximately 3.3 million tonnes, and an aggregate designed annual rolling capacity of 3.0 million tonnes. The total designed annual capacity of our blast furnaces and sintering furnaces are 2.1 million tonnes and 3.7 million tonnes, respectively.

The Group possesses two production flows, which are (1) steel scraps as raw materials for steel production through EAFs; (2) sintering furnace turning iron ores into sinter for blast furnaces to produce molten iron which was then converted into steel by converters. This provides us with more flexibility in production flow, as we could control our cost and product mix through the utilization of different raw materials.

Our steel production facilities, as of 31 December 2015, consisted of:

- a sintering furnace, with a designed annual capacity of 3.7 million tonnes, supplies sinter for the two blast furnaces;
- two blast furnaces, with a designed annual capacity of 1.05 million tonnes each, use iron ore to convert sinter into molten iron and pig iron for production purposes of the EAFs and converters;
- two converters, i.e. Converter I and Converter II, with a designed annual capacity of 1.15 million tonnes each, convert raw materials including steel scraps, molten iron and pig iron into molten steel and then cast into ordinary steel billets and special steel billets;
- two EAFs, i.e. EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, including steel scraps, molten iron and pig iron into molten steel and then cast into 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 and bearing steel;
- two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 1,700,000 tonnes in total. Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel and alloy structural steel;
- a large bar rolling line, Bar III, with a designed annual capacity of 650,000 tonnes. Bar III manufactures large bar of special steel products including quality carbon structural steel, alloy structural steel and bearing steel; and
- a wire rolling line with a designed annual capacity of 650,000 tonnes upon the addition of equipment and improvement of technology during the Period. This wire rolling line manufactures steel products in the form of wire rod, which include wire rod, quality carbon structural steel and bearing steel.

The Group produced and sold ordinary steel and special steel and mainly traded raw materials, such as iron ore dust and pellet, during the Period. Ordinary steel mainly includes rebar and wire rod. Special steel includes quality carbon structural steel, alloy structural steel and bearing steel. Details are as follows:

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 of which have cross sectional diameters ranging from 6 millimetres to 12 millimetres. Our wire rod is used in the construction and infrastructure sectors.

2. SPECIAL STEEL

Quality carbon structural steel

Our quality carbon structural steel includes steel bars and steel wires with cross sectional diameters ranging from 5.5 millimetres to 350 millimetres. Quality carbon structural steel contains less than 0.8% carbon and has less sulfur, phosphorus and non-metallic contents than ordinary carbon structural steel. Because of its higher purity, quality carbon structural steel has better mechanical properties, such as yield strength and tensile strength, than ordinary carbon structural steel. This product is mainly used for buildings and infrastructures.

Alloy structural steel

Alloy structural steel is mostly used in machineries. In order to get the desired steel properties, manganese, silicon, nickel, chromium and molybdenum were added to adjust the chemical composition. Our alloy structural steel includes steel bars with cross sectional diameters ranging from 5.5 millimetres to 350 millimetres.

Bearing steel

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

Ingots

Ingots manufactured by the Company can be applied to the transportation, power and energy, petrochemical, oceanic engineering, space and aeronautics as well as weaponry industries. Our products include wide and thick slabs, round ingots, square ingots, rhombus ingots and hollow ingots weighting from 3 tonnes to 80 tonnes.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Jian *(Chief Executive Officer)*
(appointed on 14 October 2015)
Mr. SUN Xinhu (re-designated from non-executive Director to executive Director on 16 April 2015)
Ms. LI Hai Xia (appointed on 14 October 2015)
Mr. WANG Hui (resigned on 14 October 2015)
Mr. JIANG Chang Lin (resigned on 14 October 2015)
Mr. HE Qing Wen (resigned on 16 April 2015)

Non-executive Directors

Mr. WANG Yong
Mr. WANG Di *(Chairman)*
Ms. LI Yiyi (appointed on 16 April 2015)

Independent Non-executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. ZHANG Gongxue (resigned on 16 April 2015)

COMMITTEES

Audit Committee

Mr. LEUNG Shu Sun Sunny *(Chairman)*
Mr. YU Kou (appointed on 16 April 2015)
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. SUN Xinhu (resigned on 16 April 2015)
Mr. ZHANG Gongxue (resigned on 16 April 2015)

Remuneration Committee

Mr. LI Bangguang *(Chairman)*
(appointed on 31 March 2016)
Mr. LIU Xiangming *(Chairman)*
(appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. WANG Di
Mr. YU Kou
Mr. ZHANG Gongxue *(Chairman)*
(resigned on 16 April 2015)

Nomination Committee

Mr. LI Bangguang *(Chairman)*
(appointed on 31 March 2016)
Mr. LIU Xiangming *(Chairman)*
(appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. WANG Di
Mr. YU Kou
Mr. ZHANG Gongxue *(Chairman)*
(resigned on 16 April 2015)

COMPANY SECRETARY

Mr. WONG Kai Hing
(appointed on 20 November 2015)
Miss NG Weng Sin
(resigned on 20 November 2015)

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Mr. WONG Kai Hing
(appointed on 20 November 2015)
Miss NG Weng Sin
(resigned on 20 November 2015)

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
China Construction Bank
Industrial and Commercial Bank of China

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS CONTACT

Mr. WANG Chao
Tel: (86) 543 489 1888
Email: wangchao@xiwang.com.cn

WEBSITE

www.xiwangsteel.com

Financial Highlights

	For the year ended 31 December		
	2015	2014	Increase/
	RMB'000	RMB'000	(Decrease)
		(Restated)	Percentage
Operational Results			
Revenue	**6,751,643**	8,641,517	(21.9%)
Gross profit	**576,306**	1,112,479	(48.2%)
Operating profit	**282,882**	740,083	(61.8%)
Profit for the year	**169,224**	406,604	(58.4%)

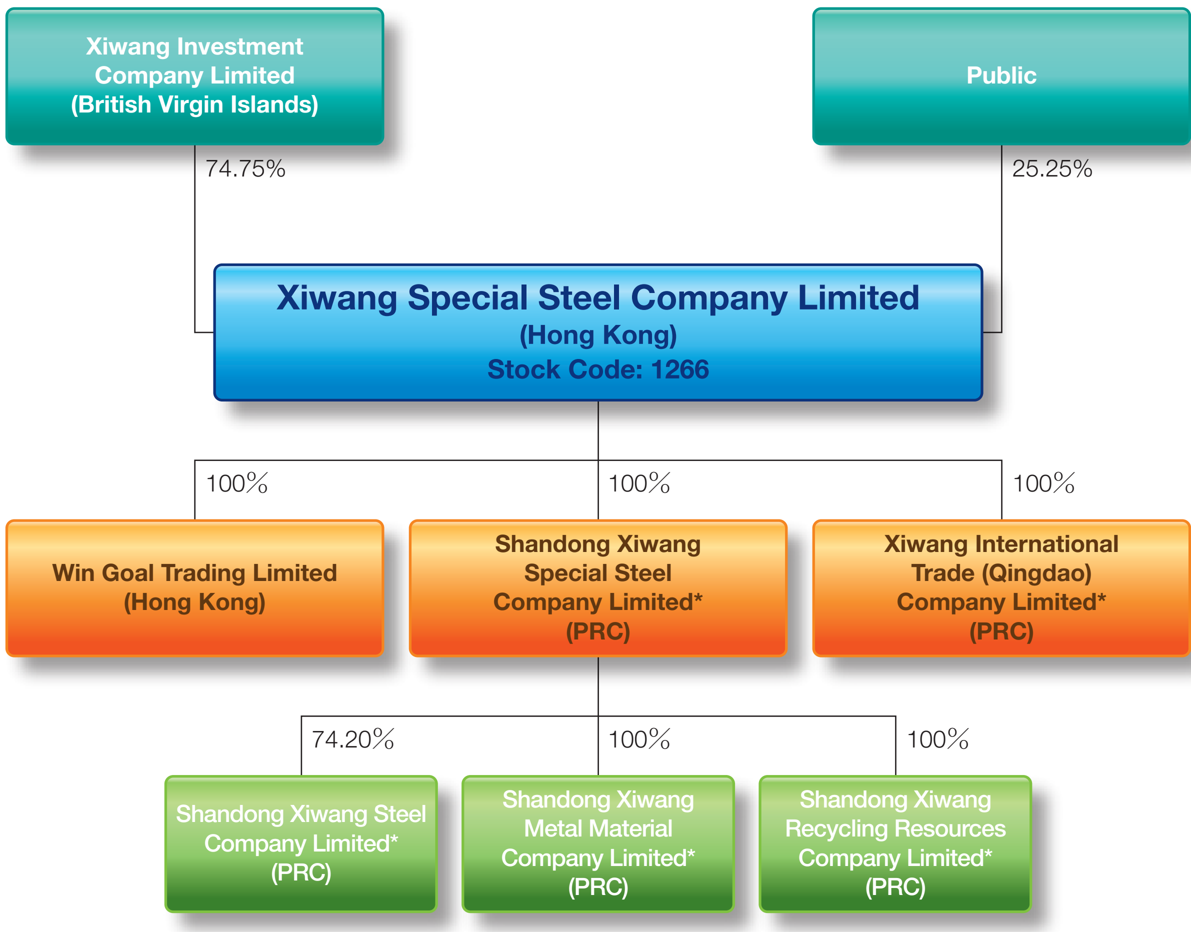
	As at 31 December		
	2015	2014	Increase/
	RMB'000	RMB'000	(Decrease)
			Percentage
Financial Position			
Non-current assets	**9,937,661**	8,982,420	10.6%
Current assets	**1,702,261**	2,254,425	(24.5%)
Non-current liabilities	**1,759,194**	1,159,426	51.7%
Current liabilities	**5,935,762**	6,266,021	(5.3%)
Total equity	**3,944,966**	3,811,398	3.5%
Earnings per share (RMB)			
Basic	**8.46 cents**	20.3 cents	
Diluted	**8.43 cents**	20.3 cents	
Key Ratio Analysis			
Gross profit margin	**8.5%**	12.9%	
Operating profit margin	**4.2%**	8.6%	
Net profit margin	**2.5%**	4.7%	
Current ratio (Note 1)	**0.29**	0.36	
Asset liability ratio (Note 2)	**1.51**	1.51	
Gearing ratio (Note 3)	**195.06%**	194.8%	

Notes:

1. Current ratio: Current assets divided by current liabilities.
2. Asset liability ratio: Total assets divided by total liabilities.
3. Gearing ratio: Total liabilities divided by total equity.

Group Structure

As at 31 December 2015:



Chairman's Statement

In 2015, the gross domestic product ("**GDP**") of China grew by 6.9% to RMB67.6708 trillion. As stated in the Report on the Work of the Government submitted to the National People's Congress by Li Keqiang, Premier of the State Council of the PRC, China has set its GDP growth target for 2016 at around 6.5% to 7.0% as the country's economic development has recorded moderate growth instead of rapid growth. At present, besides focusing on the pace of economic growth, China has put more emphasis on the quality of growth. On the other hand, the development strategy of China has shifted its focus from low-to-medium industries to medium-to-high industries. As such, China is now undergoing a structural reform.

The steel industry is experiencing consolidation and reorganization, and companies that fail to meet certain standards will be eliminated so that the industry can grow healthily, thereby facilitating a bigger market for the development of companies which have met the requirements. In December 2013, the Ministry of Industry and Information Technology published the "Notice for Enterprises (the second batch) Fulfilling the Iron and Steel Industry Specification（關於符合鋼鐵行業規範條件企業（第二批）的公示）", listing the second batch of 115 enterprises that fulfilled the iron and steel industry specification (the "**Second Batch**"). Shandong Xiwang Special Steel Company Limited（山東西王特鋼有限公司）("**Shandong Xiwang Special Steel**"), a wholly-owned subsidiary of the Company, is one of the enterprises on the list of the Second Batch. In January 2014, the Ministry of Industry and Information Technology finalised the list of enterprises of the Second Batch, and Shandong Xiwang Special Steel remained on this list as an enterprise that fulfils the iron and steel industry specification.

The development strategy of the Group is to raise the proportion of special steel in its product mix. In January 2015, the Group, the Institute of Metal Research of Chinese Academy of Sciences（中國科學院金屬研究所）(the "**IMR**") and key personnel of the IMR entered into a technology license and cooperation agreement, pursuant to which the parties would provide technical support to the Group, design new production lines for the production of products using licensed technologies, work together to develop products (such as high-end tool and die steel and marine steel), and develop special steel for use in various industries, including the energy and electricity, petrochemical and marine engineering, and steel for kitchen cutleries. The Group was also pleased to introduce the IMR and its key personnel as shareholders of the Group. On 10 November 2015, Shandong Xiwang Special Steel announced the execution of a joint research and development cooperation agreement with the IMR and Shanxi Guozheng High-speed Railroad Technology Co., Ltd（山西國正高鐵科技有限公司）("**Shanxi Guozheng**") for cooperating in the research and development and mass production of high-speed train axles in order to securing a foothold in the international market of high-speed train axles. The project cooperation will remain effective for two years after the date on which both the axles and axle billets are certified by China Railway Test & Certification Centre*（中鐵檢驗認證中心）. During the period, Shanxi Guozheng will be the sole sales agent of high-speed train axle billets manufactured by the Group and the annual procurement is expected to be over 2,000 tonnes.

In financial aspect, on 20 November 2015, the Group announced that it has agreed to establish Xiwang Group Finance Company Limited ("**Xiwang Finance Company**") jointly with Xiwang Group Company Limited ("**Xiwang Group**"), Shandong Xiwang Sugar Company Limited, Shandong Xiwang Food Company Limited and China Cinda Asset Management Co., Ltd. by entering into a capital contribution agreement through Shandong Xiwang Special Steel, a wholly-owned subsidiary of the Company. The contribution represented 10% of the registered capital of Xiwang Finance Company. The establishment of Xiwang Finance Company helps strengthening the Group's centralised management of funds, improving efficiency of capital utilisation and reinforcing risk control, thereby enhancing competitiveness of the Group. Upon the establishment of Xiwang Finance Company, member companies of Xiwang Group, including but not limited to members of the Group, will be provided with a range of financial services, namely financial and fund raising consultation, credit proof and related consultancy and agency services, approved insurance brokerage services, assisting member companies of the Group in executing payments and collecting payments as well as provision of guarantees, entrusted loans, bills acceptance and discounting services. Meanwhile, Xiwang Finance Company will handle account settlement activities among member companies of the Group and design relevant settlement and clearance policies, provide loans and financial leasing services, engage in inter-bank lending and borrowing and other businesses approved by the China Banking Regulatory Commission.

Furthermore, on 23 December 2015, China Development Fund Co. Ltd., Shandong Xiwang Special Steel, a wholly-owned subsidiary of the Company, Shandong Xiwang Steel Co. Ltd. and Zouping Finance Bureau entered into an investment agreement in relation to the capital investment by China Development Fund Co. Ltd. into Shandong Xiwang Steel Co. Ltd.. Pursuant to the investment agreement, China Development Fund Co. Ltd. agreed to invest RMB161 million in Shandong Xiwang Steel Co. Ltd. Based on the currently available information and the net asset value of Shandong Xiwang Steel Co. Ltd. as at 30 November 2015, the Group expects China Development Fund Co. Ltd. will own approximately 25.8% equity interest in Shandong Xiwang Steel Co. Ltd.

Looking forward, the Group will place particular emphasis on:

- developing high-end special steel products to enhance the profit of the Group;
- continue to enhance our research and development capabilities and innovation in various steel product technologies;
- continue to diversify our sales channels and enhance our value-added services to our customer to improve our profitability; and
- strengthen our market position in Shandong province and eastern China and enter into additional markets in other parts of China.

We will closely monitor the market and we will be able to stay competitive by satisfying the market demand, in order to maximizing our profit.

I would like to take this opportunity to thank our shareholders, business partners, customers, the Board and our staff for their contribution in the past year. We promise to strive for our best in the years to come and continue to achieve fruitful results.

WANG Di
Chairman

31 March 2016

Management Discussion and Analysis

I. BUSINESS REVIEW

During the year ended 31 December 2015 (the "**Year**"), the Group's main source of revenue was the production and sales of steel. Trading commodities and sales of by-products were not the Group's main business. Geographically, the Group's primary production department was in Shandong, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 64.7% of the total sales of steel during the Year (2014: 64.3%). In addition, the Group has been actively developing markets in other provinces. During the Year, Jiangsu had a relatively large demand for steel, and was the second largest contributor to the Group's revenue, which attributed to 12.2% of the total revenue during the Year (2014: 14.1%).

Production and Sales of Steel

The ordinary steel products manufactured by the Group included rebars and wire rods, mainly used for construction and infrastructure projects, constituting 63.2% of the total sales amount of steel during the Year (2014: 65.1%). The special steel products of the Group had a gross margin higher than that of ordinary steel, and mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries, constituting 36.8% of the total sales amount of steel during the Year (2014: 34.9%). The Group aims to increase the proportion of income from sales of higher-margin special steel to 60% within three years.

Project Review and Prospect

The Group is at the frontline of transformation and upgrade of the steel industry. On 16 March 2015, the automatic ladle car designed by the Simulated Research Department of Material Processing under the Institute of Metal Research ("**IMR**"), Chinese Academy of Sciences was successfully tested and commenced production in the "Model Line of Special Steel for High-end Equipment with Smart Cleaning" Phase 1, which was jointly developed by the IMR and the Group. The aforesaid project will proceed in three phases. Upon completion, the Group can achieve an annual production of 300,000 tonnes of ingots, 100,000 tonnes of forge materials and pieces and 12,000 tonnes of special steel. Presently more than 60 types of ingots have been developed.

The Group grasped the opportunity arising from the localization of axles production, and entered into a joint development and cooperation agreement with the IMR under Chinese Academy of Sciences and Shanxi Guozheng High-Speed Railroad Technology Co., Ltd（山西國正高鐵科技有限公司）("**Shanxi Guozheng**") on 10 November 2015 to jointly develop high-speed train axles for mass production, for the sake of entering the international market of high-speed train axles. The cooperation for the project will be effective for two years after the axles and their billets are recognized by China Railway Test & Certification Centre*（中鐵檢驗認證中心）. During the term of the agreement, the billets of axles for high-speed trains manufactured by the Group will be sold solely by Shanxi Guozheng. The annual purchase amount is expected to be over 2,000 tonnes.

The Group intends to expand towards downstream industries, and is currently applying for the national military standard certification of China in the expectation to enter fields such as the military industry, the nuclear power industry and the high-speed railway industry. Moreover, the Group is also actively identifying acquisition targets alongside the steel production chain, particularly those with good assets, advanced technologies and comprehensive sales channels, including foreign enterprises. The Group aims at grasping market opportunities, optimizing product structures and enhancing core technologies. The Group will increase its competitive advantage with its production efficiency in order to steadily increase its profitability and create values for shareholders.

II. FINANCIAL REVIEW

1. Revenue

Revenue of the Group was RMB6,751,643,000 during the Year (2014: RMB8,641,517,000), representing a decrease of 21.9% as compared to last year. The decrease in revenue was mainly attributable to the decline in average selling price of steel. The sales volume of steel increased to 2,759,784 tonnes for the Year from 2,610,190 tonnes last year, representing an increase of 5.7%. However, as the selling price of steel experienced a decline in general, the rise in sales volume of steel was offset and resulted in a decrease in the sales revenue of steel of RMB1,744,836,000, representing a decrease of 23.9%.

During the Year, the distribution of the sales of special steel of the Group by regions was similar to that of last year. Shandong continued to be the top sales region. During the Year, the export sales was RMB226,170,000 (2014: RMB293,092,000), accounted for 4.1% (2014: 4.0%) of the total sales of steel.

Breakdown of revenue:

	2015		2014	
	RMB'000	**Percentage**	RMB'000	Percentage
Ordinary Steel				
Rebar	**2,284,030**	**33.8%**	2,861,344	33.1%
Wire rod	**1,221,368**	**18.1%**	1,889,605	21.9%
Subtotal	**3,505,398**	**51.9%**	4,750,949	55.0%
Special Steel				
Quality carbon structural steel	**1,470,801**	**21.8%**	2,018,654	23.4%
Alloy structural steel	**472,461**	**7.0%**	453,737	5.2%
Bearing steel	**42,879**	**0.6%**	70,621	0.8%
Ingot	**57,742**	**0.9%**	–	–
Stainless steel	**–**	**0.0%**	155	0.0%
Subtotal	**2,043,883**	**30.3%**	2,543,167	29.4%
Production and sales of steel	**5,549,281**	**82.2%**	7,294,116	84.4%
Trading of commodities[#]	**959,671**	**14.2%**	1,086,257	12.6%
Sales of by-products[##]	**242,691**	**3.6%**	261,144	3.0%
Total	**6,751,643**	**100.0%**	8,641,517	100.0%

Trading of commodities mainly includes the trading of iron ore dust, pellet and coke.

By-products refer to steel slag, steam and electricity derived from the production of steel.

Breakdown of average selling price (tax-exclusive) per tonne:

	2015 RMB/tonne	2014 RMB/tonne	Increase/ (Decrease) RMB/tonne	Increase/ (Decrease) Percentage
Ordinary Steel				
Rebar	**1,825**	2,604	(779)	(29.9%)
Wire rod	**2,028**	2,794	(766)	(27.4%)
Average selling price	**1,891**	2,676	(785)	(29.3%)
Special Steel				
Quality carbon structural steel	**2,270**	3,038	(768)	(25.3%)
Alloy structural steel	**2,120**	3,017	(897)	(29.7%)
Bearing steel	**2,753**	3,516	(763)	(21.7%)
Ingot	**2,953**	–	N/A	N/A
Stainless steel	**–**	1,914	N/A	N/A
Average selling price	**2,257**	3,046	(789)	(25.9%)

Breakdown of sales volume of steel:

	Sales volume			
	2015		2014	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary steel				
Rebar	**1,251,801**	**45.4%**	1,098,782	42.1%
Wire rod	**602,230**	**21.8%**	676,384	25.9%
Subtotal	**1,854,031**	**67.2%**	1,775,166	68.0%
Special steel				
Quality carbon structural steel	**647,788**	**23.5%**	664,452	25.5%
Alloy structural steel	**222,833**	**8.1%**	150,403	5.7%
Bearing steel	**15,577**	**0.5%**	20,088	0.8%
Ingot	**19,555**	**0.7%**	–	–
Stainless steel	**–**	**0.0%**	81	0.0%
Subtotal	**905,753**	**32.8%**	835,024	32.0%
Total	**2,759,784**	**100.0%**	2,610,190	100.0%

2. Cost of sales

During the Year, our cost of sales was RMB6,175,337,000 (2014: RMB7,529,038,000), representing a decrease of 18.0%. It was mainly attributable to the decrease in average production costs per tone from RMB2,392 last year to RMB1,809 during the Year, representing a decrease of RMB583 per tonne and 24.4% of production costs.

Cost structure of steel was unchanged during the Year since the major raw materials used were iron ore dust and coke which represented 53.8% (2014: 57.5%) of steel production costs for the Year. As the long process production procedure has been adopted since 2014, the composition of the total production cost between raw materials and production overhead remained stable during the Year. The raw materials and production overhead represented 78.0% and 22.0% (2014: 84.0% and 16.0%) to the total production costs respectively.

Breakdown of cost of sales:

	2015		2014	
	RMB'000	**Percentage**	RMB'000 (Restated)	Percentage (Restated)
Raw materials				
Iron ore dust	**1,777,483**	**28.8%**	2,531,070	33.6%
Coke	**911,008**	**14.7%**	1,061,674	14.1%
Steel scraps	**140,017**	**2.3%**	342,355	4.5%
Coal	**201,413**	**3.3%**	258,370	3.4%
Steel billets	**65,005**	**1.0%**	200,100	2.7%
Coke powder	**60,008**	**1.0%**	91,724	1.2%
Pig iron	**–**	**0.0%**	21,217	0.3%
Molten iron	**–**	**0.0%**	3,484	0.1%
Others	**742,045**	**12.0%**	733,334	9.7%
Subtotal of raw materials	**3,896,979**	**63.1%**	5,243,328	69.6%
Production overhead				
Depreciation	**428,690**	**6.9%**	347,923	4.6%
Electricity	**429,504**	**7.0%**	405,763	5.4%
Labour	**154,732**	**2.5%**	168,957	2.2%
Others	**83,285**	**1.3%**	78,884	1.1%
Subtotal of production overhead	**1,096,211**	**17.7%**	1,001,527	13.3%
Total cost of production and sales of steel	**4,993,190**	**80.8%**	6,244,855	82.9%
Cost of trading of commodities	**955,114**	**15.5%**	1,062,994	14.1%
Cost of sales of by-products	**227,033**	**3.7%**	221,189	3.0%
	6,175,337	**100.0%**	7,529,038	100.0%

Average steel cost per tonne (tax-exclusive):

	2015		2014	
	RMB	**Percentage**	RMB (Restated)	Percentage (Restated)
Raw materials				
Iron ore dust	**644**	**35.6%**	970	40.5%
Coke	**330**	**18.2%**	407	17.0%
Steel scraps	**51**	**2.8%**	131	5.5%
Coal	**73**	**4.0%**	99	4.1%
Steel billets	**23**	**1.3%**	77	3.2%
Coke powder	**22**	**1.2%**	35	1.5%
Pig iron	**–**	**0.0%**	8	0.3%
Molten iron	**–**	**0.0%**	1	0.1%
Others	**269**	**14.9%**	281	11.7%
Subtotal of raw materials	**1,412**	**78.0%**	2,009	83.9%
Production overhead				
Depreciation	**155**	**8.6%**	133	5.6%
Electricity	**156**	**8.6%**	155	6.5%
Labour	**56**	**3.1%**	65	2.7%
Others	**30**	**1.7%**	30	1.3%
Subtotal of production overhead	**397**	**22.0%**	383	16.1%
Total production costs	**1,809**	**100.0%**	2,392	100.0%

The average purchase costs of major raw materials of steel (tax-exclusive) :

	2015 RMB per tonne	2014 RMB per tonne	Decrease Percentage
Iron ore dust	**415**	628	(33.9%)
Coke	**738**	992	(25.6%)
Steel scraps	**1,112**	1,544	(28.0%)
Coal	**448**	605	(25.9%)
Steel billets	**1,796**	2,594	(30.8%)
Coke powder	**512**	655	(21.8%)
Pig iron	**N/A**	2,058	N/A
Molten iron	**N/A**	2,223	N/A

3. Gross profit

During the Year, gross profit of the Group was RMB576,306,000 (2014: RMB1,112,479,000), representing a decrease of 48.2% as compared to last year. During the Year, steel has contributed RMB556,091,000 to our overall gross profit, which accounted for 96.5% of our overall gross profit, of which RMB354,302,000 and RMB201,789,000 was from ordinary steel and special steel, respectively, accounted for 61.4% and 35.1% (2014: 57.0% and 37.3%) of our overall gross profit, respectively. Overall gross profit margin of the Group was 8.5% (2014: 12.9%), representing a decrease of 4.4 percentage point as compared to last year. The decrease was mainly attributable to the greater decline in the steel selling price than the decline in the steel cost.

Breakdown of the contribution of gross profit by products and business:

	2015		2014	
	RMB'000	**Percentage**	RMB'000 (Restated)	Percentage (Restated)
Ordinary steel				
Rebar	**214,092**	**37.1%**	369,573	33.2%
Wire rod	**140,210**	**24.3%**	264,953	23.8%
	354,302	**61.4%**	634,526	57.0%
Special steel				
Quality carbon structural steel	**187,768**	**32.6%**	335,570	30.2%
Alloy structural steel	**18,912**	**3.3%**	70,543	6.3%
Bearing steel	**(4,891)**	**(0.8%)**	9,686	0.9%
Ingot	**–**	**0.0%**	–	N/A
Stainless steel	**–**	**0.0%**	(1,065)	(0.1%)
	201,789	**35.1%**	414,734	37.3%
Production and sales of steel	**556,091**	**96.5%**	1,049,260	94.3%
Trading of commodities	**4,557**	**0.8%**	23,263	2.1%
Sales of by-products	**15,658**	**2.7%**	39,956	3.6%
Total	**576,306**	**100.0%**	1,112,479	100.0%

Gross profit margins of the products are as follow:

	2015 Percentage	2014 Percentage (Restated)	Increase/ (Decrease) Percentage
Ordinary steel			
Rebar	**9.4%**	12.9%	(3.5%)
Wire rod	**11.5%**	14.0%	(2.5%)
Average gross profit margin	**10.1%**	13.4%	(3.3%)
Special steel			
Quality carbon structural steel	**12.8%**	16.6%	(3.8%)
Alloy structural steel	**4.0%**	15.5%	(11.5%)
Bearing steel	**(11.4%)**	13.7%	(25.1%)
Ingot	**0.0%**	N/A	N/A
Stainless steel	**N/A**	(687.1%)	N/A
Average gross profit margin	**9.9%**	16.3%	(6.4%)
Overall gross profit margin of production and sales of steel	**10.0%**	14.4%	(4.4%)
Gross profit margin of trading of commodities	**0.5%**	2.1%	(1.6%)
Gross profit margin of sales of by-products	**6.5%**	15.3%	(8.8%)
Overall gross profit margin	**8.5%**	12.9%	(4.4%)

4. Other income and gain

Other income mainly includes bank interest income and government subsidies. Other income and gain for the Year amounted to RMB25,084,000 (2014: RMB31,570,000), representing a decrease of 20.5% as compared to last year. The decrease was mainly due to the decrease in bank interest income as a result of the decrease in pledged bank deposits during the Year.

5. Selling and distribution expenses

The Group's selling and distribution expenses for the Year amounted to RMB21,500,000 (2014: RMB20,174,000), representing an increase of 6.6% as compared to the corresponding period of last year. The increase was mainly attributable to the increase in sales volume of steel during the Year.

6. Administrative expenses

Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses for the Year amounted to RMB66,725,000 (2014: RMB76,529,000), representing a decrease of 12.8% as compared to the corresponding period of last year. Such decrease was attributable to the decline in the bank charges of trade financing during the Year as compared to last year.

7. Other expenses

Other expenses of the Group for the Year amounted to RMB19,819,000 (2014: RMB36,103,000), primary due to the provision for an impairment of bills receivable amounted to RMB7,299,000, an impairment of inventories to net realisable value amounted to RMB6,405,000 and net foreign exchange differences amounted to RMB5,956,000.

8. Finance costs

The Group's finance costs for the Year amounted to RMB91,107,000 (2014: RMB199,633,000), representing a decrease of 54.4% as compared to last year. The decrease was mainly due to the decrease in borrowings during the Year.

9. Income tax expenses

Income tax expenses of the Group for the Year amounted to RMB22,551,000 (2014: RMB133,846,000), representing a decrease of 83.2% as compared to last year, which was primarily due to the decrease in profit before tax and the increase in super deduction of research expenses for the year.

Financial position

Liquidity and capital resources

As at 31 December 2015, cash and cash equivalents of the Group amounted to RMB271,764,000, representing an increase of RMB144,697,000 or 1.1 times as compared with RMB127,067,000 as at 31 December 2014. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipment was mainly satisfied by cash inflows from operating and financing activities.

The table below sets forth our short-term and long-term borrowings as at 31 December 2015.

	As at	
	31 December 2015 RMB'000 (Audited)	31 December 2014 RMB'000 (Audited)
Bank and other borrowings	**1,014,386**	755,082
Finance lease payments	**–**	142,079
Interest-bearing bank loans – secured	**515,386**	363,003
Interest-bearing other loan – secured	**499,000**	250,000
	1,014,386	755,082
Carrying amount repayable:		
Within one year	**593,550**	725,105
Between one to two years	**420,836**	–
Between two to five years	**–**	29,977
	1,014,386	755,082
Less: Amounts due within one year shown under current liabilities	**(593,550)**	(725,105)
	420,836	29,977

As at 31 December 2015, the gearing ratio, being the ratio of total liabilities divided by total equity was 1.95 (31 December 2014: 1.95). The annual interest rate of the banks and other borrowings for the year ended 31 December 2015 varied from 3.03% to 9% (2014: 1.15% to 8.40%). As at 31 December 2015, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. All of the bank and other borrowings were secured by non-current assets, restricted bank deposits and/or guaranteed by Mr. WANG Yong, and/or Ms. Zhang Shufang, and or Xiwang Group Company Limited, and or an independent third party, and/or Mr. WANG Di, the chairman of the Board of Directors of the Company.

Material investment, material acquisition and disposal of subsidiaries

Save as disclosed in this annual report, the Group did not have any material investment and material acquisition or disposal of subsidiaries during the Year.

Pledge of assets

As at 31 December 2015, leasehold land with a carrying amount of RMB86,674,000 (31 December 2014: RMB88,604,000) and pledged deposits of RMB36,169,000 (31 December 2014: RMB134,146,000) were pledged as security for bank borrowings.

As at 31 December 2015, time deposits of RMB425,998,000 (31 December 2014: RMB612,080,000) and inventories of nil (31 December 2014: RMB214,600,000) were pledged as security for bills payable.

Capital commitments and contingent liabilities

As at 31 December 2015, the capital commitment of the Group was RMB177,031,000 (31 December 2014: RMB314,247,000), for property, plant and equipment. The Group also entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) to enhance its product quality. As at 31 December 2015, commitment in respect of this technical consultation service amounted to RMB2,100,000 (31 December 2014: RMB2,700,000).

The Group did not have any contingent liabilities as at 31 December 2015.

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 31 December 2015, the Group mainly exposed to risks related to its liabilities denominated in US dollar amounted to RMB303,207,000 (31 December 2014: RMB177,527,000) and in HK dollar amounted to RMB31,836,000 (31 December 2014: RMB29,977,000).

Employees and remuneration

As at 31 December 2015, the Group had a total of 3,681 employees (31 December 2014: 4,564). Staff-related costs incurred during the Year was RMB189,441,000 (2014: RMB209,842,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonuses to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

Our operations are mainly situated in Shandong. The GDP of Shandong reached RMB6.3 trillion, grew by 8.0% in 2015, which was 1.1% higher than the national GDP. The per capita disposable income of residents from both urban and rural area in Shandong grew by 8.0% and 8.8%, respectively, while fixed asset investment grew by 13.9%, demonstrating the huge development potential of Shandong. Further urbanization across the country will continue to promote the development of infrastructure within the province, which will in turn sustain the huge demand for ordinary steel. Meanwhile, the heavy machinery processing base nearby and the rapid development of oceanic economy will continue to boost the demand for special steel in Shandong. Our ordinary steel can fulfill the demand in the construction market while the demands for special steel in machines, equipment and auto parts are also great.

The Chinese government has promulgated policies in solving the problem of over-capacity of steel, and integration and reorganization have already been taken place in the steel sector. On 3 January 2014, the Ministry of Industry and Information Technology of the People's Republic of China published a list of enterprises that fulfilled the steel industry specification, and Shandong Xiwang Special Steel Company Limited* (山東西王特鋼有限公司), our wholly-owned subsidiary, was one of the enterprise on the list, thus recognising the Group's operations, facilities and technology. Shandong issued the "Plans of Industrial Transformation and Upgrade in Shandong Province (2015 to 2020)", which has been implemented mainly by the following ways: consolidating and restructuring steel companies; discarding under-utilised production capacity; eliminating illegally-operated projects; encouraging smaller steel companies to give up producing iron and steel and shifting the focus to the downstream business chain of the iron and steel industry. In addition, the new "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》) implemented on 1 January 2015 stated that the steel sector would gradually shift its focus from quantity expansion and price competition to quality and differentiation competition. Accordingly, the development of the Group's business have to be consistent with the trend of the industry, and to focus on enhancing the quality and features for the special steel segment, while cost control will be the focus of the ordinary steel segment.

The development strategy of the Group is to raise the proportion of special steel in its product mix and to stride forward in the high-end special steel segment. The Group has already grasped the opportunities to enter into cooperation agreements with IMR and Luoyang Bearing Research Centre respectively to concentrate on the development of special steel products. In June 2014, Shandong Xiwang Special Steel (our wholly-owned subsidiary) entered into a technical cooperation agreement with Luoyang Bearing Research Centre for the development of bearing steel products. In November 2014, the Group entered into a strategic framework agreement with the IMR, by which it started the long-term research and development co-operation with the IMR to develop high-end steel products. In January 2015, the Group, the IMR and the key personnel of the IMR entered into a technology license and cooperation agreement, pursuant to which technological support was provided to the Group for the development of new production lines for the production of products using licensed technologies, cooperative products (such as high-end tool and die steel and marine steel), special steel for use in various industries including the energy and electricity, petrochemical and marine engineering, and steel for kitchen cutleries. In the future, the Group will continue the cooperation with the above parties in developing high-end special steel products. The proportion of special steel in the sales of the Group's products is expected to increase to 60% in three years. The Group can increase the average sales price, its revenue and the gross profit margin through increasing the percentage of special steel in the sales mix.

Apart from the adjustment to steel product mix, the Group has been making efforts to expand its business in other provinces, such as Jiangsu, Shanghai Municipality and Zhejiang, while actively expanding into the overseas market to enhance the profit of the Group. Notwithstanding the fierce competition and challenges in the steel industry, the management is still confident in the Group's products, operations, technical cooperation and its ability to cope with challenges, and is positive about the Group's prospect.

Corporate Governance Report

The Company is committed to maintaining good corporate governance practices and procedures. The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**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. Save as disclosed herein, the Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year.

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 CG Code and disclosure in the corporate governance report.

During the Year, the Board has reviewed the Company's corporate governance practices and the duties performed by the committees of the Board, including the review of terms of reference for the Audit Committee of the Company (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 during the Year and up to the date of this report.

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. During the Year and up to the date of this annual report, the Board consisted of the following Directors:

Executive Directors
Mr. ZHANG Jian *(Chief Executive Officer)* (appointed on 14 October 2015)
Mr. SUN Xinhu (re-designated from non-executive Director to executive Director on 16 April 2015)
Ms. LI Hai Xia (appointed on 14 October 2015)
Mr. WANG Hui *(Chief Executive Officer)* (resigned on 14 October 2015)
Mr. JIANG Chang Lin (resigned on 14 October 2015)
Mr. HE Qing Wen (resigned on 16 April 2015)

Non-executive Directors
Mr. WANG Yong
Mr. WANG Di *(Chairman)*
Ms. LI Yiyi (appointed on 16 April 2015)

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. ZHANG Gongxue (resigned on 16 April 2015)

During the Year, the Board at all times met the requirements under Rule 3.10(1) and (2) and 3.10(A) 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 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.

The Company has adopted the Board Diversity Policy, being the guidelines to achieve diversity on the Board, and ensure the Board has a balance of skills, experience and knowledge in the industry and diversity of perspectives appropriate to the Company's business. The Nomination Committee ensures the selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge and length of service. The Nomination Committee is responsible for monitoring the implementation of the Diversity Policy and review the same as appropriate.

According to the Articles, additional Directors appointed by the Board are subject to re-election by shareholders at the next following annual general meeting. 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. LI Bangguang 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 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 provides advice and services to the Board to ensure the Board complies with all the Board procedures and all applicable rules and regulations. Company Secretary notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors to fulfill their responsibilities.

(iv) Financial reporting

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2015, 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 2015 were prepared on a going concern basis. The Audit Committee has reviewed and recommended the Board to adopt the audited accounts for the year ended 31 December 2015. 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 Independent Auditors' Report on pages 54 to 55 of this annual report.

(v) Relationship among members of the Board

Mr. WANG Di, the chairman and a non-executive Director of the Company is the son of Mr. WANG Yong, a 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 or chief executive officer during the Year.

Each of 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 materials of comprehensive guidance on directors' duties and liabilities are provided to Directors once they joined the Board. Senior management of the Company provides briefings to all Directors for updates of their knowledge and skills of the industry of the Company. Company Secretary provides updates or amendments of the Listing Rules and other statutory regulations for Directors' fulfillment of their responsibilities and duties in the Company.

During the Year, the Company provided the Directors with written materials for the updates of corporate governance practices, especially the sections related to the Risk Management, Internal Control and ESG Reporting. All Directors have confirmed they have studied the materials provided by the Company.

C. Chairman and chief executive officer

Mr. WANG Di is the chairman of the Company 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 chief executive officer of the Company 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 CG Code. Independent non-executive Directors are majority of members of these committees appointed by the Board. Written terms of reference of these committees based on the CG Code have been approved and adopted by the Board.

Sufficient resources are provided to the Board committees for their discharge of their duties. They are able to seek independent professional advice, at the Company's expenses, upon reasonable request and under appropriate circumstances.

(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.

The members of the Audit Committee comprised Mr. LEUNG Shu Sun Sunny (Chairman), Mr. LI Bangguang and Mr. YU Kou. Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou are independent non-executive Directors. The chairman of the Audit Committee 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, overseeing the independence and performance of the external auditors of the Company 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 financial reporting system and internal control procedures. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final results announcement for the year ended 31 December 2014 and the unaudited accounts and interim results announcement for the six months ended 30 June 2015. It has also 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 2015 at the meeting held on 31 March 2016.

(ii) Remuneration Committee

In accordance with the written terms of reference of the remuneration committee of the Company (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.

Mr. LI Bangguang (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Remuneration Committee, and Mr. LI Bangguang 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, assess the performance of executive directors, review and approve the terms of executive Directors' service contracts 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 review and recommend to the Board the remuneration packages of the newly appointed Directors during the Year.

(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.

Mr. LI Bangguang (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Nomination Committee, and Mr. LI Bangguang and Mr. YU Kou are independent non-executive Directors of the Company.

The primary responsibilities of the Nomination Committee are to determine the policy for the nomination of directors, 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.

Nomination Committee is also responsible for monitoring the implementation of the Board Diversity Policy and review the same as appropriate.

Two meetings were held by the Nomination Committee 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:					
Mr. ZHANG Jian *(Chief Executive Officer)* (appointed on 14 October 2015)	2/2	N/A	N/A	N/A	0/0
Mr. SUN Xinhu	5/5	1/1	N/A	N/A	1/1
Ms. LI Hai Xia (appointed on 14 October 2015)	2/2	N/A	N/A	N/A	0/0
WANG Hui *(Chief Executive Officer)* (resigned on 14 October 2015)	3/3	N/A	N/A	N/A	0/1
JIANG Chang Lin (resigned on 14 October 2015)	3/3	N/A	N/A	N/A	0/1
HE Qing Wen (resigned on 16 April 2015)	2/2	N/A	N/A	N/A	0/0
Non-executive Directors:					
WANG Di *(Chairman)*	5/5	N/A	2/2	2/2	0/1
WANG Yong	5/5	N/A	N/A	N/A	0/1
Ms. LI Yiyi (appointed on 16 April 2015)	2/2	N/A	N/A	N/A	0/1
Independent Non-executive Directors:					
LEUNG Shu Sun Sunny	5/5	2/2	N/A	N/A	1/1
YU Kou	5/5	1/1	2/2	2/2	0/1
Mr. LI Bangguang (appointed on 31 March 2016)	0/0	0/0	0/0	0/0	0/0
Mr. LIU Xiangming (appointed on 16 April 2015 and resigned 31 March 2016)	3/3	1/1	1/1	1/1	0/1
ZHANG Gongxue (resigned on 16 April 2015)	2/2	1/1	1/1	1/1	0/0

E. Remuneration of senior management

The number of senior management whose remuneration fell within the following bands is as follows:

	Number of senior management
Nil to RMB500,000	5
RMB500,001 to RMB1,000,000	0
	5

F. Auditors' remuneration

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

	For the year ended 31 December 2015 (RMB'000)
Service rendered	
Ernst & Young	
Annual audit services	1,750
Non-audit services	–

G. 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. Relevant recommendations made by the Audit Committee who performs 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.

H. Company Secretary

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

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

I. 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.

J. 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 where appropriate.

The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as Mr. LIU Xiangming and Mr. YU Kou, independent non-executive directors, Mr. WANG Yong and Ms. LI Yiyi, the non-executive directors, and Mr. WANG Di, the non-executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 29 May 2015 due to their overseas or other business engagements.

During the Year, pursuant to article 50 of the Articles and section 566 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), shareholders holding not less than 5% of the paid-up capital of the Company carrying the right of voting at general meeting of the Company may by written requisition to the Board for convene and putting 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.

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 onehalf 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 maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 86 543 489 1888/852 3188 4518).

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.

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.

Pursuant to rule 13.90 of the Listing Rules, the Company has published on the Company's website and the website of the Stock Exchange its Articles. During the Year, no amendments were made to the constitutional documents of the Company.

K. 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 Di
Chairman

Hong Kong, 31 March 2016

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHANG Jian（張健）

Mr. ZHANG, aged 34, was appointed as an executive Director and the Chief Executive Officer of the Company on 14 October 2015. He obtained his Bachelor of Engineering from Yanbian University*（延邊大學）in 2004 and Master of Engineering from Qilu University of Technology*（齊魯工業大學）in 2013. He joined the production department of Shandong Xiwang Sugar Company*（山東西王糖業有限公司）("**Xiwang Sugar**") from February 2004 to August 2004. From August 2004 to October 2014, he held several managerial positions including director of general manager office, manager of supply department, project manager, deputy managers and general managers within Xiwang Group and its subsidiaries, including Shangdong Xiwang Steel Co., Ltd.*（山東西王鋼鐵有限公司）, Shandong Xiwang Biochemical Technology Co., Ltd.*（山東西王生化科技有限公司）, Xiwang Sugar, Shandong Youhuo Fructose Co., Ltd.*（山東西王悠活果糖有限公司）and Xiwang Pharmaceutical Company Limited*（西王藥業有限公司）. Since October 2014, he has been the general manager of Shangdong Xiwang Special Steel Company Limited*（山東西王特鋼有限公司）("**Shandong Xiwang Special Steel**"), a wholly-owned subsidiary of the Company.

Mr. SUN Xinhu（孫新虎）

Mr. SUN, aged 41, was appointed as a non-executive Director in June 2011 and re-designated to executive Director on 16 April 2015. Mr. Sun has been serving as vice general manager since he joined Xiwang Group Company Limited 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 Property Holdings Company Limited (previously named Xiwang Sugar Holdings Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited under stock code 2088) since December 2008 and re-designated as a non-executive director on July 2012. Mr. Sun has also been a director of Xiwang Foodstuffs Company Limited ("**Xiwang Foodstuffs**", a company listed on the Main Board of the Shenzhen Stock Exchange under stock code 000639) since 2010 and the vice chairman of the board of Xiwang Foodstuffs since June 2014. Mr. Sun was the secretary of the board of Xiwang Foodstuffs from 2010 to October 2013.

Ms. LI Hai Xia（李海霞）

Ms. LI, aged 34, was appointed as an executive Director of the Company on 14 October 2015. She graduated from the Party School of the Central Committee of C.P.C*（中共中央黨校）with a bachelor degree in Economics and Management in 2009. She worked in Xiwang Sugar from December 2003 to July 2015, during which she was the finance manager from May 2013 to July 2015. She has been the deputy finance general manager of Shandong Xiwang Special Steel since August 2015.

NON-EXECUTIVE DIRECTORS

Mr. WANG Yong（王勇）

Mr. WANG, aged 65, was appointed as the chairman and a non-executive Director of the Company in June 2011. Mr. WANG stepped down from his role as the Chairman but remain as a non-executive Director of the Company commencing from 9 October 2014. Mr. WANG is father of Mr. WANG Di（王棣）, who is a 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. He was appointed as the chairman and an executive director of Xiwang Property and was re-designated as the deputy chairman and a non-executive director from 15 July 2013. He is also a director of Xiwang Foodstuffs Company Limited ("**Xiwang Foodstuffs**", a company publicly listed on the Main Board of the Shenzhen Stock Exchange (stock code: 000639) since February 2010 and is effectively held as to 52.08% by Xiwang Group).

Mr. WANG Di（王棣）

Mr. WANG, aged 32, was appointed as a non-executive Director in November 2007 and was appointed as the chairman of the Company in October 2014, he is the son of Mr. WANG Yong. He 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 eight 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 Foodstuffs. He was appointed as the executive director of Xiwang Property in November 2010 and the deputy chairman in July 2012, and was re-designated as the chairman and a non-executive director on 15 July 2013. Mr. WANG was appointed an chairman of Xiwang Group Company Limited in October 2013.

Ms. LI Yiyi（李依依）

Ms. LI, aged 82, was appointed as an independent non-executive Director commencing from 16 April 2015. She was metallurgy and metal materials scientist, was selected as the academician of Chinese Academy of Sciences in 1993 and the academician of Third World Academy of Sciences in 1999, and was the director of Institute of Metal Research of Chinese Academy of Sciences for two consecutive terms from 1990 to 1998. She was the vice chairman of Chinese Society for Metals, the vice chairman of Chinese Materials Research Society, the vice chairman, chairman and honorary chairman of Liaoning Association of Science and Technology, and was a member and standing committee member of the fourth, fifth and sixth session committee of China Association for Science, a deputy director of the Division of Technology of Chinese Academy of Sciences, a member of the Presidium of Chinese Academy of Sciences, and a representative at the fourteenth and fifteenth National Congress of the Communist Party of China. She is now the honorary president of the Liaoning Association of Science and Technology, an honorary member of the China Association for Science and the Chinese Society for Metals, a committee member of the International Cryogenic Materials Society（國際低溫材料學會）and the chairman of the Academic Committee of Institute of Metal Research of Chinese Academy of Sciences.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEUNG Shu Sun Sunny（梁樹新）

Mr. LEUNG, aged 53, was appointed as an independent non-executive Director commencing from 23 February 2012. He is the chairman of the audit committee of the Company ("**Audit Committee**"). 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. Mr. LEUNG is an independent non-executive director of Pan Asia Environmental Protection Group Limited, a company listed on the Main Board of the Stock Exchange under stock code 556, since December 2007. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Property. 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. YU Kou（于叩）

Mr. YU, aged 68, was appointed as an independent non-executive Director 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.

Mr. LI Bangguang（李邦廣）

Mr. LI, aged 42, was appointed as an independent non-executive Director commencing from 31 March 2016. Mr. LI is a qualified PRC lawyer. Mr. LI graduated from Shandong University（山東大學）in 2005 majoring in law. Mr. LI worked as sales manager at Zouping County Health Products Company（鄒平縣保健品有限公司）from June 1994 to October 2000 and as staff attorney at Zouping County Cheng Zhong Legal Services Office（鄒平縣城中法律服務所）from October 2000 to May 2005. Since May 2005, Mr. LI joined Shandong Li Zhi Law Office（山東勵志律師事務所）and is working as a practicing lawyer there.

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng（張慶生）

Mr. ZHANG, aged 38, was appointed as the vice president of the technical department of the Group in November 2008 and was re-designated as the deputy general manager of production department on 7 October 2013. 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 Property 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. HU Zhe（胡哲）

Mr. HU, aged 36, was appointed as the deputy general manager of sales department of the Group in July 2013 and is responsible for the overall management of the sales department. Mr. HU joined the planning department of Xiwang Group in September 2010 and was responsible for the editing of the Group's newspaper. He served as the head of planning department from July 2011 to July 2013. Mr. HU obtained his master degree in law from Communist Party's School of Hubei Province（中共湖北省委黨校）in July 2010 and his bachelor degree in English in July 2007 from China University of Petroleum（中國石油大學）.

Mr. LI Dian Zhong（李殿中）

Mr. Li Dian Zhong, age 47, was appointed as the technical director of the Group commencing from 16 April 2015. He was graduated from Harbin Institute of Technology（哈爾濱工業大學）with a doctorate degree in engineering in 1998. Mr. Li is a researcher and doctoral supervisor and the director of the Materials Process Modeling Division of Shenyang National Laboratory for Materials Science, Institute of Metal Research of Chinese Academy of Sciences. In 1998, he was admitted to the "Hundred Talents Program（百人計劃）" of China Academy of Science. He is mainly engaged in the research of optimizing the key material composition and alloy phase control for heavy castings and forgings products and high-quality special steel; material modeling and defect control; simulation of nucleation during metal solidification; computer simulation of structural evolution under deformation condition for steel; real-time observation and computer simulation of liquid metal flows, etc. He has won National Outstanding Science and Technology Worker in 2014, State Scientific and Technological Progress Award (Second Class) in 2012, Outstanding Achievement Award in Science and Technology from Chinese Academy of Science in 2009, and Ho Leung Ho Lee Foundation Prize for Scientific and Technological Innovation in 2007. He has published more than 100 papers on periodicals like Acta Mater, and registered more than 30 patents and 2 software licenses.

Mr. WONG Kai Hing（黃繼興）

Mr. Wong, aged 41, was appointed as the Chief Financial Officer and the Company Secretary of the Company (the "**Company Secretary**") commencing from 20 November 2015. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a member of Chartered Financial Analyst. Mr. Wong holds a Bachelor's degree in Business Administration in Professional Accountancy from the Chinese University of Hong Kong in 1997. He obtained a Master of Business Administration from the Chinese University of Hong Kong in 2006. He has over 17 years of experience in company secretary, auditing, finance and accounting fields in various listed companies and an international accounting firm in Hong Kong. Prior to joining the Company, Mr. Wong was the financial controller and company secretary of China Modern Dairy Holdings Limited from April 2012 to October 2015.

Mr. Wong was appointed as the Chief Financial Officer and the Company Secretary of Xiwang Property commencing from 20 November 2015.

Mr. WANG Chao（王超）

Mr. WANG, aged 33, worked for the investment department of Xiwang Group from July 2010 to February 2012. He was appointed as investor relations director of the Group in February 2012. Mr. WANG obtained his master degree in 2010 from Shandong University（山東大學）.

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 2015.

PRINCIPAL ACTIVITIES

The Group is a leading high-end special steel manufacturer located in Shandong Province of China. Our products consist of ordinary steel products that are used primarily buildings and infrastructures, as well as special steel products that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors. The Group also engaged in commodities trading business, mainly iron ore trading.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015.

BUSINESS REVIEW

Business review of the Company and a discussion and analysis of the Group's performance during the Year, the material factors underlying its results and financial position, and an indication of likely future development in the Company's business are set out in the Management Discussion and Analysis on pages 10 to 20 of this Annual Report. An analysis of Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis on pages 10 to 20 of this Annual Report. These discussions form part of this Directors' report.

1 Major Risks and Uncertain Factors

A Macro-economy

Based on the macro data for 2015 released by the National Bureau of Statistics, China's entire economy performed moderately with stable tendency during the Year. The gross domestic product of 2015 amounts to RMB67.6708 trillion, representing a growth of 6.9% as compared with the last year, the growth rate of which is 0.5% lower than that of 2014. In 2015, China's fixed asset investment amounts to RMB55.159 trillion, the growth rate of which has substantially decreased. The steel industry shows a negative growth. The outstanding conflict of domestic steel industry is oversupply. The major downstream steel-consuming industries are in downturn, and the demand for steel continues to fall, causing a substantial decrease of steel price. The composite price index for domestic steel has decreased by a greater extent as compared to the entire year of the last year. The effect of the cost reduction effort made by the steel industry is difficult to make up for the loss resulted from decrease of steel price.

B Risk of Raw Material Price Increase

Though the prices of bulk stocks have substantially fallen recently, the negative impact upon net profit is not very significant since the prices of raw materials related to steel production have fallen by a greater extent than the steel price. However, facing oversupply in the entire steel industry, increase of raw material price will surely exacerbate the already difficult business condition.

C Market Risks

The Group bears market risks such as risks of interest rate and currency rate. Since the steel industry is a capital intensive industry, operation of the Group needs to be supported by financing. Increase of loan interest rate will cause burden of increased financial cost. Some businesses of the Group involve foreign currency, so harmful fluctuation of currency rate will cause exchange loss to be borne by us. The Group has proactively communicated with some financial institutions which have locked exchange rates for some businesses.

D Risk of New Product

In order to cope with the industrial performance in the downward spiral, we are proactively carrying out industrial upgrade and transformation, and gradually increase the ratio of special steel products with relatively high profit. Therefore we may face increased capital input and production cost while we are unable to secured sales in the fierce market competition.

2 Environmental Policies and Performance

The Ministry of Industry and Information Technology of the PRC, together with other authorities, established the Standard Conditions for Iron and Steel Industry which prescribes specific standards for the production scale, equipment and environmental protection of steel enterprises. Upon review of competent authorities, the Group has complied with the requirements and qualifications set forth in the Standard Conditions for Iron and Steel Industry. We discharge pollutants in strict compliance with the requirement of the permit for pollutant discharge, the requirement of China's environmental protection laws and regulations and the requirement of competent environmental protection authorities.

The Group strives to be an environment friendly enterprise by investing large amount of fund to install environmental protection facilities and proactively designing recycle and reuse of wastes. The Group has begun to research and design plans together with Xiwang Power for the purpose of recycling and reusing the waste water and gas generated from the production and applying them on heating in properties and surrounding buildings. This project will not only contribute to environmental protection but also generate financial earnings for the Group.

The Group pays attention to nourishing and enhancing employees' awareness of cherishing resources and utilizing resources with high efficiency, and proactively promotes environmental protection. In recent years, the Group has implemented a number of policies to encourage employees on duty to summarize and improve the procedures that waste raw materials and energies, eliminate wasting and increase effective use of raw materials and energies. Meanwhile, the Group also urges and encourages employees on duty to save energies and paper during office works. The ultimate purpose for all of the above is to save resources and costs, protect the environment and promote the general profit of the Group.

3 Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2015 and up to the date of this report, to the knowledge of the Company, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong that have a significant impact on the Group in all material respects.

4 **Notes on Important Relationship with Employees, Customers and Suppliers**

The Group promotes a person-oriented management culture and emphasizes the value of employees as it believes the employees are very important resource for enhancing the Company's productivity and core competency. To provide employees with competitive remunerations and opportunities to receive skill trainings is closely connected to the realization of employees' individual values as well as the Group's strategic goals.

The Group's regular income relies on the constant patronage of its major customers. Many customers are distributors who sell our products to the downstream steel producers, real estate developers and construction contractors. They contribute to a substantial portion of the Group's earnings and operation performance. Maintaining good cooperative relationship with customers will positively promote the Group's business performance and obtain steady and healthily growing results. The Group has entered into long-term supply contracts with some major customers. Meanwhile, we are also proactively developing new customers and providing them with high-quality presale and post-sale supporting services for the sake of reducing risks and obtaining more market shares.

We also pay close attention to the relationship with suppliers. Being able to obtain sufficient quantity of raw materials with competitive prices is an important safeguard for the Group to maintain production schedule and fulfill commitments to customers. Though the Group may use electric arc furnaces to produce billets internally, we still need raw materials supplied by major supplies such as waste steel, molten iron, pig iron and billets to meet the production demand. The Group proactively enters into purchase agreements with current supplies and meanwhile proactively seeks to expand the supplier network, timely communicate with suppliers and produce plans to maintain good relationship and solve problems in order to provide effective safeguard for the planned production schedule.

The Group holds annual meeting every year, and distributes questionnaires to share our achievements with employees, customers and suppliers. The Group also discusses the defects existing in the past and strives to discover any room of improvement in order to create closer mutually benefiting relationship.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 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 22 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2015 are set out in note 27 to the consolidated financial statements of this annual report.

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 128 of this annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contribution or would be contribution to the Group so as to encourage them to participate in the long-term development of the Group and to share common interests and objectives with the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 3 September 2014, 6,666,666 share options were exercised and no share options were lapsed during the year ended 31 December 2015.

(1) Eligible Participants to the Share Option Scheme

The Directors may, at their absolute discretion, invite any eligible participants (the "**Eligible Participants**"), to take up options (the "**Options**") to subscribe for Shares at a price calculated in accordance with paragraph (7) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Participants to the grant of any Options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any invested entity.

(2) Maximum Number of Shares Available for Exercise

(a) The maximum number of Shares to be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30 per cent of the total number of Shares in issue from time to time.

(b) The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 200,000,000 Shares (the "**General Scheme Limit**"), representing 10 per cent of the Shares in issue as at the day of the passing of the relevant ordinary resolution.

(c) Subject to paragraph (a) above and without prejudice to paragraph (d) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10 per cent of the Shares in issue as at the date of approval of the General Scheme Limit. For the purpose of calculating the General Scheme Limit, Options previously granted (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Company) will not be counted.

(d) Subject to paragraph (a) above and without prejudice to paragraph (c) above, the Company may issue a circular to the Shareholders and seek separate Shareholders' approval in general meeting to grant Options beyond the General Scheme Limit or, if applicable, the limit referred to in paragraph (c) above to the Eligible Participants specifically identified by the Company before such approval is sought.

(3) Maximum Entitlement of each Eligible Participant

The total number of Shares in issue and which may fall to be issued upon exercise of the Options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each Eligible Participant in any 12 month period shall not exceed 1 per cent of the total number of the relevant class of Shares (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12 month period up to and including the date of such further grant, shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such Eligible Participant and his associates abstaining from voting.

(4) Grant of Options to Connected Persons

(a) Any grant of Options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of the Company or any of their respective associates must comply with the requirements of Rule 17.04 of the Listing Rules and must be approved by independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Options).

In the event of any change in the terms of Options granted to a Substantial Shareholder or an independent non-executive director of the Company; or where any grant of Options to a Substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(i) representing in aggregate over 0.1 per cent of the total number of Shares in issue;

(ii) having an aggregate value on the closing price of the Shares at the date of each grant, in excess of HK$5 million;

such further grant of Options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any Connected Person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote take at the meeting to approve the grant of such options must be taken on a poll.

(5) Time of Acceptance and Exercise of an Option

An offer of grant of an Option may be accepted by an Eligible Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the date on which the offer for the grant of Options is made but shall end in any event not later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof and to the minimum period for which the Option has to be held before it can be exercised as the Directors may at their discretion determine ("**Option Period**"). No minimum period for which the Option has to be held before it can be exercised is specified in the Share Option Scheme.

(6) Performance Targets

Unless otherwise determined and stated by the Directors in the offer of the grant of Options to an Eligible Participant, an Eligible Participant is not required to achieve any performance targets before any Options granted under the Share Option Scheme can be exercised.

(7) Subscription Price for Shares

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheeting for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share (if applicable). Without prejudice to the generality of the foregoing, the Directors may grant Options in respect of which the subscription price is fixed at different prices for different periods during the Option Period provided that the subscription price for Shares for each of the different periods shall not be less than the subscription price determined in the aforesaid manner.

(8) Restrictions on the Time of Grant of Options

A grant of Option under the Share Option Scheme shall not be made after inside information has come to the knowledge of the Company until the information has been announced. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such is first notified to the Exchange in accordance with the Listing Rules) for approval of the Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not under the Listing Rules), no Option should be granted.

The Directors may not grant any Option to an Eligible Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(9) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

As at 31 December 2015, options to subscribe for 3,333,334 ordinary shares of the Company were outstanding, details of which are set out in note 28 to the consolidated financial statements and below:

Class of grantee	Date of grant	Outstanding as at 1 January 2015	During the year ended 31 December 2015 Granted	Exercised	Lapsed	Outstanding as at 31 December 2015	Exercise price per Share (HK$)	Exercise period
Directors								
WANG Di	19 September 2014	6,000,000	–	(4,000,000)	–	2,000,000	1.064	(Note 2, 3)
SUN Xinhu	19 September 2014	3,000,000	–	(2,000,000)	–	1,000,000	1.064	(Note 2, 3)
An employee (Note 1)	19 September 2014	1,000,000	–	(666,666)	–	333,334	1.064	(Note 2, 3)
		10,000,000	–	(6,666,666)	–	3,333,334		

Notes:

1. Employee include employee of the Group (other than the directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

2. The closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on 18 September 2014, being the trading day immediately preceding the date of grant of options, was HK$1.05 per share.

3. These options can only be exercised by the grantees in the following manner:

Period for exercise of the share options	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
19 September 2014 to 18 September 2015	3,333,333
19 September 2015 to 18 September 2016	3,333,333
19 September 2016 to 18 September 2017	3,333,334

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report regarding Share Option Scheme, the Company has not entered into any equity-link agreement during the year ended 31 December 2015 and no equity-link agreement subsisted as at the end of the year.

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 THE COMPANY'S SECURITIES

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 Company during the Year are set out in note 29 to the consolidated financial statements. As at 31 December 2015, the reserves of the Company available for distribution, calculated in accordance with the provision of Section 290-306 of the Hong Kong Companies Ordinance, (Cap. 622) amounted to RMB3,032,000.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 29.7% (2014: 24.9%) of the Group's total cost of purchase for the Year. The largest supplier accounted for approximately 10.1% (2014: 7.2%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 30.6% (2014: 27.2%) of the Group's total revenue for the Year. The largest customer accounted for approximately 7.2% (2014: 8.7%) of the Group's total revenue for the Year.

To the knowledge of the Directors, none of the Directors, their respective close 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. ZHANG Jian *(Chief Executive Officer)* (appointed on 14 October 2015)
Mr. SUN Xinhu (re-designated from non-executive Director to executive Director on 16 April 2015)
Ms. LI Hai Xia (appointed on 14 October 2015)
Mr. WANG Hui *(Chief Executive Officer)* (resigned on 14 October 2015)
Mr. JIANG Chang Lin (resigned on 14 October 2015)

Non-executive Directors

Mr. WANG Di *(Chairman)*
Mr. WANG Yong
Ms. LI Yiyi (appointed on 16 April 2015)

Independent Non-executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (appointed on 16 April 2015 and resigned on 31 March 2016)
Mr. ZHANG Gongxue (resigned on 16 April 2015)

Each of the executive Directors, Mr. ZHANG Jian, Ms. LI Hai Xia, non-executive Director, Ms. LI Yiyi, and independent non-executive Director, Mr. LI Bangguang, has entered into a service agreement with the Company for a term of three years. 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.

Except for Mr. LI Bangguang who has entered into a service agreement with the Company as mentioned above, 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 2015. 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 31 to 35 of this annual report.

DIRECTORS OF SUBSIDIARIES

The directors of our subsidiaries during the Year and up to the date of this annual report were:

Company	Director
SHANDONG XIWANG SPECIAL STEEL COMPANY LTD	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
SHANDONG XIWANG STEEL COMPANY LTD	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
SHANDONG XIWANG METAL MATERIAL COMPANY LTD	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
SHANDONG XIWANG RECYCLING RESOURCES COMPANY LTD	Mr. WANG Yong
XIWANG INTERNATIONAL TRADE (QINGDAO) CO, LTD	Mr. WANG Di, Mr. WANG Yong, Mr. WANG Dong, Mr. LI Chun Sheng

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "Connected Transactions" below and in note 34 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.

PERMITTED INDEMNITY

Pursuant to the Company's Articles, every Director shall be indemnified out of the assets of the Company against all liabilities which he/she may incur in the execution and discharge of his/her duties or otherwise in relation thereto. The Company has kept in force insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Company.

MANAGEMENT CONTRACTS

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

REMUNERATION POLICY

The remuneration policy of the Group is set on the basis of the employees' merit, qualifications and competence and reviewed by the Remuneration Committee periodically.

The remuneration package of the Directors are reviewed and recommended by the Remuneration Committee and approved by the Board, with consideration to the Group's operating results, individual performance and comparable market statistics.

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

As at 31 December 2015, 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 recorded 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, were as follows:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2015
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	74.75%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner (Note 2)	6,738 shares (L)	3.36%
		Interest of controlled corporations (Note 2)	190,000 shares (L)	95%
	Xiwang Hong Kong	Interest of controlled corporations (Note 2)	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner (Note 2)	RMB1,322,700,000 (L)	66.14%
	Xiwang Property	Interest of controlled corporations (Note 3)	810,903,622 ordinary shares (L) (Note 3)	65.62%
			678,340,635 convertible preference shares (L) (Note 3)	99.68%

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2015
WANG Di	Company	Beneficial owner	4,000,000 shares (L)	0.20%
	Company	Beneficial owner	2,000,000 share option (L)	0.10%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
SUN Xinhu	Company	Beneficial owner	400,000 shares (L)	0.02%
	Company	Beneficial owner	1,000,000 share option (L)	0.05%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB17,730,000 (L)	0.89%

Notes:

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

(2) As at 31 December 2015, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 66.14% by Mr. WANG Yong and remaining 33.86% by 23 individuals. Further, these 23 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 23 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested.

Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 23 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) As at 31 December 2015, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 65.62% of ordinary shares of Xiwang Property Holdings Company Limited ("**Xiwang Property**") and 99.68% of convertible preference shares of Xiwang Property.

(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 2015, 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/ interested (Note 1)	Approximate percentage of interest in the Company as at 31 December 2015
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
ZHANG Shufang	Interest of spouse (Note 4)	1,500,000,000 ordinary shares (L)	74.75%

Notes:

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

(2) Xiwang Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 23 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(4) 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 2015, 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 34(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.

A. Continuing Connected Transactions in 2015

Save as the supply of steam under the Steam Supply Agreement dated 11 November 2014 entered into between the Shandong Xiwang Special Steel Company Limited and Shandong Xiwang Sugar Industry Company Limited ("**Shandong Xiwang Sugar**") and the leasing of certain vehicles under the Vehicle Leasing Agreement dated 6 January 2014 entered into between the Shandong Xiwang Special Steel Co., Ltd. ("**Xiwang Special Steel**", a wholly-owned subsidiary of the Company) and Xiwang Logistics Company Limited ("**Xiwang Logistics**"), which are subject to the reporting, annual review and announcement requirements, all 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.

(1) Sale of Steam to Shandong Xiwang Sugar

On 11 November 2014, Shandong Xiwang Special Steel Company Limited ("**Xiwang Special Steel**"), a wholly-owned subsidiary of the Company, entered into the Steam Supply Agreement with Shandong Xiwang Sugar, pursuant to which, the Group would supply steam to Shandong Xiwang Sugar for a period commencing on the date of the Steam Supply Agreement and ending on 31 December 2016 (both dates inclusive). Xiwang Investment is the controlling shareholder of the Company and indirectly holds the entire equity interest in Shandong Xiwang Sugar. As such, Shandong Xiwang Sugar is a connected person of the Company and the transactions contemplated under the Steam Supply Agreement constituted continuing connected transactions. Pursuant to the Steam Supply Agreement, Xiwang Special Steel is responsible for laying or altering the steam pipe, installing the steam meter and supplying steam to Shandong Xiwang Sugar and its subsidiaries. It was agreed that if the coal price in the Zouping County market reaches RMB0.15 per kcal (tax-inclusive), the corresponding price for steam will be RMB125 per tonne (tax-inclusive). With the aforesaid standard as basis, the price for steam will be adjusted upward or downward by RMB5 per tonne (tax-inclusive) accordingly for the corresponding increase or decrease of each RMB0.01 per kcal (tax-inclusive) of the coal price. Steam is a by-product generated during the Group's production of special steel, while the Group only make use of a small amount of steam in its production process. By entering into the Steam Supply Agreement, the Group can generate additional income from the sale of steam unused while saving the cost in its construction of steam pipeline. It was expected that the maximum aggregate annual transaction amounts under the Steam Supply Agreement for each of the three years ending 31 December 2016 would be RMB34,668,000, RMB64,598,000 and RMB78,304,000, respectively. As of 31 December 2015, the actual aggregate annual transaction amount incurred was RMB28,267,000. During the term of the agreement, the transaction amount did not exceed the annual cap as set out in the agreement. For details of the transaction, please refer to the announcement of the Company dated 11 November 2014.

(2) Lease of Vehicles from Xiwang Logistics

On 6 January 2014, Xiwang Special Steel and Xiwang Logistics, a wholly-owned subsidiary of Xiwang Group Company Limited ("**Xiwang Group**", the ultimate holding company of the Company), entered into the leasing agreement in relation to the leasing of 42 vehicles (the "**Vehicles**") by Xiwang Logistics to Xiwang Special Steel (the "**Vehicle Leasing Agreement**"), which was effective from 6 January 2014 to 31 December 2015.

At the time of entering into the Vehicle Leasing Agreement, Xiwang Logistics was not a connected person of the Company under the Listing Rules. On 21 November 2014, Xiwang Logistics became a wholly-owned subsidiary of Xiwang Group, and therefore it has become a connected person of the Company under Listing Rules since then.

Pursuant to the Vehicle Leasing Agreement, Xiwang Logistics leased the Vehicles to Xiwang Special Steel for a monthly rental of RMB534,453.48.

For the year ended 31 December 2015, the total fees paid by Xiwang Special Steel to Xiwang Logistics were RMB6,413,441.76.

Further details of the Vehicle Leasing Agreement were disclosed in the announcement of the Company dated 13 April 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above continuing connected transactions and are of the opinion that the above continuing connected transactions have been (i) carried out in the usual and ordinary course of business of the Group; (ii) conducted on normal commercial terms; and (iii) entered into in accordance with the terms of the agreement which are fair and reasonable and in the interests of the Company's shareholders as a whole.

B. Other Connected Transaction – Establishment of Xiwang Finance Company

On 10 May 2015, the Company convened a board meeting to consider and approve the proposal in relation to the establishment of Xiwang Finance Company jointly contributed by the Company with Xiwang Group, Xiwang Sugar, Xiwang Food and Cinda Asset Management and authorisation to management of Shandong Xiwang to handle the relevant matters.

On 21 August 2015, the Company received the approval from the China Banking Regulatory Commission for the establishment of Xiwang Finance Company, and was required to complete the establishment within 6 months from the date of approval and file an application to Shandong Bureau of China Banking Regulatory Commission for business opening in accordance with relevant requirements and procedures.

On 20 November 2015, Shandong Xiwang, Xiwang Group, Xiwang Sugar, Xiwang Food and Cinda Asset Management entered into the capital contribution agreement for the joint establishment of Xiwang Finance Company (the "**Capital Contribution Agreement**"). Pursuant to the Capital Contribution Agreement, Xiwang Group Company, Shandong Xiwang, Xiwang Sugar, Xiwang Food and Cinda Asset Management will contribute RMB650 million, RMB100 million, RMB100 million, RMB100 million and RMB50 million, respectively, representing 65%, 10%, 10%, 10% and 5% of the registered capital of Xiwang Finance Company, respectively.

As Shandong Xiwang is a wholly owned subsidiary of the Company. Xiwang Group is the ultimate holding company of the Company. Xiwang Sugar and Xiwang Food are subsidiaries of Xiwang Group. Therefore, Xiwang Group, Xiwang Sugar and Xiwang Food are connected persons of the Company under the Listing Rules.

Further details of the Capital Contribution Agreement were disclosed in the announcement of the Company dated 20 November 2015.

The Company's external auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the auditor of the Company, has provided a letter to the Board confirming that nothing has come to their attention to cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Company if the transactions involve provision of services by the Company;

(iii) were not entered into, in all material respects, in accordance with the agreements governing the transactions; and

(iv) have exceeded the cap.

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 21 to 30 of this annual report.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was comprised of three Directors, namely, Mr. LEUNG Shu Sun Sunny, Mr. LIU Xiangming and Mr. YU Kou who are independent non-executive Directors. Mr. LI Bangguang was appointed as a member of the Audit Committee in place of Mr. LIU Xiangming on 31 March 2016. Mr. LEUNG Shu Sun Sunny serves as the chairman of the Audit Committee. The major duties of the Audit Committee under its written terms of reference include monitoring the integrity of the financial statements and reports, overseeing the independence and performance of the external auditors of the Company, reviewing the Group's financial reporting system and internal control procedures.

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed with the management internal control and financial reporting matters of the Company, including the review of the Group's audited consolidated financial results for the Year.

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 a sufficient public float as required under the Listing Rules as at the date of this annual report.

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.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 31 March 2016

Independent Auditors' Report

22/F, CITIC Tower
1 Tim Mei Avenue
Hong Kong

To the members 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 set out on pages 56 to 127, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, 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 405 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong
31 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
REVENUE	5	**6,751,643**	8,641,517
Cost of sales		**(6,175,337)**	(7,529,038)
Gross profit		**576,306**	1,112,479
Other income and gain	5	**25,084**	31,570
Selling and distribution expenses		**(21,500)**	(20,174)
Administrative expenses		**(66,725)**	(76,529)
Other expenses		**(19,819)**	(36,103)
Research and development costs		**(210,464)**	(271,160)
OPERATING PROFIT		**282,882**	740,083
Finance costs	7	**(91,107)**	(199,633)
PROFIT BEFORE TAX	6	**191,775**	540,450
Income tax expense	10	**(22,551)**	(133,846)
PROFIT FOR THE YEAR		**169,224**	406,604
Profit attributable to owners of the parent		**169,224**	406,604
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB8.46 cents**	RMB20.3 cents
Diluted		**RMB8.43 cents**	RMB20.3 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000 (Restated)
PROFIT FOR THE YEAR	**169,224**	406,604
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(12,401)**	2,189
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(12,401)**	2,189
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**156,823**	408,793
Total comprehensive income attributable to owners of the parent	**156,823**	408,793

Consolidated Statement of Financial Position

31 December 2015

	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**9,733,333**	8,875,432
Prepaid land lease payments	14	**98,504**	100,725
Deferred asset		**–**	352
Available-for-sale investment	15	**100,000**	–
Deferred tax assets	25	**5,824**	5,911
Total non-current assets		**9,937,661**	8,982,420
CURRENT ASSETS			
Inventories	16	**659,367**	863,155
Trade and bills receivables	17	**61,089**	323,007
Prepayments, deposits and other receivables	18	**195,327**	194,970
Derivative financial instrument	23	**2,159**	–
Income tax recoverable		**50,388**	–
Pledged deposits	19	**462,167**	746,226
Cash and cash equivalents	19	**271,764**	127,067
Total current assets		**1,702,261**	2,254,425
CURRENT LIABILITIES			
Trade and bills payables	20	**1,484,540**	2,396,211
Receipts in advance, other payables and accruals	21	**3,857,672**	3,092,814
Interest-bearing bank and other borrowings	22	**593,550**	725,105
Income tax payable		**–**	51,891
Total current liabilities		**5,935,762**	6,266,021
NET CURRENT LIABILITIES		**(4,233,501)**	(4,011,596)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,704,160**	4,970,824

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	**420,836**	29,977
Borrowing from the ultimate holding company	34(c)(ii)	**1,158,916**	1,109,939
Deferred tax liability	25	**18,442**	19,093
Other long term payable	26	**161,000**	–
Derivative financial instrument	23	**–**	417
Total non-current liabilities		**1,759,194**	1,159,426
Net assets		**3,944,966**	3,811,398
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**962,949**	955,833
Other reserves	29	**2,982,017**	2,855,565
Total equity		**3,944,966**	3,811,398

WANG Di
Director

WANG Yong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to owners of the parent										
	Share capital RMB'000 (note 27)	Share premium account# RMB'000 (note 27)	Contributed surplus RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000 (note 29(a))	Warrant reserve RMB'000 (note 27)	Share option reserve RMB'000 (note 28)	Special reserve RMB'000 (note 29(b))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2014	165,903	789,930	78,938	–	400,899	–	–	78,525	1,636	1,617,739	3,133,570
Profit for the year	–	–	–	–	–	–	–	–	–	406,604	406,604
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	2,189	–	2,189
Total comprehensive income for the year	–	–	–	–	–	–	–	–	2,189	406,604	408,793
Profit appropriated to reserves	–	–	–	–	48,672	–	–	41,045	–	(89,717)	–
Final 2013 dividend declared	–	–	–	–	–	–	–	–	–	(30,000)	(30,000)
Capital contribution from the ultimate shareholder (note 34(b)(iii))	–	–	–	297,069	–	–	–	–	–	–	297,069
Issue of warrants, net of issue expenses (note 27)	–	–	–	–	–	1,189	–	–	–	–	1,189
Equity-settled share option expense (note 28)	–	–	–	–	–	–	777	–	–	–	777
Transition to no-par value regime (note 27)	789,930	(789,930)	–	–	–	–	–	–	–	–	–
At 31 December 2014	955,833	–	78,938*	297,069*	449,571*	1,189*	777*	119,570*	3,825*	1,904,626*	3,811,398

\# Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note2.4 to the financial statements.

	Attributable to owners of the parent									
	Share capital RMB'000 (note 27)	**Contributed surplus RMB'000**	**Other reserve RMB'000**	**Statutory surplus reserve RMB'000 (note 29(a))**	**Warrant reserve RMB'000 (note 27)**	**Share option reserve RMB'000 (note 28)**	**Special reserve RMB'000 (note 29(b))**	**Exchange fluctuation reserve RMB'000**	**Retained profits RMB'000**	**Total equity RMB'000**
At 1 January 2015	**955,833**	**78,938**	**297,069**	**449,571**	**1,189**	**777**	**119,570**	**3,825**	**1,904,626**	**3,811,398**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**169,224**	**169,224**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,401)**	**–**	**(12,401)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,401)**	**169,224**	**156,823**
Profit appropriated to reserves	**–**	**–**	**–**	**9,614**	**–**	**–**	**38,427**	**–**	**(48,041)**	**–**
Utilised special reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(1,642)**	**–**	**1,642**	**–**
Final 2014 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,000)**	**(30,000)**
Share options exercised (note 27)	**7,116**	**–**	**–**	**–**	**–**	**(1,104)**	**–**	**–**	**–**	**6,012**
Lapsed of warrant (note 27)	**–**	**–**	**–**	**–**	**(1,189)**	**–**	**–**	**–**	**1,189**	**–**
Equity-settled share option expense (note 28)	**–**	**–**	**–**	**–**	**–**	**733**	**–**	**–**	**–**	**733**
At 31 December 2015	**962,949**	**78,938***	**297,069***	**459,185***	**–**	**406***	**156,355***	**(8,576)***	**1,998,640***	**3,944,966**

* These reserve accounts comprise the consolidated other reserves of RMB2,982,017,000 (2014: RMB2,855,565,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**191,775**	540,450
Adjustments for:			
Finance costs	7	**91,107**	199,633
Interest income	5	**(14,824)**	(26,409)
Exchange loss, net	6	**5,956**	3,575
Depreciation	13	**480,055**	405,261
Recognition of prepaid land lease payments	14	**2,344**	2,344
Equity-settled share option expense	28	**733**	777
Impairment of bills receivables	6	**7,299**	–
Write-down of inventories to net realisable value	6	**6,405**	–
Fair value (gain)/loss of derivative financial instruments	5, 6	**(2,526)**	417
Impairment of items of property, plant and equipment	6	**–**	33,465
		768,324	1,159,513
Decrease in inventories		**197,383**	51,590
(Increase)/decrease in trade and bills receivables		**234,739**	(216,503)
(Increase)/decrease in prepayments, deposits and other receivables		**(3,818)**	59,288
Increase/(decrease) in trade and bills payables		**(911,671)**	619,506
Increase/(decrease) in receipts in advance, other payables and accruals		**(735,104)**	315,002
Cash (used in)/generated from operations		**(450,147)**	1,988,396
Interest received		**18,182**	32,782
Interest element of finance lease rental payments		**(2,860)**	(18,605)
PRC tax paid		**(125,393)**	(115,185)
Net cash flows (used in)/from operating activities		**(560,218)**	1,887,388
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,544,313)**	(1,849,408)
Purchase of prepaid land lease payment		**–**	(12,518)
Purchase of available-for-sale investments		**(100,000)**	–
Receipt of government grants		**4,901**	–
Decrease in pledged time deposits		**284,059**	372,662
Net cash flows used in investing activities		**(1,355,353)**	(1,489,264)

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		**1,218,345**	363,004
Increase in long term payable		**161,000**	–
Decrease in an amount due to an independent third party		**(473,425)**	(425,260)
Increase in amount due to the ultimate holding company		**2,186,480**	1,399,900
Capital element of finance lease rental payments		**(143,252)**	(174,318)
Repayment of bank and other loans		**(818,822)**	(1,357,183)
Net proceeds from issue of warrants		**–**	1,189
Proceeds from share option exercised		**6,012**	–
Dividends paid		**(30,000)**	(30,000)
Interest paid		**(29,400)**	(141,024)
Net cash flows from/(used in) financing activities		**2,076,938**	(363,692)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**161,367**	34,432
Cash and cash equivalents at beginning of year		**127,067**	93,316
Effect of foreign exchange rate changes, net		**(16,670)**	(681)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**271,764**	127,067
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**271,764**	127,067
Cash and cash equivalents as stated in the statement of cash flows		**271,764**	127,067

1. CORPORATE AND GROUP 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 the People's Republic of China ("**PRC**").

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 ("**Xiwang Holdings**")（西王控股有限公司）. During the year ended 31 December 2015, the ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**")（西王集團有限公司）.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follow:

Company name	Place and date of registration and business	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	US$28,500,000	100	–	Trading of commodities
Xiwang International Trade (Qingdao) Co., Ltd.（西王國際貿易（青島）有限公司）*	PRC/Mainland China 24 June 2013	US$16,380,000	100	–	Trading of commodities
Shandong Xiwang Metal Material Co., Ltd.（山東西王金屬材料有限公司）*	PRC/Mainland China 20 April 2004	RMB407,359,000	–	100	Production and sale of steel products
Shandong Xiwang Steel Co., Ltd.（山東西王鋼鐵有限公司）*	PRC/Mainland China 31 December 2003	RMB240,000,000	–	100	Production and sale of steel products
Shandong Xiwang Special Steel Co., Ltd.（山東西王特鋼有限公司）*	PRC/Mainland China 29 December 2007	US$111,800,000	100	–	Production and sale of steel products
Shandong Xiwang Recycling Resources Co., Ltd.（山東西王再生資源有限公司）*	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.

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, except for derivative financial instrument which has been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately RMB4,233.5 million (31 December 2014: RMB4,011.6 million). The directors of the Company have considered the following factors:

- the Group's expected cash inflows from operating activities in 2016;
- the directors of the Company are also confident that bank loans, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing; and
- other available sources of financing from banks and the ultimate shareholder given the Group's credit history.

The directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than 12 months from the end of the reporting period. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 Property, Plant and Equipment and HKAS 38 Intangible Assets: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 Related Party Disclosures: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) The Annual Improvements to HKFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 Business Combinations: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 Investment Property: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there was no acquisition of investment properties during the year.

In addition, the requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current year. The main impact to the financial statements is on the presentation and disclosure of certain information in the 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 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
4 No mandatory effective date yet determined but available for adoption

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

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

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 of 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 is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value 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.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1:	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3:	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 and 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 statement of profit or loss 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 statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 statement of profit or loss 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 statement of profit or loss 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 buildings, machinery and equipment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, 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:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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 gain in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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 objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 individually 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified 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 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).

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 statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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, derivative financial instrument, an amount due to the immediate holding company, an amount due to fellow subsidiaries, an amount due to the ultimate holding company and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss.

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 consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute to the central pension scheme which are based on a certain percentage of the total salary of these employees. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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 7.0% and 10.5% has been applied to the expenditure on the individual assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional 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 statement of profit or loss.

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 these entities are translated into the presentation currency of RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Judgement

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

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognized and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss.

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.

Fair value of an amount due to the ultimate holding company upon initial recognition

Upon initial recognition, an amount due to the ultimate holding company has been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. Further details are included in note 34(b)(iii) to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four 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;

(c) the trading of commodities segment, which mainly engages in the trading of commodities such as iron ore dust, pellet, steel billets and coke; and

(d) the by-products segment, which includes the sale of by-products such as steel slag, steam and electricity.

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 generates substantially all of its revenue from customers domiciled 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.

Information about major customers

For the years ended 31 December 2014 and 2015, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. OPERATING SEGMENT INFORMATION (Continued)

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	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2015					
Segment revenue:					
Sales to external customers	**3,505,398**	**2,043,883**	**959,671**	**242,691**	**6,751,643**
Cost of sales	**(3,151,096)**	**(1,842,094)**	**(955,114)**	**(227,033)**	**(6,175,337)**
Gross profit	**354,302**	**201,789**	**4,557**	**15,658**	**576,306**
Reconciliation:					
Other income and gain					**25,084**
Selling and distribution expenses					**(21,500)**
Administrative expenses					**(66,725)**
Research and development costs					**(210,464)**
Other expenses					**(19,819)**
Finance costs					**(91,107)**
Profit before tax					**191,775**

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2014 (Restated)					
Segment revenue:					
Sales to external customers	4,750,949	2,543,167	1,086,257	261,144	8,641,517
Cost of sales	(4,116,423)	(2,128,433)	(1,062,994)	(221,188)	(7,529,038)
Gross profit	634,526	414,734	23,263	39,956	1,112,479
Reconciliation:					
Other income and gain					31,570
Selling and distribution expenses					(20,174)
Administrative expenses					(76,529)
Research and development costs					(271,160)
Other expenses					(36,103)
Finance costs					(199,633)
Profit before tax					540,450

5. REVENUE, OTHER INCOME AND GAIN

Revenue 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:

	2015 RMB'000	2014 RMB'000
Revenue		
Sale of ordinary steel	**3,505,398**	4,750,949
Sale of special steel	**2,043,883**	2,543,167
Trading of commodities	**959,671**	1,086,257
Sale of by-products	**242,691**	261,144
	6,751,643	8,641,517
Other income		
Bank interest income	**14,824**	26,409
Subsidy income	**6,253**	4,990
Others	**1,481**	171
Gain		
Fair value gain on derivative financial instrument	**2,526**	–
	25,084	31,570

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	**2015 RMB'000**	2014 RMB'000 (Restated)
Cost of inventories sold		**6,175,337**	7,529,038
Depreciation	13	**480,055**	405,261
Amortisation of prepaid land lease payments	14	**2,344**	2,344
Research and development costs		**210,464**	271,160
Auditors' remuneration		**1,750**	1,700
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**189,441**	209,842
Pension scheme contributions*		**11,185**	11,235
Staff welfare expenses		**2,641**	5,981
		203,267	227,058
Foreign exchange differences, net**		**5,956**	2,221
Impairment of bills receivable**		**7,299**	–
Write-down of inventories to net realisable value**		**6,405**	–
Impairment of items of property, plant and equipment**	13	**–**	33,465
Fair value loss on derivative financial instrument**	23	**–**	417

* 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.

** The foreign exchange differences, impairment of bills receivable, write-down of inventories to net realisable value, impairment of items of property, plant and equipment and fair value loss on derivative financial instrument are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	**39,171**	82,379
Interest on a finance lease	**2,860**	18,605
Finance cost on bills discounted	**2,292**	–
Interest on an amount due to the ultimate holding company*	**48,976**	56,397
Interest on an amount due to independent third parties (note 21)	**48,690**	110,150
Total interest expense on financial liabilities not at fair value through profit or loss	**141,989**	267,531
Less: Interest capitalised	**(50,882)**	(67,898)
	91,107	199,633

* Includes notional interest of RMB48,976,000 (2014: RMB7,108,000) on an amount due to the ultimate holding company (note 34(a)(ii)).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 **RMB'000**	2014 RMB'000
Fees	**185**	218
Other emoluments:		
Salaries, allowances and benefits in kind	**676**	2,008
Equity-settled share option expense	**811**	698
Pension scheme contributions	**18**	9
	1,690	2,933

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2015 **RMB'000**	2014 RMB'000
Mr. Leung Shu Sun Sunny	**122**	118
Mr. Yu Kou	**50**	50
Mr. Liu Xiangming*	**13**	–
Mr. Zhang Gongxue*	**–**	50
	185	218

* On 16 April 2015, Mr. Zhang Gongxue was resigned as an independent non-executive director; Mr. Liu Xiangming was appointed as an independent non-executive director.

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
Executive directors:					
Mr. Zhang Jian*	–	360	–	12	372
Ms. Li Haixia*	–	106	–	4	110
Mr. Sun XinHu**	–	–	270	–	270
Mr. Wang Hui*	–	–	–	–	
Mr. Jiang Changlin*	–	150	–	–	150
Mr. He Qingwen**	–	60	–	2	62
	–	676	270	18	964
Non-executive directors:					
Mr. Wang Yong	–	–	–	–	–
Mr. Wang Di	–	–	541	–	541
Ms. Li Yiyi**	–	–	–	–	–
	–	–	541	–	541
	–	676	811	18	1,505

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014					
Executive directors:					
Mr. Wang Hui*	–	146	–	9	155
Mr. Jiang Changlin*	–	1,367	–	–	1,367
Mr. He Qingwen**	–	495	–	–	495
	–	2,008	–	9	2,017
Non-executive directors:					
Mr. Wang Yong	–	–	–	–	–
Mr. Wang Di	–	–	465	–	465
Mr. Sun Xinhu**	–	–	233	–	233
	–	–	698	–	698
	–	2,008	698	9	2,715

* On 14 October 2015, Mr. Wang Hui and Mr. Jiang Changlin resigned as executive directors; Mr. Zhang Jian and Ms. Li Haixia were appointed as executive directors.

** On 16 April 2015, Mr. He Qingwen resigned as an executive director; Mr. Sun Xinhu was re-designated from non-executive director to executive director; Ms. Li Yiyi was appointed as a non-executive director.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one directors (2014: 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 (2014: three) non-director highest paid employees for the year are as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries, allowances and benefits in kind	**1,177**	1,526
Performance – related bonus	**375**	332
Equity-settled share option expense	**28**	78
Pension scheme contributions	**90**	9
	1,670	1,945

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
Nil to RMB1,000,000	**4**	3
RMB1,000,001 to RMB2,000,000	**–**	–
	4	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("**CIT**") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2015.

	2015 **RMB'000**	2014 RMB'000
Current – Mainland China		
Charge for the year	**21,515**	132,960
Deferred (note 25)	**1,036**	886
Total tax charge for the year	**22,551**	133,846

The income tax charge for the year of RMB21,515,000 (2014: RMB132,960,000) is after deduction of the effect of the super deduction of research expenses of RMB33,872,000 (2014: RMB9,086,000). The super deduction of research expenses was approved by the local tax authorities in 2015.

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for the location in which the Company and the majority of 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:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Profit before tax	**191,775**		540,450	
Tax at the statutory tax rate	**47,944**	**25**	135,113	25
Lower tax rate enacted by local authority	**–**	**–**	119	–
Expenses not deductible for tax	**15,815**	**8**	3,385	1
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**949**	**1**	2,033	–
Adjustments in respect of current tax of previous periods	**(11,482)**	**(6)**		
Effect of super deduction of research expenses	**(33,872)**	**(18)**	(9,086)	(2)
Tax losses not recognised	**3,197**	**2**	2,282	1
Tax charge at the Group's effective tax rate	**22,551**	**12**	133,846	25

The Group has tax losses arising in Hong Kong of approximately RMB73,236,000 as at 31 December 2015 (2014: RMB59,147,000), that are available for offsetting against future taxable profits of the Company in which the loss 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. DIVIDEND

	2015 RMB'000	2014 RMB'000
Proposed final dividend – Nil (2014: RMB0.015) per ordinary share	**–**	30,000

12. 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 attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2015 RMB'000	2014 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**169,224**	406,604

	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,000,712,329**	2,000,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,954,337**	207,671
	2,006,666,666	2,000,207,671

13. PROPERTY, PLANT AND EQUIPMENT

	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 2015						
At 31 December 2014 and at 1 January 2015:						
Cost	4,072,356	4,842,273	33,785	70,864	875,117	9,894,395
Accumulated depreciation	(289,500)	(700,968)	(5,120)	(23,375)	–	(1,018,963)
Net carrying amount	3,782,856	4,141,305	28,665	47,489	875,117	8,875,432
At 1 January 2015, net of accumulated depreciation	3,782,856	4,141,305	28,665	47,489	875,117	8,875,432
Additions	22,654	78,747	178	3,645	1,232,732	1,337,956
Depreciation provided during the year (note 6)	(142,894)	(320,390)	(3,710)	(13,061)	–	(480,055)
Transfers	799,807	33,110	874	78	(833,869)	–
At 31 December 2015, net of accumulated depreciation	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333
At 31 December 2015:						
Cost	4,843,378	4,925,911	34,184	72,401	1,273,980	11,149,854
Accumulated depreciation	(380,955)	(993,139)	(8,177)	(34,250)	–	(1,416,521)
Net carrying amount	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333

As at 31 December 2015, the Group has not yet obtained the building ownership certificates in respect of certain buildings with a net book value of RMB3,638,778,000 (2014: RMB3,264,248,000).

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	3,036,068	3,293,406	11,045	50,372	2,061,112	8,452,003
Accumulated depreciation	(185,001)	(435,388)	(2,373)	(11,713)	–	(634,475)
Net carrying amount	2,851,067	2,858,018	8,672	38,659	2,061,112	7,817,528
At 1 January 2014, net of accumulated depreciation	2,851,067	2,858,018	8,672	38,659	2,061,112	7,817,528
Additions	3,247	33,910	664	2,919	1,455,890	1,496,630
Depreciation provided during the year (note 6)	(106,613)	(283,876)	(2,812)	(11,960)	–	(405,261)
Impairment of items of property, plant and equipment (note 6)	(12,683)	(20,782)	–	–	–	(33,465)
Transfers	1,047,838	1,554,035	22,141	17,871	(2,641,885)	–
At 31 December 2014, net of accumulated depreciation	3,782,856	4,141,305	28,665	47,489	875,117	8,875,432
At 31 December 2014:						
Cost	4,072,356	4,842,273	33,785	70,864	875,117	9,894,395
Accumulated depreciation	(289,500)	(700,968)	(5,120)	(23,375)	–	(1,018,963)
Net carrying amount	3,782,856	4,141,305	28,665	47,489	875,117	8,875,432

14. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**103,069**	92,895
Addition	**–**	12,518
Recognised during the year (note 6)	**(2,344)**	(2,344)
Carrying amount at 31 December	**100,725**	103,069
Current portion included in prepayments, deposits and other receivables (note 18)	**(2,221)**	(2,344)
Non-current portion	**98,504**	100,725

At 31 December 2015, certain of the Group's leasehold land with a carrying amount of approximately RMB86,674,000 (2014: RMB88,604,000) were pledged as security for the Group's bank loans and other borrowings (note 22).

15. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, at cost	**100,000**	–

As at 31 December 2015, the unlisted equity investment with a carrying amount of RMB100,000,000 represents a 10% equity interest in Xiwang Group Finance Company ("西王集團財務有限公司") (2014: Nil). The amount is stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

16. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**222,998**	178,185
Work in progress	**62,297**	100,686
Finished goods	**228,017**	440,060
Trading commodities	**146,055**	144,224
	659,367	863,155

At 31 December 2015, the Group's inventories with a carrying amount of nil (2014: RMB214,600,000) were pledged as security for the Group's issuance of bills payable as further detailed in note 20 to the financial statements.

17. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000 (Restated)
Bills receivable	**952**	76,706
Trade receivables	**60,137**	246,301
	61,089	323,007

For sales under the ordinary steel and special steel segments, 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 for these long term customers is generally three months and each customer has a maximum credit limit. For sales under the trading of commodities and by-products segments, the Group's trading terms with its customers are mainly on credit, the credit period is generally within six months.

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.

17. TRADE AND BILLS RECEIVABLES (Continued)

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

	2015 RMB'000	2014 RMB'000 (Restated)
Within 3 months	**31,017**	296,552
3 to 6 months	**20,375**	25,604
6 months to 1 year	**9,697**	91
Over 1 year	**–**	760
	61,089	323,007

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

	2015 RMB'000	2014 RMB'000 (Restated)
Neither past due nor impaired	**51,392**	322,156
Less than 1 month past due	**–**	–
1 to 6 months past due	**9,697**	91
6 months to 1 year past due	**–**	760
	61,089	323,007

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.

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of nil (2014: RMB25,256,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Prepayments	**107,827**	123,489
Bank interest receivables	**2,706**	4,125
VAT recoverable	**42,720**	53,218
Deposits and other receivables	**39,853**	11,794
Current portion of prepaid land lease payments (note 14)	**2,221**	2,344
	195,327	194,970

Included in the Group's deposits and other receivables are amounts due from the Group's fellow subsidiaries of RMB378,000 (2014: Nil).

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.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2015 RMB'000	2014 RMB'000
Cash and bank balances		**271,764**	127,067
Time deposits		**462,167**	746,226
		733,931	873,293
Less: Pledged time deposits:			
Guarantee deposits for issuance of bills payable	20	**(425,998)**	(612,080)
Guarantee deposits for certain bank borrowings	22	**(36,169)**	(134,146)
Cash and cash equivalents		**271,764**	127,067

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB204,163,614 (2014: RMB55,773,000). 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-term 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.

20. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 RMB'000 (Restated)
Bills payable	**848,752**	1,570,039
Trade payables	**635,788**	826,172
	1,484,540	2,396,211

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

	2015 RMB'000	2014 RMB'000 (Restated)
Within 1 month	**263,475**	368,046
1 to 3 months	**805,743**	1,075,538
3 to 6 months	**223,766**	762,997
6 to 12 months	**109,780**	157,013
Over 12 months	**81,776**	32,617
	1,484,540	2,396,211

The Group's bills payable amounting to RMB848,752,000 (2014: RMB1,570,039,000) were secured by the pledged time deposits of RMB425,998,000 (2014: RMB612,080,000) and the Group's inventories of nil (2014: RMB214,600,000).

Included in the trade and bills payables are trade payables of RMB23,054,000 (2014: RMB29,766,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

20. TRADE AND BILLS PAYABLES (Continued)

Additionally, Mr. Wang Yong, a non-executive director of the Company, and Ms. Zhang Shufang (spouse of Mr. Wang Yong) guaranteed the Group's bills payable of RMB155,000,000 jointly and severally as at 31 December 2015 (31 December 2014: RMB155,000,000). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB200,000,000 as at 31 December 2015 (31 December 2014: RMB652,478,000). Mr. Wang Di, a non-executive director of the Company, guaranteed the Group's bills payable of nil as at 31 December 2015 (31 December 2014: RMB452,478,000). Xiwang Group guaranteed certain of the Group's bills payable of RMB448,752,000 as at 31 December 2015 (31 December 2014: RMB646,478,000). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bills payable of RMB311,284,000 jointly and severally as at 31 December 2015 (2014: Nil). An independent third party guaranteed certain of the Group's bills payable of RMB200,000,000 as at 31 December 2015 (31 December 2014: RMB400,000,000). Certain leasehold lands of Xiwang Logistics Company Limited ("**Xiwang Logistics**")（西王物流有限公司）, a wholly-owned subsidiary of Xiwang Group, were pledged to secure the Group's bills payable of RMB155,000,000 as at 31 December 2015 (31 December 2014: RMB155,000,000) (note 34(b)(i)).

The trade payables are non-interest-bearing and are normally settled within six months.

21. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000 (Restated)
Advances from customers	**146,157**	273,490
Salaries and welfare payables	**37,193**	63,124
Other tax payables	**14,739**	12,375
Construction and equipment payables	**588,236**	854,486
Due to the ultimate holding company (note 34)	**2,186,480**	–
Deferred revenue	**1,000**	–
Other payables	**883,867**	1,889,339
	3,857,672	3,092,814

Included in the Group's other payables as at 31 December 2015 is an amount of RMB837,138,000 (2014: RMB836,705,000) due to an independent third party, which is unsecured, bears interest at 7.0% per annum and is repayable on 30 September 2016.

Included in the receipts in advance, other payables and accruals are other payables of RMB26,517,000 (2014: RMB125,235,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

The remaining amounts are non-interest-bearing and have an average term of six months.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 24)	**–**	**–**	**–**	7.13	2015	142,079
Interest-bearing bank loans – secured	**4.36~6.44**	**2016**	**483,550**	(LIBOR+1%) ~ 8.40	2015	333,026
Current portion of long term interest-bearing other loan – secured	**9**	**2016**	**110,000**	7.24	2015	250,000
			593,550			725,105
Non-current						
Long term interest-bearing bank loans – secured	**HIBOR +2.8%**	**2017**	**31,836**	HIBOR +2.8%	2017	29,977
Long term interest-bearing other loan – secured	**9**	**2017**	**389,000**	–	–	–
			420,836			29,977
			1,014,386			755,082

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank and other loans repayable:		
Within one year	**593,550**	725,105
In the second year	**420,836**	–
In the third year	**–**	29,977
	1,014,386	755,082

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

(i) Certain of the Group's bank loans are secured by certain of the Group's leasehold land with a carrying amount of RMB86,674,000 as at 31 December 2015 (2014: RMB88,604,000) (note 14) and pledged time deposits of RMB36,169,000 (2014: RMB134,146,000) (note 19).

(ii) In addition, Xiwang Group guaranteed certain of the Group's bank loans and other loan of RMB628,207,000 as at 31 December 2015 (2014: RMB381,068,000) (note 34(b)(ii)). Mr. Wang Yong and Ms. Zhang Shufang guaranteed certain of the Group's bank loans and other loan of RMB526,000,000 jointly and severally as at 31 December 2015 (2014: RMB27,000,000) (note 34(b)(ii)). Mr. Wang Yong and Mr. Wang Di guaranteed certain of the Group's bank loans of RMB75,000,000 jointly and severally as at 31 December 2015 (2014: nil) (note 34(b)(ii)). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bank loans of RMB42,768,000 jointly and severally as at 31 December 2015 (2014: nil) (note 34(b)(ii)). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB100,000,000 as at 31 December 2015 (2014: RMB350,000,000) (note 34(b)(ii)). An independent third party guaranteed certain of the Group's bank loans of RMB175,000,000 as at 31 December 2015 (2014: RMB100,000,000). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 31 December 2015 (2014: RMB27,000,000) (note 34(b)(ii)).

(iii) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values (note 37).

23. DERIVATIVE FINANCIAL INSTRUMENT

The Company has entered into a forward foreign exchange contract to manage its exchange rate exposures. The forward foreign exchange contract has a maturity date of 5 June 2017. It is not designated for hedge purposes and is measured at fair value through profit or loss. Fair value gain on the forward foreign exchange contract amounting to RMB2,576,000 was credited to the statement of profit or loss during the year (2014: fair value loss of RMB417,000).

24. FINANCE LEASE PAYABLES

In 2012, the Group entered into a sale and leaseback arrangement in respect of certain of its machinery and equipment. This lease is classified as a finance lease and has a lease term of three years.

In July 2015, the legal title and ownership of the assets under the finance lease were transferred to the Group at the end of the lease period based on the sale and leaseback arrangement.

25. DEFERRED TAX

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

Deferred tax assets

	2015 RMB'000	2014 RMB'000
At 1 January	**5,911**	4,764
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**(87)**	1,147
Gross deferred tax assets at the end of the year	**5,824**	5,911

For the year ended 31 December 2015, deferred tax assets were recognised in respect of the unrealized profit arising from intra-group sales.

Deferred tax liability

	2015 Withholding tax on the distributable profits RMB'000	2014 Withholding tax on the distributable profits RMB'000
At 1 January	**19,093**	17,060
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**(651)**	2,033
At 31 December	**18,442**	19,093

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. For the Group, the applicable rate is 5%. 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.

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on certain unremitted earnings. 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 totalled approximately RMB302,345,000 (2014: RMB131,391,000).

26. OTHER LONG-TERM PAYABLE

On 23 December 2015, Shandong Xiwang Steel Co., Ltd., Shandong Xiwang Special Steel Co., Ltd. and Zouping Finance Bureau entered into an investment agreement with China Development Fund Co., Ltd. ("**CD Fund**")（國開發展基金有限公司）. Pursuant to the investment agreement, CD Fund invested RMB161,000,000 in Shandong Xiwang Steel Co., Ltd. Based on the terms of the investment agreement, CD Fund has the right to request Zouping Finance Bureau to purchase the equity interest of Shandong Xiwang Steel Co., Ltd. owned by CD Fund within 15 years. Shandong Xiwang Steel Co., Ltd. shall pay CD Fund quarterly dividends at an annual rate of return amounted to 1.2% of the capital investment. Based on the terms of the investment agreement, Shandong Xiwang Special Steel Co., Ltd. which is the shareholder of Shandong Xiwang Steel Co., Ltd. has contractual obligation to CD Fund in the event of uncertain future events such as liquidation, dissolution or termination of Shandong Xiwang Steel Co., Ltd. that are beyond the control of the Group. As Shandong Xiwang Special Steel Co., Ltd. does not have the unconditional right to avoid delivering cash, the capital investment of RMB161,000,000 made by CD Fund to Shandong Xiwang Steel Co., Ltd. was recorded as financial liability.

27. SHARE CAPITAL

	2015 **HK$'000**	2014 HK$'000
Issued and fully paid:		
2,006,666,666 (2014: 2,000,000,000) ordinary shares	**962,949**	955,833

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue RMB'000	**Share capital** RMB'000	**Share premium account** RMB'000	**Total**
At 1 January 2014	2,000,000,000	165,903	789,930	955,833
Transition to no-par value regime on 3 March 2014 (a)	–	789,930	(789,930)	–
At 31 December 2014 and 1 January 2015	2,000,000,000	955,833	–	955,833
Share options exercised (b)	6,666,666	7,116	–	7,116
At 31 December 2015	**2,006,666,666**	**962,949**	**–**	**962,949**

(a) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

(b) The subscription rights attaching to 6,666,666 share options were exercised at the subscription price of HK$1.064 per share (note 28), resulting in the issue of 6,666,666 shares for a total cash consideration of RMB6,012,000. An amount of RMB1,104,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

27. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

Warrants

On 16 May 2014, the Company entered into a warrant subscription agreement (the "**Warrant Subscription Agreement**") with an independent third party (the "**Subscriber**") in relation to the subscription of a total of 150,000,000 warrants at the issue price of HK$0.01. Pursuant to the Warrant Subscription Agreement, the Subscriber is entitled to subscribe for 150,000,000 warrant shares at the exercise price of HK$1.20 per warrant for a period commencing on the date falling within six months after the date of issue of the warrants and ending on the date falling within 12 months after the date of issue of the warrants. On 18 June 2014, the issue of the 150,000,000 warrants was completed. The net proceeds from the warrant subscription of RMB1,189,000 were recorded as a component of shareholders' equity in the warrant reserve.

The warrant lapsed on 18 June 2015, no warrants were exercised.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employees of the Group, any non-executive directors (including independent non-executive directors) and any suppliers and customers of the Group, as absolutely determined by the directors. The Scheme became effective on 3 September 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence on the date of grant of the share options and end on a date which is not later than ten years from the date of grant of the share options.

28. SHARE OPTION SCHEME (Continued)

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the stock exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average stock exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 16 September 2014, a total of 10,000,000 share options were granted to an employee and two non-executive directors of the Company at an exercise price of HK$1.064 per share pursuant to the Scheme.

The exercise price and exercise period of the share options are as follows:

Number of options*	**Exercise price*** HK$ per share	**Exercise period**
3,333,333	1.064	19 September 2014 to 18 September 2015
3,333,333	1.064	19 September 2015 to 18 September 2016
3,333,334	1.064	19 September 2016 to 18 September 2017
10,000,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted in 2014 was HK$2,156,000, of which the Group recognised a share option expense of HK$902,000 (equivalent to RMB733,000) (2014: HK$984,000 (equivalent to RMB777,000)) during the year ended 31 December 2015.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	3.69
Expected volatility (%)	42.0
Risk-free interest rate (%)	0.84
Expected life of options (year)	1.00 – 3.00

No other feature of the options granted was incorporated into the measurement of fair value.

The 6,666,666 share options exercised during the year resulted in the issue of 6,666,666 ordinary shares of the Company and new share capital of HK$8,494,000 (equivalent to RMB7,116,000), as further detailed in note 27 to the financial statements.

At the end of the reporting period, the Company had 3,333,334 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,333,334 additional ordinary shares of the Company and additional share capital of HK$4,302,000 (equivalent to RMB3,604,000) (before issue expenses).

28. SHARE OPTION SCHEME (Continued)

At the date of approval of these financial statements, the Company had 3,333,334 share options outstanding under the Scheme, which represented approximately 0.17% of the Company's shares in issue as at that date.

29. RESERVES

(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 Subsidiaries 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 should be used to improve the production safety of these subsidiaries.

30. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

Bills discount

At 31 December 2015, certain bills receivable were discounted by two banks in Hong Kong (the "**Discounted Bills**") with a carrying amount of RMB211,284,000 (31 December 2014: nil). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills.

Financial assets that are derecognised in their entirety

Bills discount

At 31 December 2015, certain bills receivable were discounted by two banks in Hong Kong (the "**Discounted Bills**") with a carrying amount of RMB120,568,000 (31 December 2014: RMB623,776,000). In the opinion of the director, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Company's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills is equal to their carrying amounts. In the opinion of the director, the fair values of the Company's continuing involvement in the Discounted Bills are not significant.

During the year ended 31 December 2015, the Company has not recognised any gain or loss on the date of transfer of the Discounted Bills (2014: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

31. 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 20 and 22, respectively, to the financial statements.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group and leases certain land and vehicles from Xiwang Logistics 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	**2015** **RMB'000**	2014 RMB'000
Within one year	**7,550**	1,168
In the second to fifth years, inclusive	**16,754**	4,672
After five years	**11,464**	14,538
	35,768	20,378

33. COMMITMENTS

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

	2015 **RMB'000**	2014 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**177,031**	314,247

The Group entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited ("**Luoyang Bearing Research Centre**")（洛陽軸承研究所有限公司）on 6 June 2014. Pursuant to the agreement, the Group should pay RMB600,000 annually for the services to be provided by Luoyang Bearing Research Centre in five years commencing from 6 June 2014. The Group had the following commitment under the technical cooperation agreement at the end of the reporting period:

	2015 **RMB'000**	2014 RMB'000
Contracted, but not provided for:		
Consulting services	**2,100**	2,700

34. 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:

	Notes	**2015 RMB'000**	2014 RMB'000 (Restated)
Rental expenses to Xiwang Group	34(a)(i)	**338**	369
Rental expenses to Xiwang Logistics	34(a)(i)		
– Lease of land		**799**	67
– Lease of vehicles		**6,413**	625
Interest expenses to Xiwang Group	34(a)(ii)	**48,976**	56,397
Sale of steam to Shandong Xiwang Sugar Industry Co, Ltd. ("**Shandong Xiwang Sugar**") (a fellow subsidiary)	34(a)(iii)	**28,267**	22,351

(i) The rental expenses to Xiwang Group and Xiwang Logistics were charged at rates based on mutual agreements between both parties.

(ii) The interest expenses to Xiwang Group for the year of 2015 amounted to RMB48,976,000 (2014: RMB56,397,000), which represent notional interest of RMB48,976,000 (2014: RMB7,108,000) (note 34(c)(ii)).

(iii) The selling price of steam to Shandong Xiwang Sugar was mutually agreed between both parties.

(b) Other related party transactions:

(i) As detailed in note 20, Xiwang Group guaranteed certain of the Group's bills payable of RMB448,752,000 as at 31 December 2015 (2014: RMB646,478,000). Mr. Wang Yong and Ms. Zhang Shufang guaranteed the Group's bills payable of RMB155,000,000 jointly and severally as at 31 December 2015 (2014: RMB155,000,000). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB200,000,000 as at 31 December 2015 (2014: RMB652,478,000). Mr. Wang Di guaranteed the Group's bills payable nil as at 31 December 2015 (2014: RMB452,478,000). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bills payable of RMB311,284,000 jointly and severally as at 31 December 2015 (2014: Nil). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bills payable of RMB155,000,000 as at 31 December 2015 (31 December 2014: RMB155,000,000). The guarantees provided by the related parties will expire from 7 January 2016 to 14 May 2017.

34. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions: (Continued)

(ii) As detailed in note 22(ii), Xiwang Group guaranteed certain of the Group's bank loans and other loan of RMB628,207,000 as at 31 December 2015 (2014: RMB381,068,000). Mr. Wang Yong and Ms. Zhang Shufang guaranteed certain of the Group's bank loans and other loan of RMB526,000,000 jointly and severally as at 31 December 2015 (2014: RMB27,000,000). Mr. Wang Yong and Mr. Wang Di guaranteed certain of the Group's bank loans of RMB75,000,000 jointly and severally as at 31 December 2015 (2014: nil). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bank loans of RMB42,768,000 jointly and severally as at 31 December 2015 (2014: nil). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB100,000,000 as at 31 December 2015 (2014: RMB350,000,000). Certain leasehold lands of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 31 December 2015 (2014: RMB27,000,000). The guarantees provided by the related parties will expire from 5 February 2016 to 14 May 2017.

(iii) As detailed in note 34(c)(ii), pursuant to a supplemental loan agreement entered into between the Group and Xiwang Group on 7 November 2014, the principal amounts of RMB670,000,000 and RMB729,900,000 became interest-free with effect from on 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively.

Upon initial recognition, an amount of RMB297,069,000, being the excess of the aggregate principal amount of RMB1,399,900,000 over its fair value as at 7 November 2014, was accounted for as contribution from the ultimate holding company and credited to "Other reserve" in the consolidated statement of financial position accordingly. As at 31 December 2015, the amortised cost of the amount due to Xiwang Group was RMB1,158,916,000.

(c) Outstanding balances with related parties:

(i) The amounts due to the immediate holding company and amounts due from/to fellow subsidiaries as at 31 December 2015 were unsecured, interest-free and payable on demand.

Included in the amounts due to fellow subsidiaries were an amount of RMB33,958,000 (2014: RMB36,460,000) due to Xiwang Logistics arising from rental expenses related to the lease arrangements with Xiwang Logistics (note 34(a)(i)) and an amount of RMB11,354,000 (2014: RMB118,536,000) due to Zouping Xiwang Power Co., Ltd. ("**Xiwang Power**")（鄒平縣西王動力有限公司）arising from the payments made by Xiwang Power on behalf of the Group. The remaining amounts due to fellow subsidiaries are unsecured, interest-free and payable on demand.

34. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties: (Continued)

(ii) The amount due to Xiwang Group is unsecured. Pursuant to the original loan agreements dated 8 April 2014 and 8 June 2014, respectively, the principal amounts of RMB670,000,000 and RMB729,900,000, which bear interest at 7.0% per annum, are repayable on 9 April 2016 and 9 June 2016, respectively. On 7 November 2014, the Group and Xiwang Group entered into a supplemental loan agreement, the principal amounts of RMB670,000,000 and RMB729,900,000 become interest-free with effect from 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively. As at 31 December 2015, the amortised cost of the amount due to Xiwang Group was RMB1,158,916,000. On 1 January 2016, the Group and Xiwang Group entered into a supplemental loan agreement, the principle amount of RMB670,000,000 and RMB729,000,000 would bear interest at 6.6% per annum since 1 January 2016.

On 1 February 2015, the Group and Xiwang Group entered into a loan agreement. Pursuant to the loan agreement, the Group borrowed a principal amount of RMB2,200,000,000 from Xiwang Group. The loan is unsecured interest-free and repayable on demand. As at 31 December 2015, the actual loan amount drawn down by the Group under the loan agreement was RMB2,186,480,000.

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

	2015 **RMB'000**	2014 RMB'000
Employee benefit expenses	**2,538**	4,596
Equity-settled share option expense	**360**	78
Pension scheme contributions	**68**	59
Total compensation paid to key management personnel	**2,966**	4,733

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

The related party transactions in respect of item 34(a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35. 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

	2015	2014
		(Restated)
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Trade and bills receivables	**61,089**	323,007
Financial assets included in prepayments, deposits and other receivables	**42,559**	15,919
Pledged deposits	**462,167**	746,226
Cash and cash equivalents	**271,764**	127,067
Derivative financial instrument	**2,159**	–
Total	**839,738**	1,212,219

Financial liabilities

	2015	2014
		(Restated)
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and bills payables	**1,484,540**	2,396,211
Financial liabilities included in receipts in advance, other payables and accruals	**1,509,296**	2,806,949
Borrowing from the ultimate holding company	**3,345,396**	1,109,939
Interest-bearing bank and other borrowings	**1,014,386**	755,082
Other long term payable	**161,000**	–
Derivative financial instrument	**–**	417
Total	**7,514,618**	7,068,598

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in receipts in advance, other payables and accruals approximated to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the executive vice president and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the executive vice president. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 an amount due to the ultimate holding company and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for an amount due to the ultimate holding company and interest-bearing bank and other borrowings as at 31 December 2015 was assessed to be insignificant.

Derivative financial instrument is measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amount of forward foreign exchange contract is the same as its fair values.

As at 31 December 2015, derivative financial instrument, borrowing from the ultimate holding company and interest-bearing bank and other borrowings were measured at fair value using significant observable inputs (Level 2). There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, other payables, an amount due to the ultimate holding company, 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, trade payables and an amount due to a related party, which arise directly from its operations.

The Group also enters into derivative transaction of forward foreign exchange contract. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

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 loans of the Group are set out in note 22 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% (2014: 78%) 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.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2015			
RMB	**100**	**(318)**	**–**
RMB	**(100)**	**318**	**–**
31 December 2014			
RMB	100	(699)	–
RMB	(100)	699	–

* Excluding retained profits

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk

Most of the operating income of the Group's business is in RMB and the Group's assets held and all of the committed borrowings of the Group are mainly denominated in RMB, except for certain bank loans denominated in Hong Kong dollar and United States dollar held by the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in Hong Kong dollar and United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax and there is no impact on equity except for retained profits.

	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit before tax** RMB'000	Increase/ (decrease) in equity* RMB'000
2015			
If the United States dollar weakens against the RMB	**5%**	**15,160**	**–**
If the United States dollar strengthens against the RMB	**5%**	**(15,160)**	**–**
If the Hong Kong dollar weakens against the RMB	**5%**	**1,592**	**–**
If the Hong Kong dollar strengthens against the RMB	**5%**	**(1,592)**	**–**
2014			
If the United States dollar weakens against the RMB	5%	8,876	–
If the United States dollar strengthens against the RMB	5%	(8,876)	–
If the Hong Kong dollar weakens against the RMB	5%	1,499	–
If the Hong Kong dollar strengthens against the RMB	5%	(1,499)	–

* Excluding retained profits

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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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, an amount due from a fellow subsidiary, 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 and deposits and other receivables are disclosed in notes 17 and 18, respectively, to the financial statements.

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 2015					
	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	–	158,937	484,227	442,381	–	1,085,545
Trade and bills payables	23,054	392,296	1,069,190	–	–	1,484,540
Borrowing from the ultimate holding company	2,186,480	–	–	1,399,900	–	3,586,380
Financial liabilities included in receipts in advance, other payables and accruals	26,613	1,389,363	93,320	–	–	1,509,296
Other long term payable	–	–	–	–	161,000	161,000
	2,236,147	1,940,596	1,646,737	1,842,281	161,000	7,826,761

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	31 December 2014 (Restated)					
	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	–	232,663	547,421	191,896	–	971,980
Trade and bills payables	29,766	925,971	1,440,474	–	–	2,396,211
Borrowing from the ultimate holding company	–	–	–	–	1,399,900	1,399,900
Financial liabilities included |in receipts in advance, other payables and accruals	780,537	1,444,816	596,238	–	–	2,821,591
Derivative financial instrument	–	–	–	417	–	417
	810,303	2,603,450	2,584,133	192,313	1,399,900	7,590,099

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 2015 and 31 December 2014.

37. 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, an amount due to the ultimate holding company and an amount due to an independent third party. 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:

	Notes	**2015 RMB'000**	2014 RMB'000
Interest-bearing bank and other borrowings	22	**1,014,386**	755,082
An amount due to the ultimate holding company	34(c)(ii)	**3,345,396**	1,109,939
An amount due to an independent third party	21	**837,137**	836,705
Total debt		**5,196,919**	2,701,726
Total assets		**11,589,534**	11,236,845
Gearing ratio		**44.8%**	24.0%

38. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**960,348**	960,348
CURRENT ASSETS		
Derivative financial instruments	**2,159**	–
Due from subsidiaries	**6,997**	638,612
Prepayments and other receivables	**383,756**	2,181
Cash and cash equivalents	**10,230**	1,113
Total current assets	**403,142**	641,906

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2015 RMB'000	2014 RMB'000
CURRENT LIABILITIES		
Other payables and accruals	**3,524**	227,927
Tax payable	**154**	–
Interest-bearing bank loans	**–**	73,460
Due to subsidiaries	**380,807**	276,832
Total current liabilities	**384,485**	578,219
NET CURRENT ASSETS	**18,657**	63,687
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**31,836**	29,977
Derivative financial instrument	**–**	417
Total non-current liabilities	**31,836**	30,394
Net assets	**947,169**	993,641
EQUITY		
Share capital	**962,949**	955,833
Other reserves (note)	**(15,780)**	37,808
Total equity	**947,169**	993,641

WANG Di
Director

WANG Yong
Director

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Exchange reserve RMB'000	Share premium RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000
Balance at 1 January 2014	7,144	789,930	–	–	30,111	827,185
Profit for the year	–	–	–	–	29,982	29,982
Final 2013 dividend declared	–	–	–	–	(30,000)	(30,000)
Issue of warrants, net of issue expenses	–	–	1,189	–	–	1,189
Equity-settled share option expense	–	–	–	777	–	777
Transition to no-par value regime	–	(789,930)	–	–	–	(789,930)
Exchange differences on translation of foreign operations	(1,395)	–	–	–	–	(1,395)
At 31 December 2014	5,749	–	1,189	777	30,093	37,808
Loss for the year	–	–	–	–	1,750	1,750
Final 2014 dividend declared	–	–	–	–	(30,000)	(30,000)
Share options exercised	–	–	–	(1,104)	–	(1,104)
Lapse of warrants	–	–	–	733	–	733
Equity-settled share option expense	–	–	(1,189)	–	1,189	—
Exchange differences on translation of foreign operations	(24,967)	–	–	–	–	(24,967)
At 31 December 2015	(19,218)	–	–	406	3,032	(15,780)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2016.

Five-year Financial Summary

	2015	2014	2013	2012	2011
		(Restated)			
For the year (RMB million)					
Revenue	**6,752**	8,642	7,030	6,891	8,541
Gross profit	**576**	1,112	650	533	1,293
EBITDA[(1)]	**760**	1,152	822	633	1,341
Operating profit	**283**	740	635	492	1,246
Net profit	**169**	407	384	345	909
As at December 31 (RMB million)					
Current assets	**1,702**	2,254	2,494	2,844	2,367
Non-current assets	**9,938**	8,982	7,914	4,697	3,366
Total assets	**11,640**	11,236	10,408	7,541	5,733
Current liabilities	**5,936**	6,266	6,759	3,723	2,813
Non-current liabilities	**1,759**	1,159	516	1,034	1,027
Total liabilities	**7,695**	7,425	7,275	4,757	3,840
Total equity	**3,945**	3,811	3,134	2,784	1,893
Total liabilities and equity	**11,640**	11,236	10,409	7,541	5,733
Per share (RMB)					
Earnings per share					
Basic	**0.846**	0.203	0.192	0.178	0.568
Diluted	**0.843**	0.203	0.192	0.178	0.568
Dividends per share	**–**	0.015	0.015	0.015	0.137

Note:

(1) EBITDA refers to profit before tax plus finance cost, depreciation, amortization of prepaid land lease payments and other expenses less other income and gains.

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