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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2016	2015	Change
Sales volume of Steel *('000 tonnes)*	**2,797**	2,760	+1.3%
Revenue *(RMB million)*			
Ordinary Steel – Rebar	**2,946.8**	2,284.0	+29.0%
Ordinary Steel – Wire Rod	**1,209.5**	1,221.4	-1.0%
Special Steel – Quality carbon structural steel	**1,258.9**	1,470.8	-14.4%
Special Steel – Others (Alloy structural steel, bearing steel and Ingot)	**551.1**	573.1	-3.8%
Trading of commodities and sales of by-products	**1,600.5**	1,202.3	+33.1%
Total	**7,566.8**	6,751.6	+12.1%
Gross profit *(RMB million)*	**1,068.4**	576.3	+85.4%
Gross profit margin	**14.1%**	8.5%	+5.6%
Gross profit per tonne *(RMB)* – Productions and sales of steel	**372 yuan**	202 yuan	+84.20%
Profit attributable to owners *(RMB million)*	**332.6**	169.2	+96.5%
Net profit margin	**4.4%**	2.5%	+1.9%
Basic earnings per share *(RMB)*	**16.57 cents**	8.46 cents	+95.9%
	31 December 2016	31 December 2015	
Total Assets *(RMB million)*	**11,930**	11,640	2.5%
Net asset value per share *(RMB)*	**2.00 yuan**	1.97 yuan	1.5%

The board (the "**Board**") of directors (the "**Directors**") of Xiwang Special Steel Company Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Year**"). The Group's financial information in this announcement was prepared based on the consolidated financial statements of the Group for the Year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	3	**7,566,781**	6,751,643
Cost of sales		**(6,498,392)**	(6,175,337)
Gross profit		**1,068,389**	576,306
Other income and gain	3	**22,173**	25,084
Selling and distribution expenses		**(20,535)**	(21,500)
Administrative expenses		**(52,356)**	(66,725)
Other expenses		**(1,794)**	(19,819)
Research and development costs		**(253,293)**	(210,464)
OPERATING PROFIT		**762,584**	282,882
Finance costs	5	**(336,060)**	(91,107)
PROFIT BEFORE TAX	4	**426,524**	191,775
Income tax expenses	6	**(93,935)**	(22,551)
PROFIT FOR THE YEAR		**332,589**	169,224
Profit attributable to owners of the parent		**332,589**	169,224
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**RMB16.57 cents**	RMB8.46 cents
Diluted		**RMB16.57 cents**	RMB8.43 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 *RMB'000*	2015 *RMB'000*
PROFIT FOR THE YEAR	**332,589**	169,224
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(15,724)**	(12,401)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(15,724)**	(12,401)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**316,865**	156,823
Total comprehensive income attributable to owners of the parent	**316,865**	156,823

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**9,915,086**	9,733,333
Prepaid land lease payments		**96,283**	98,504
Available-for-sale investment		**100,000**	100,000
Deferred tax assets		**5,171**	5,824
Total non-current assets		**10,116,540**	9,937,661
CURRENT ASSETS			
Inventories		**1,050,596**	659,367
Trade and bills receivables	*9*	**128,670**	61,089
Prepayments, deposits and other receivables	*10*	**193,550**	195,327
Derivative financial instruments		**3,584**	2,159
Income tax recoverable		**–**	50,388
Pledged deposits		**334,588**	462,167
Cash and cash equivalents		**102,459**	271,764
Total current assets		**1,813,447**	1,702,261
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,661,073**	1,484,540
Receipts in advance, other payables and accruals	*12*	**800,220**	1,671,192
Derivative financial instruments		**540**	–
Interest-bearing bank and other borrowings		**2,380,157**	593,550
Borrowing from the ultimate holding company		**1,482,375**	2,186,480
Income tax payable		**18,750**	–
Total current liabilities		**6,343,115**	5,935,762

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000* (Restated)
NET CURRENT LIABILITIES	**(4,529,668)**	(4,233,501)
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,586,872**	5,704,160
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**–**	420,836
Borrowing from the ultimate holding company	**1,399,900**	1,158,916
Deferred tax liabilities	**3,640**	18,442
Other long term payable	**161,000**	161,000
Total non-current liabilities	**1,564,540**	1,759,194
Net assets	**4,022,332**	3,944,966
EQUITY		
Equity attributable to owners of the parent		
Share capital	**962,949**	962,949
Other reserves	**3,059,383**	2,982,017
Total equity	**4,022,332**	3,944,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2016, the ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**")（西王集團有限公司）.

1.2 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, 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.

The financial information relating to the financial years ended 31 December 2016 and 2015 included in this announcement of annual results does not constitute the Company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's report were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB4,529.7 million (31 December 2015: RMB4,233.5 million). The directors of the Company have considered the following factors:

- the Group's expected cash inflows from operating activities in 2017;
- 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.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable factors as described above.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. 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).

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.

1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Other than as explained below regarding the impact of amendments to HKAS 1, amendments to HKAS 16 and HKAS 38 and annual improvements to HKFRSs 2012 – 2014 Cycle, the adoption of the above new and revised standards has had no significant financial effect on these financial statements:

(a) 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 amendments have had no significant impact on the Group's financial statements.

(b) 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 have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) Details of amendments under Annual Improvements to HKFRSs 2012 – 2014 Cycle:

- HKFRS 7 *Financial Instruments: Disclosures:* Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in HKFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements. The amendments are not applicable to the Group's annual consolidated financial statements.

- HKFRS 7 *Financial Instruments: Disclosures:* Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the HKFRS 7 disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendments have had no impact on the Group as the Group does not have any servicing contracts.

- HKAS 19 *Employee Benefits:* Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group as the Group does not have any defined benefit plans.

- HKAS 34 *Interim Financial Reporting:* Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendment also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is not applicable to the Group's annual consolidated financial statements.

1.4 CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group adjusted the estimated useful lives of buildings, machinery and equipment as follows with effect from 1 January 2016.

	Buildings	**Machinery and equipment**
Useful life before changes *(number of year)*	30	15
Useful life after changes *(number of year)*	40	20

In the opinion of the directors, the adjusted estimated useful lives reflect more reasonably the periods over which the buildings, machinery and equipment will bring future economic benefits to the Group and were made in accordance with HKAS 16 – Property, Plant and Equipment and HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The changes in the estimated useful lives will not result in a restatement of the comparative amounts. The impact of the changes in the estimated useful lives on the consolidated financial statements for the year ended 31 December 2016 are as follows:

	Before change in accounting estimates Year end/ Current year *RMB'000*	**Change in depreciation** *RMB'000*	**After change in accounting estimates Year ended/ Current year** *RMB'000*
Net book value of fixed assets	7,881,772	133,169	8,014,941
Accumulated depreciation of fixed assets	(1,974,251)	133,169	(1,841,082)
Profit	293,355	133,169	426,524
Income Tax	(60,643)	(33,292)	(93,935)
Net profit	232,712	99,877	332,589
Retained profit	2,207,903	99,877	2,307,780

2. 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, pellets, 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 2015 and 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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 2016					
Segment revenue:					
Sales to external customers	**4,156,353**	**1,809,967**	**1,323,979**	**276,482**	**7,566,781**
Cost of sales	**(3,378,050)**	**(1,547,900)**	**(1,303,982)**	**(268,460)**	**(6,498,392)**
Gross profit	**778,303**	**262,067**	**19,997**	**8,022**	**1,068,389**
Reconciliation:					
Other income and gain					**22,173**
Selling and distribution expenses					**(20,535)**
Administrative expenses					**(52,356)**
Research and development costs					**(253,293)**
Other expenses					**(1,794)**
Finance costs					**(336,060)**
Profit before tax					**426,524**

	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

3. 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:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of ordinary steel	**4,156,353**	3,505,398
Sale of special steel	**1,809,967**	2,043,883
Trading of commodities	**1,323,979**	959,671
Sale of by-products	**276,482**	242,691
	7,566,781	6,751,643
Other income		
Bank interest income	**6,975**	14,824
Subsidy income	**651**	6,253
Write back of inventories to net realiseable value	**6,405**	–
Gains on disposal of item of property, plant and equipment	**77**	–
Others	**6,597**	1,481
Gain		
Foreign exchange gain, net	**770**	–
Fair value gain on derivative financial instrument	**698**	2,526
	22,173	25,084

4. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**6,498,392**	6,175,337
Depreciation	**347,321**	480,055
Minimum lease payments under operating leases	**2,584**	2,981
Amortisation of prepaid land lease payments	**2,221**	2,344
Research and development costs	**253,293**	210,464
Auditors' remuneration	**1,750**	1,750
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**189,203**	189,441
Pension scheme contributions*	**12,520**	11,185
Equity-settled share option expenses	**1,486**	733
Staff welfare expenses	**7,180**	2,641
	210,389	204,000
Foreign exchange differences, net**	**(770)**	5,956
Impairment of bills receivable**	**–**	7,299
(Write back)/write-down of inventories to net realisable value**	**(6,405)**	6,405
Gains on disposal of items of property, plant and equipment	**(77)**	–
Fair value gains on derivative financial instruments**	**(698)**	(2,526)

* *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 and write-down of inventories to net realisable value, are included in "Other expenses" in the consolidated statement of profit or loss.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**81,209**	87,861
Interest on a finance lease	**–**	2,860
Finance cost on bills discounted	**27,661**	2,292
Interest on borrowing from the ultimate holding company*	**204,748**	48,976
Interest on borrowing from Xiwang Group Finance Co., Ltd ("**Xiwang Finance**")（西王集團財務有限公司）	**60,800**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**374,418**	141,989
Less: Interest capitalised	**(38,358)**	(50,882)
	336,060	91,107

* *The amount in 2015 represented notional interest of RMB48,976,000 on an amount due to the ultimate holding company.*

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 2016.

	2016	2015
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**108,084**	21,515
Deferred	**(14,149)**	1,036
Total tax charge for the year	**93,935**	22,551

The income tax charge for the year of RMB108,084,000 (2015: RMB21,515,000) is after deduction of the effect of the super deduction of research expenses of RMB21,694,000 (2015: RMB33,872,000). The super deduction of research expenses was approved by the local tax authorities in 2016.

The Group has tax losses arising in Hong Kong of approximately RMB69,582,000 as at 31 December 2016 (2015: RMB73,236,000), 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.

7. DIVIDEND

	2016	2015
	RMB'000	*RMB'000*
Proposed final dividend – Nil (2015: Nil) per ordinary share	**–**	–

8. 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:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**332,589**	169,224

	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,006,666,666**	2,000,712,329
Effect of dilution – weighted average number of ordinary shares:		
Share options	**283,763**	5,954,337
	2,006,950,429	2,006,666,666

9. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Bills receivable	**21,966**	952
Trade receivables	**106,704**	60,137
	128,670	61,089

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.

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**92,068**	31,017
3 to 6 months	**13,842**	20,375
6 months to 1 year	**9,553**	9,697
Over 1 year	**13,207**	–
	128,670	61,089

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**105,910**	51,392
Less than 1 month past due	**–**	–
1 to 6 months past due	**9,553**	9,697
6 months to 1 year past due	**13,207**	–
	128,670	61,089

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 RMB14,942,000 as at 31 December 2016 (31 December 2015: Nil), which are repayable on credit terms similar to those offered to the other customers of the Group.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Prepayments	**161,082**	107,827
Bank interest receivables	**3,590**	2,706
VAT recoverable	**4,922**	42,720
Deposits and other receivables	**21,735**	39,853
Current portion of prepaid land lease payments	**2,221**	2,221
	193,550	195,327

Included in the Group's deposits and other receivables are amounts due from the Group's fellow subsidiaries of nil as at 31 December 2016 (31 December 2015: RMB378,000).

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.

11. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Bills payable	**1,157,386**	848,752
Trade payables	**503,687**	635,788
	1,661,073	1,484,540

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:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**383,647**	263,475
1 to 3 months	**341,111**	805,743
3 to 6 months	**784,537**	223,766
6 to 12 months	**85,972**	109,780
Over 12 months	**65,806**	81,776
	1,661,073	1,484,540

As at 31 December 2016, the Group's bills payable amounting to RMB1,157,386,000 (31 December 2015: RMB848,752,000) were secured by the pledged time deposits of RMB304,338,000 (31 December 2015: RMB425,998,000).

The Group's bills payable amounting to RMB355,000,000 of 31 December 2015 were secured by the prepaid land lease payment of RMB485,937,000.

Included in the trade and bills payables are trade payables of RMB26,982,000 as at 31 December 2016 (31 December 2015: RMB23,054,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

The Group's certain bills payables are guaranteed by certain related parties as follow:

31 December 2016

Bills payable *RMB'000*	**Guaranteed by:**
182,517	Mr. Wang Yong, a non-executive director and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally Xiwang Group
290,159	Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

31 December 2015

Bills payable *RMB'000*	**Guaranteed or secured by:**
155,000	Mr. Wang Yong and Ms. Zhang Shufang jointly and severally Xiwang Group Certain leasehold land of Xiwang Logistics Company Limited ("Xiwang Logistics")（西王物流有限公司）, a wholly-owned subsidiary of Xiwang Group
200,000	Mr. Wang Yong An independent third party
293,752	Xiwang Group
311,284	Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

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

12. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	2016 *RMB'000*	2015 *RMB'000* (Restated)
Advances from customers	**183,121**	146,157
Salaries and welfare payables	**33,741**	37,193
Other tax payables	**5,495**	14,739
Construction and equipment payables	**496,430**	588,236
Deferred revenue	**3,500**	1,000
Other payables	**77,933**	883,867
	800,220	1,671,192

Included in the Group's other payables as at 31 December 2016 is an amount of nil (2015: RMB837,138,000) due to an independent third party, which is unsecured, bears interest at 7.0% per annum and was repaid on 23 September 2016.

As at 31 December 2016, included in other payables are outstanding balances of RMB37,558,000 (31 December 2015: RMB26,155,000) due to fellow subsidiaries, and of RMB16,173,000 (31 December 2015: Nil) due to Xiwang Group, which are non-interest bearing and repayable on demand.

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Review

During 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 Province, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 70.9% of the total sales of steel during the Year (2015: 64.7%). In addition, the Group has been actively developing markets in other provinces. During the Year, Zhejiang Province had a relatively large demand for steel, and was the second largest contributor to the Group's revenue, which attributed to 6.8% of the total revenue (2015: 9.4%).

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 69.7% of the total sales amount of steel during the Year (2015: 63.2%). The special steel products of the Group 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 30.3% of the total sales amount of steel during the Year (2015: 36.8%).

Project Review

Against the backdrop of national-wide adjustment and upgrade initiatives and of structural reform of the iron and steel industry, the Group continued to adhere to the national policy and procured transformation and upgrade according to its own status. 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 passed the test, and the production of the Phase I of "Model Line of Special Steel for High-end Equipment with Intelligent Cleaning", which was jointly developed by the IMR and the Group, was commenced. On 3 October 2016, the 50MN fast forging unit passed the trial run also, representing the commencement of production the Phase II project of Special Steel for High-end Equipment. Currently, more than 90 types of new products have been developed. The aforesaid project will proceed in three phases. Upon completion, the Group can achieve an annual production scale of 300,000 tonnes of ingots, 100,000 tonnes of forge materials and pieces and 12,000 tonnes of special steel.

The Group's ability in respect of equipment assurance, product examination, quality control and technical development has been highly recognised by the expert team consisting of Chinese Academy of Railway Sciences, CRRC Shenyang Co., Ltd and etc., which laid a solid ground for the next round of accreditation work of railway axle billet products of the Group.

The Group improved the management and control of product quality in all aspects and expanded the export of products steadily after successfully obtaining the accreditation in Japan and Korea. Throughout the year, the Group developed 24 new rolled products, among which, PC rebar steel, cold forging steel and grinding ball steel realised the goal of scale production. The implementation of intelligent upgrading projects is essential for the transformation and upgrading of the Group, and the Group has commenced strategic cooperation with Shanghai Baoxin Software Co., Ltd to have the basic design and development of intelligent transformation completed. In addition, notable achievements in respect of economic efficiency and environment protection have also been brought about by the further operation of recycling economy mode. The Group will build up a new drive for profit growth in line with the transformation and upgrading of its businesses, so as to create the highest value for shareholders. The Group will continue its endeavor to apply for accreditation for military products in China with the expectation to secure a foothold in the military industry, the nuclear power industry, the high-speed railway industry and etc., aiming at further capitalising on market opportunities, optimising its product mix and enhancing core technologies.

II. Financial Review

1. Revenue

Revenue of the Group was RMB7,566,781,000 during the Year (2015: RMB6,751,643,000), representing an increase of 12.1% as compared to last year.

The increase in revenue was mainly attributable to the increase in sales of ordinary steel and trading of commodities of RMB650,955,000 and RMB364,308,000, representing an increase of 18.6% and 38.0% respectively. The average selling price of ordinary steel increased from RMB1,891 per tonne last year to RMB2,066 per tonne for the Year and the sales volume of ordinary steel increased from 1,854,031 tonnes last year to 2,011,552 tonnes for the Year which resulted in an 18.6% increase in the sale of ordinary steel in total as compared to last year.

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 RMB101,951,000 (2015: RMB226,170,000), accounted for 1.7% (2015: 4.1%) of the total sales of steel.

Breakdown of revenue:

	2016		2015	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*
Ordinary Steel				
Rebar	**2,946,818**	**38.9%**	2,284,030	33.8%
Wire rod	**1,209,535**	**16.0%**	1,221,368	18.1%
Subtotal	**4,156,353**	**54.9%**	3,505,398	51.9%
Special Steel				
Quality carbon structural steel	**1,258,892**	**16.6%**	1,470,801	21.8%
Alloy structural steel	**355,932**	**4.7%**	472,461	7.0%
Bearing steel	**60,343**	**0.8%**	42,879	0.6%
Ingot	**134,800**	**1.8%**	57,742	0.9%
Subtotal	**1,809,967**	**23.9%**	2,043,883	30.3%
Production and sales of steel	**5,966,320**	**78.8%**	5,549,281	82.2%
Trading of commodities#	**1,323,979**	**17.5%**	959,671	14.2%
Sales of by-products##	**276,482**	**3.7%**	242,691	3.6%
Total	**7,566,781**	**100.0%**	6,751,643	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:

	2016	**2015**	*Increase/ (Decrease)*	*Increase/ (Decrease)*
	RMB/tonne	***RMB/tonne***	*RMB/tonne*	*Percentage*
Ordinary Steel				
Rebar	**2,034**	**1,825**	209	11.5%
Wire rod	**2,150**	**2,028**	122	6.0%
Average selling price	**2,066**	**1,891**	175	9.3%
Special Steel				
Quality carbon structural steel	**2,247**	**2,270**	(23)	(1.0)%
Alloy structural steel	**2,312**	**2,120**	192	9.1%
Bearing steel	**2,326**	**2,753**	(427)	(15.5)%
Ingot	**3,007**	**2,953**	54	1.8%
Average selling price	**2,305**	**2,257**	48	2.1%

Breakdown of sales volume of steel:

	Sales volume			
	2016		2015	
	Tonnes	***Percentage***	*Tonnes*	*Percentage*
Ordinary steel				
Rebar	**1,448,864**	**51.8%**	1,251,801	45.4%
Wire rod	**562,688**	**20.1%**	602,230	21.8%
Subtotal	**2,011,552**	**71.9%**	1,854,031	67.2%
Special steel				
Quality carbon structural steel	**560,322**	**20.1%**	647,788	23.5%
Alloy structural steel	**153,980**	**5.5%**	222,833	8.1%
Bearing steel	**25,941**	**0.9%**	15,577	0.5%
Ingot	**44,826**	**1.6%**	19,555	0.7%
Subtotal	**785,069**	**28.1%**	905,753	32.8%
Total	**2,796,621**	**100.0%**	2,759,784	100.0%

2. Cost of sales

During the Year, our cost of sales was RMB6,498,392,000 (2015: RMB6,175,337,000), representing an increase of 5.2%. The decrease in total cost of production and sales of steel of RMB67,240,000, representing a decrease of 1.3% due to the decline in average production costs per tonne from RMB1,809 last year to RMB1,761 for the Year was offset by the increase in the cost of trading of commodities of RMB348,868,000, representing an increase of 36.5% and resulted in an increase in cost of sales for the Year as compared to last year.

Cost structure of steel was unchanged during the Year since the major raw materials used were iron ore dust and coke which represented 55.6% (2015: 53.8%) of steel production costs. 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 81.7% and 18.3% (2015: 78.0% and 22.0%) to the total production costs respectively.

Breakdown of cost of sales:

	2016		2015	
	RMB'000	*Percentage*	*RMB'000*	*Percentage*
Raw materials				
Iron ore dust	**1,619,713**	**24.9%**	1,777,483	28.8%
Coke	**1,118,390**	**17.2%**	911,008	14.7%
Steel scraps	**192,585**	**3.0%**	140,017	2.3%
Coal	**234,273**	**3.6%**	201,413	3.3%
Steel billets	**–**	**–**	65,005	1.0%
Coke powder	**65,115**	**1.0%**	60,008	1.0%
Pig iron	**84,870**	**1.3%**	–	0.0%
Others	**708,662**	**10.9%**	742,045	12.0%
Subtotal of raw materials	**4,023,608**	**61.9%**	3,896,979	63.1%
Production overhead				
Depreciation	**296,403**	**4.6%**	428,690	6.9%
Electricity	**368,706**	**5.7%**	429,504	7.0%
Labour	**169,791**	**2.6%**	154,732	2.5%
Others	**67,442**	**1.0%**	83,285	1.3%
Subtotal of production overhead	**902,342**	**13.9%**	1,096,211	17.7%
Total cost of production and sales of steel	**4,925,950**	**75.8%**	4,993,190	80.8%
Cost of trading of commodities	**1,303,982**	**20.1%**	955,114	15.5%
Cost of sales of by-products	**268,460**	**4.1%**	227,033	3.7%
	6,498,392	**100.0%**	6,175,337	100.0%

Average steel cost per tonne (tax-exclusive):

	2016		2015	
	RMB	***Percentage***	*RMB*	*Percentage*
Raw materials				
Iron ore dust	**579**	**32.9%**	644	35.6%
Coke	**400**	**22.7%**	330	18.2%
Steel scraps	**69**	**3.9%**	51	2.8%
Coal	**84**	**4.8%**	73	4.0%
Steel billets	**–**	**–**	23	1.3%
Coke powder	**23**	**1.3%**	22	1.2%
Pig iron	**30**	**1.7%**	–	0.0%
Others	**253**	**14.4%**	269	14.9%
Subtotal of raw materials	**1,438**	**81.7%**	1,412	78.0%
Production overhead				
Depreciation	**106**	**6.0%**	155	8.6%
Electricity	**132**	**7.5%**	156	8.6%
Labour	**61**	**3.4%**	56	3.1%
Others	**24**	**1.4%**	30	1.7%
Subtotal of production overhead	**323**	**18.3%**	397	22.0%
Total production costs	**1,761**	**100.0%**	1,809	100.0%

3. *Gross profit*

During the Year, gross profit of the Group was RMB1,068,389,000 (2015: RMB576,306,000), representing an increase of 85.4% as compared to last year. During the Year, steel has contributed RMB1,040,370,000 to our overall gross profit, which accounted for 97.3% of our overall gross profit, of which RMB778,303,000 and RMB262,067,000 was from ordinary steel and special steel, respectively, accounted for 72.8% and 24.5% of our overall gross profit, respectively. Overall gross profit margin of the Group was 14.1% (2015: 8.5%), representing an increase of 5.6 percentage point as compared to last year. The increase was mainly attributable to the rise in the steel selling price and the decline in the steel cost.

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

	2016		2015	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*
Ordinary steel				
Rebar	**550,643**	**51.5%**	214,092	37.1%
Wire rod	**227,660**	**21.3%**	140,210	24.3%
	778,303	**72.8%**	354,302	61.4%
Special steel				
Quality carbon structural steel	**222,546**	**20.8%**	187,768	32.6%
Alloy structural steel	**44,531**	**4.2%**	18,912	3.3%
Bearing steel	**(2,318)**	**(0.2%)**	(4,891)	(0.8%)
Ingot	**(2,692)**	**(0.3%)**	–	0.0%
	262,067	**24.5%**	201,789	35.1%
Production and sales of steel	**1,040,370**	**97.3%**	556,091	96.5%
Trading of commodities	**19,997**	**1.9%**	4,557	0.8%
Sales of by-products	**8,022**	**0.8%**	15,658	2.7%
Total	**1,068,389**	**100.0%**	576,306	100.0%

Gross profit margins of the products are as follow:

	2016 ***Percentage***	2015 *Percentage*	*Increase/ (Decrease) in percentage point*
Ordinary steel			
Rebar	**18.7%**	9.4%	9.3%
Wire rod	**18.8%**	11.5%	7.3%
Average gross profit margin	**18.7%**	10.1%	8.6%
Special steel			
Quality carbon structural steel	**17.7%**	12.8%	4.9%
Alloy structural steel	**12.5%**	4.0%	8.5%
Bearing steel	**(3.8%)**	(11.4%)	7.6%
Ingot	**(2.0%)**	–	(2.0%)
Average gross profit margin	**14.5%**	9.9%	4.6%
Overall gross profit margin of production and sales of steel	**17.4%**	10.0%	7.4%
Gross profit margin of trading of commodities	**1.5%**	0.5%	1.0%
Gross profit margin of sales of by-products	**2.9%**	6.5%	(3.6%)
Overall gross profit margin	**14.1%**	8.5%	5.6%

4. Other income and gain

Other income mainly includes bank interest income and government subsidies. Other income and gain for the Year amounted to RMB22,173,000 (2015: RMB25,084,000), representing a decrease of 11.6% 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 RMB20,535,000 (2015: RMB21,500,000), representing a decrease of 4.5% as compared to the corresponding period of last year. The decrease was mainly attributable to the decrease of delivery expenses as a result of the decrease in export sales 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 RMB52,356,000 (2015: RMB66,725,000), representing a decrease of 21.5% 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 RMB1,794,000 (2015: 19,819,000), representing a decrease of 90.9% as compared to the corresponding period of last year. The decrease was mainly attributable to no impairment of bills receivable (2015: RMB7,299,000) and no impairment of inventories to net realisable value (2015: RMB6,405,000) during the year.

8. Finance costs

The Group's finance costs for the Year amounted to RMB336,060,000 (2015: RMB91,107,000), representing an increase of 2.7 times as compared to last year. The increase was mainly due to the increase in interest expenses charged by Xiwang Group amounted to RMB204,748,000 (2015: RMB 48,976,000) during the year.

9. Income tax expenses

Income tax expenses of the Group for the Year amounted to RMB93,935,000 (2015: RMB22,551,000), representing an increase of 3.2 times as compared to last year, which was primarily due to the increase in profit before tax.

Financial position

Liquidity and capital resources

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB102,459,000, representing a decrease of RMB169,305,000 or 62.3% as compared with RMB271,764,000 as at 31 December 2015. 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 2016.

	As at	
	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Bank and other borrowings	**2,380,157**	1,014,386
Interest-bearing bank loans – secured	**419,894**	515,386
Interest-bearing other loan – secured	**422,991**	499,000
Borrowing from Xiwang Finance	**1,537,272**	–
	2,380,157	1,014,386
Carrying amount repayable:		
Within one year	**2,380,157**	593,550
Between one to two years	**–**	420,836
Between two to five years	**–**	–
	2,380,157	1,014,386
Less: Amounts due within one year shown under current liabilities	**(2,380,157)**	(593,550)
	–	420,836

As at 31 December 2016, the gearing ratio, being the ratio of total liabilities divided by total equity was 1.97 (31 December 2015: 1.95). The annual interest rate of the banks and other borrowings for the year ended 31 December 2016 varied from 3.03% to 9% (2015: 3.03% to 9%). As at 31 December 2016, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. All of the bank and other borrowings excluded borrowing from Xiwang Finance were secured by non-current assets, restricted bank deposits and/or guaranteed by Mr. WANG Yong, and/or Mr. WANG Yong and Ms. ZHANG Shufang (spouse of Mr. WANG Yong), and/or Xiwang Group.

Material investment, material acquisition and disposal of subsidiaries and future material investment or capital and assets acquisition plan

Save as disclosed in this announcement, 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 2016, leasehold land with a carrying amount of RMB55,397,000 (31 December 2015: RMB572,611,000) and pledged deposits of RMB334,588,000 (31 December 2015: RMB462,167,000) were pledged as security for bank borrowings and bills payable.

Capital commitments and contingent liabilities

As at 31 December 2016, the capital commitment of the Group was RMB360,516,000 (31 December 2015: RMB177,031,000), for property, plant and equipment. The Group also entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited* to enhance its product quality. As at 31 December 2016, commitment in respect of this technical consultation service amounted to RMB1,500,000 (31 December 2015: RMB2,100,000).

On 4 January 2016, the Company entered into a guarantee agreement with Xiwang Group with a term of three years commencing from 4 January 2016, pursuant to which the Company will provide Xiwang Group and its subsidiaries other than the Group (the "Relevant Subsidiaries") with guarantee services (the "Guarantee Agreement").

Pursuant to the Guarantee Agreement, the Company shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and the Relevant Subsidiaries provided under the loan agreement to be entered between the lenders and Xiwang Group and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered between the lenders and the Company. The guarantee amount to be provided by the Company to Xiwang Group and the Relevant Subsidiaries under the Guarantee Agreement (the "Guarantee Amount") shall not exceed the aggregate amount due from the Group to Xiwang Group and the Relevant Subsidiaries less the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (the "Outstanding Amount") and shall be subject to the maximum cap of RMB4 billion. Any loans to be repaid by the Company for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the Guarantee Agreement shall be offset by the loans payable by the Company to Xiwang Group, or as other amounts payable by the Company to Xiwang Group or the Relevant Subsidiaries.

The upper limit of the bank facilities guaranteed by the Group to the ultimate holding company and fellow subsidiaries were RMB180,000,000 and RMB1,730,000,000 respectively. As at 31 December 2016, the bank facilities guaranteed by the Group to Xiwang Group and the Relevant Subsidiaries were utilised to the extent of approximately RMB180,000,000 and RMB1,300,000,000.

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 2016, the Group mainly exposed to risks related to its net liabilities denominated in US dollar amounted to RMB429,438,000 (31 December 2015: RMB303,207,000) and in HK dollar amounted to Nil (31 December 2015: RMB31,836,000).

Employees and remuneration

As at 31 December 2016, the Group had a total of 3,865 employees (2015: 3,681). Staff-related costs incurred during the Year was RMB189,203,000 (2015: RMB189,441,000). 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 Province. The GDP of Shandong Province reached RMB6.7 trillion in 2016, recording an increase of 7.6% as compared to 2015, which was 0.9% higher than the national GDP in 2016. The per capita disposable income of residents from both urban and rural area in Shandong Province grew by 7.8% and 7.9% respectively as compared to 2015. In 2016, the economic initiatives in Shandong Province were focused on the structural reform in the supply side. Shandong Province has completed the tasks of de-capacity of iron, steel and coal as instructed by the central government, and the overcapacity of certain pillar industries has also been duly addressed. The investment in infrastructure increased by 25.8% in 2016 as compared to 2015, which was higher than the growth rate of total investment in the PRC by 15.3%. It was the main strength to drive the growth in investment of the province. Accordingly, the potential for future development of Shandong Province is still tremendous. Moreover, the Group has become the supplier of key construction projects in the province and even elsewhere in China, such as national high-speed railway and expressway projects, and positive prospect is expected as a result. The "13th Five Year Plan" is a critical stage in the process of comprehensively building a moderately prosperous society. Measures in relation to further urbanisation across the country will continue to facilitate the development of infrastructure within the province, which will in turn sustain the huge demand for ordinary steel. Meanwhile, the heavy machinery processing bases around Shangdong Province and the rapid development of oceanic economy will continue to boost the demand for special steel in the province. Our ordinary steel can satisfy the market demand of, among others, the construction industry, and since special steel can be used in the machinery, equipment and auto parts industry, the demand is huge as a result.

The PRC government continues addressing the problem arising from the overcapacity of the iron and steel industry by deepening the reform, and also promoting energy conservation, emission reduction and intelligent upgrade of the industry. Xiwang Metal Material Technology Company Ltd, a wholly-owned subsidiary of the Group, is included in the list of corporations that meet the regulatory criteria of the iron and steel industry as announced by the Ministry of Industry and Information Technology of China, which represents the recognition to the Group's operation, equipment and technological competence. The Group continues to speed up its transformation and upgrading process and to focus on intelligent transformation, for the sake of enabling the operation of a comprehensive information system featured "production goes along with sales, management goes along with control and business goes along with finance" by building a clustered information system characterised by "basic automation, process automation (PCS), manufacturing execution system (MES) and operation management control (ERP)". The business development of the Group meets the national and industrial development requirements, with the special steel segment focusing on quality improvement and specialised functions while the ordinary steel segment emphasising on cost control.

During the "13th Five Year Plan" period, China's economic development has revealed a "new norm" status highlighting accelerated changes, structure optimisation and shifting of growth engines, thereby entering into a critical stage of upholding the structural reform in the supply side. As the iron and steel industry has developed to a medium-high end level, increased efficient supply becomes a clear and present requirement. Also, the development of society and ecological civilisation will put forward renewed requirements in respect of energy conservation, emission reduction and quality improvement to the iron and steel industry, and corporations will have more expectations on optimising the market environment with the mechanism for fair competition and survival of the fittest. China advocates intelligent manufacturing, green production and encourages working together with advantageous iron and steel corporations and scientific research institutions, design units and downstream users for innovation. The development strategy of the Group conforms with national policies and principles and the Group speeds up its pace in increasing the percentage of special steel to its total output and transforming to a high-end special steel corporation. The Group has entered into cooperation agreements with IMR and Luoyang Bearing Research Centre Company Limited* respectively for the development of bearing steel products, high-end tool and die steel, marine steel, special steel for use in various industries, including the energy and electricity, petrochemical and marine engineering sectors, and steel for kitchen cutleries. In the future, the Group will recruit research and development specialists in high-end special steel, establish professional research and development teams, focus on developing high value added new products, such as high-quality bearing steel, railway transportation steel, automobile steel and military steel, continue to expand its business coverage beyond Shandong Province, actively explore overseas markets, capitalise on specific opportunities during the "13th Five Year Plan" period and enhance the Group's profitability along with steady upgrade of its own. The management is of the view that the Group has been well prepared to leverage on new opportunities and is also capable of taking specific challenges of the iron and steel industry in the future, continuing to be optimistic on the business prospect.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members in respect of ordinary shares of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017, (both days inclusive), during which period no transfer of ordinary shares will be registered for the purpose of ascertaining shareholders' entitlement for attending and voting at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 31/F., 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on Monday, 12 June 2017.

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.

CORPORATE GOVERNANCE

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. 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 LI Bangguang and YU Kou, independent non-executive directors, WANG Yong, the non-executive director, and WANG Di, the non-executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 17 June 2016 due to their overseas or other business engagements. LIU Xiangming and YU Kou, ex-independent non-executive director and independent non-executive director, WANG Yong and LI Yiyi, non-executive director and ex-non-executive director, and WANG Di, the non-executive director and chairman of the Board, were absent from the extraordinary general meeting of the Company held on 8 March 2016 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2016.

AUDIT COMMITTEE

During the Year, the audit committee of the Company (the "**Audit Committee**") was comprised of three Directors, namely, Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou who are independent non-executive directors. Mr. LEUNG Shu Sun Sunny serves as the chairman of the Audit Committee. 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.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of the Group's results for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Company's auditors Ernst & Young, Certificated Public Accountants ("**Ernst & Young**") to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2016.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1.2 in the consolidated financial statements, which indicates that as of 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB4,529.7 million. As stated in Note 1.2, these conditions, along with other matters as set forth in Note 1.2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is also published on the Company's website (www.xiwangsteel.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2016 containing all the information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

By order of the Board
Xiwang Special Steel Company Limited
WANG DI
Chairman

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises the following directors:

Executive Directors
Mr. ZHANG Jian
Mr. SUN Xinhu
Ms. LI Hai Xia

Non-executive Directors
Mr. WANG Di
Mr. WANG Yong

Independent non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. LI Bangguang
Mr. YU Kou

* *for identification purpose only*